THE FEDERAL HOME LOAN BANK SYSTEM

1932-1952

Published by
The Federal Home Loan Banks
1952

Gift
Direct
2-19-53

FOREWORD

Excerpts from *The Memoirs of Herbert Hoover*

Creation of the Home Loan Banks

"I have related in previous chapters the pressures which fell upon home owners during financial stress due to the inadequacies of our banking and mortgage lending machinery. I have mentioned my proposals for the creation of a national system of mortgage discount institutions, not only to prevent these stresses, but to make home mortgage money more readily available in normal times. All this seems dull economics, but the poignant American drama revolving around the loss of the old homestead had a million repetitions straight from life, not because of the designing villain but because of a fault in our financial system.

"Had we been able to get a general mortgage discount institution established at the time I proposed, it would have saved thousands of homes, farms, and holdings of productive city real estate from foreclosure, and prevented many bank failures. And, above all, it would have promoted home ownership, and employment on home construction.

"There was also another problem for the home owner. While in normal times he could easily borrow 50 per cent of the value of his property at reasonable rates, many new home seekers needed more than this, and so there had grown up a great business in second mortgages. These mortgages required, with various discounts and charges, from 8 to 25 per cent per annum and made home owning and construction too costly.

"Since I could not get my larger plan through, I reduced it to the more limited project of the Home Loan Banks which had the wholehearted support of the savings banks and the building and loan associations, with their millions of hard-pressed members. I hoped that upon this foundation we could build the much needed larger structure.

"I announced to the press on November 13, 1931:

"I shall propose to Congress the establishment of a system of Home Loan Discount Banks . . . .

"I described to the press the details of the proposal. In summary they were that the Federal government was to furnish the initial capital for this system to be repaid by a small percentage on loans and eventually to become, not a government institution, but a cooperative institution between the building and loan associations, the savings banks, and other home-loan agencies. The Home Loan Banks were to secure further capital by the issue of debentures. . . .

"Early in February, I summoned the building and loan association leaders of the country to a conference at the White House. They agreed to wage a campaign of education—propaganda, if that word seems better—for the purpose of obtaining a proper law, promptly. . . . At every meeting with Congressional leaders I urged the passage of the bill in its more liberal form. . . .

"The Act in final form limited the mortgages to be discounted to 50 per cent of the value of the property and eliminated all discount of delinquent mortgages. However, as the session was near to its end, I thought it better to take it in this crippled form, rather than run the risk of no bill at all. Although it authorized an appropriation to set up the banks, no definite appropriation had been voted. A resolution to appropriate funds, under the Senate rules, would need to go over a day unless unanimous consent could be obtained; and next day Congress was to adjourn. When it was proposed Senator Couzens promptly objected. But, when he was off guard, Senator Moses offered an authorization to the RFC to subscribe the capital as an amendment to a minor bill, which had been sent over from the House at the last moment. The amendment was carried, the conferees on this bill adopted it, and the Home Loan Banks were born."

TABLE OF CONTENTS

Chapter I.

ORIGIN OF THE FEDERAL HOME LOAN BANK SYSTEM

Born in the depths of a depression and reared in an era of sweeping financial changes, the Federal Home Loan Bank System has come of age and has assumed a permanent place in the nation's credit structure. Described very briefly, the System consists of the Home Loan Bank Board, eleven [1] Federal Home Loan Banks, and more than 4,000 [2] affiliated institutions for which the Banks provide reserve banking facilities. These member institutions are chiefly savings and loan associations,[3] but include also a number of savings banks and insurance companies. The Federal Home Loan Banks were established in 1932; the member institutions have a history dating back to the early 1800's.

The twenty-year period since the Banks were established has focused no great public attention upon them; they have rather kept quietly on their course. Yet the ills which they were established to cure were quite sensational in their day and most unhappily real. The United States probably could not today boast of more-than-50-percent home ownership had not the Federal Home Loan Bank System been established.

---

[1] The statute requires as many as eight and not more than twelve regional Federal Home Loan Banks.

[2] This number is gradually increasing as more of the eligible savings and home mortgage institutions affiliate with the Federal Home Loan Bank System.

[3] The term "savings and loan association" covers also co-operative banks, homestead associations, and building and loan associations.

The story of the cure begins with a spark in the minds of a handful of business men, takes its course through the halls of Congress and the White House, then goes back to the simple homes and to the Main Streets of thousands of cities and towns and reaches Wall Street, before it ends in that effective organization of financial facilities which is known as the Federal Home Loan Bank System.

As indicated, the eleven Federal Home Loan Banks constitute a comparatively new factor in the organization of home mortgage credit which shows such a marked improvement over the situation twenty years ago. Operating through existing and newly established thrift and home financing institutions, the Banks have changed the tenor of things both for these institutions and for the individuals who deal with them either as savers or as borrowers. Thus, any understanding of the progress made in this field since 1932 must be based on a knowledge of the Federal Home Loan Banks; this book will be devoted to these Banks and to their operations. A necessary preliminary to that explanation is a summary of the problem which came to a head in the midst of depression and which made timely and appropriate the creation of the Federal Home Loan Bank System.

Second Mortgages and Short-Term Financing

Two thorns stuck in the flesh of most families trying to own their homes before the Federal Home Loan Bank System was established. One was the high cost of financing a home, largely the result of reliance on second mortgages (often involving the payment of bonuses as high as 15 to 20 percent), and of high interest costs plus excessive service charges and other fees. The other thorn was the uncertainty and recurring crises in the credit arrangements inherent in the then prevalent practice of buying a home with a first mortgage written for one to five years, without any provision for paying back the principal of the loan during that time. This latter device was a fair weather system, and, as is the case with most such systems, nobody suspected that there was anything wrong with it until the weather changed.

What usually happened was that the average family went along, budgeting for the interest payments on the mortgage, subconsciously regarding the mortgage itself as written for an indefinite period, as if the lender were never going to want his money back but would just be content to keep it out at interest forever. This impression which the home-owner built up when things were going fine was strengthened by the fact that lenders most frequently did renew the mortgage over and over again when money was plentiful. They usually charged a fee for the renewal, which added to the high cost of financing, but even this did not give the home owners of that day any notion of the real dangers to their own financial stability to which this procedure could give rise in time of stress. An exception to the then prevalent home financing procedure was the long-term, monthly repayment loan plan offered to borrowers by the savings and loan associations, which had used this type of mortgage loan since the beginning of their operations in 1831.

The time of stress came in 1929-30; the short-term mortgage came to maturity against a situation of tight credit and, in many cases, of no credit; the family was informed that it would have to pay a high fee to get the mortgage renewed or, in innumerable instances, pay in full. (The cost of money, just as the cost of everything else, is determined by supply and demand; it cost more to get the mortgage renewed when the supply of money was less plentiful.) Such a situation, of course, added to the seriousness of the home-owner's costs as well as to the uncertainty shadowing the entire family.

Still more serious was the home-owner's problem as the business cycle moved into the great depths of the 1930's. At that time all too often the lender, the holder of the mortgage, needed his money in cash. He did not want to renew the loan to the home-owner no matter how high the premium or rate of interest. The family which owed the money had to look around for a new lender; this, however, was often a fruitless search, because few then had money which they wanted to lend. Everyone was retrenching. The family which couldn't meet its obligation and couldn't find anyone to take it over had no alternative to losing its home. Multiplying this situation by many thousands of families gives no exaggerated picture of the plight of multitudes by the time the depression reached its 1932 extremes.

Amortized, Long-Term Loans as the Solution

Such clumsy organization of credit is hardly credible in the enlightened 1950's, but there it is, in black and white, on the foreclosure and financial institution records of the late 1920's and early 1930's. The high cost of second mortgage money, due mainly to the lack of any organized source of funds for such high-risk investments, aggravated the dilemma of the home-owner who was trying to renew his first mortgage. Thus, the second mortgage and the short-term non-reducing mortgage emerged as the principal defects in the method by which people customarily undertook to pay for their homes in those days. Conversely, it became clear that any improvement in the procedure would have to depend on expansion of a type of financing which arranged for systematic amortization (the word literally means "killing off") of the principal of the debt over a long period of years with the objective of debt-free home ownership at the end. And coupled with it must be the opportunity to borrow up to seventy-five percent of the value of the property without paying prohibitive second mortgage costs.

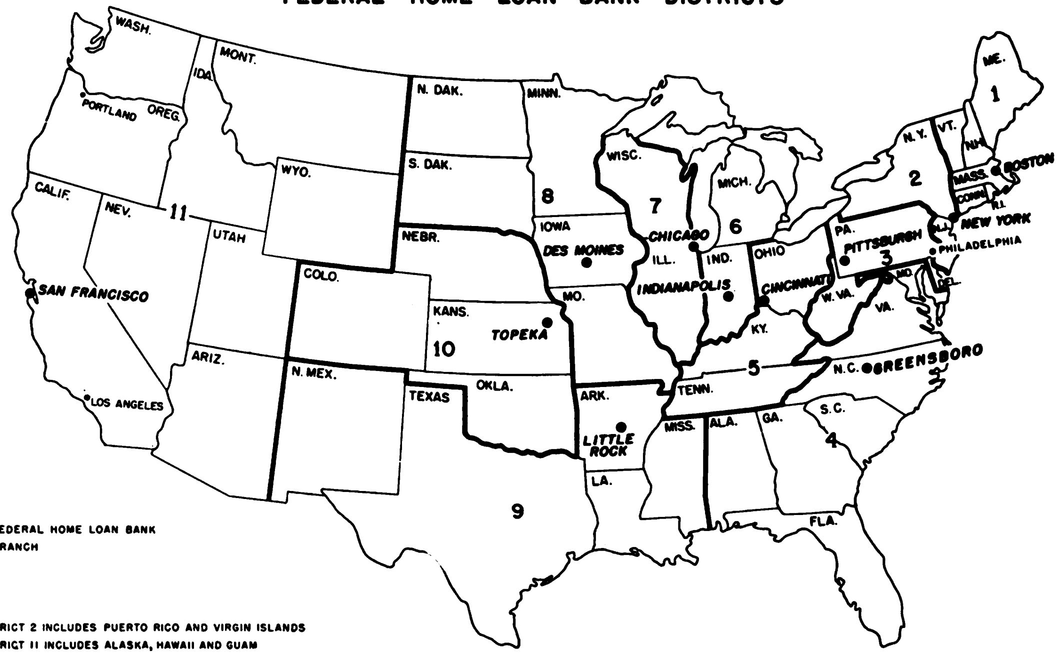
Chapter VIII goes into detail regarding the developments leading up to the establishment of the Federal Home Loan Banks. For the purposes of this chapter, which represents primarily a survey of the pre-Bank-System situation, it should suffice to emphasize that the leaders in the savings and loan business had long been aware of the need for such Banks; that as early as 1919 they began studying what could and should be done; and that the United States Savings and Loan League appointed a committee in 1930 to review all proposals and suggestions made over the previous twelve years with a view to arriving at a practical proposal to meet the needs of the hour. Thus it was that when President Herbert Hoover in 1931 sought a way to meet not only the short-term needs of the construction industry but also the long-term needs for better organization of home-owner credit, he had the benefit of the thorough study of the question already made by the business men most intimately and constantly associated with the needs of the thrift and home financing institutions. When the President proposed the establishment of the new bank system on November 13, 1931, he listed as one of its principal objectives "the long-view purpose of strengthening such institutions in the promotion of home ownership, particularly through the financial strength thus made available to building and loan associations."

One further circumstance must be understood by the reader trying to get clearly in mind the immediate situation out of which the Federal Home Loan Bank System arose. This is the relatively small resources of the savings and loan, or building and loan, associations in 1932. They had attained an over-all high mark of $9,000,000,000 in resources at the end of 1930, and they were quite numerous, some 12,000; they had about 2,000,000 borrowers and 10,000,000 small savers; but the individual units were small, in the main, and by 1932 they had become one of the many victims of the down-side of the business cycle. They had borrowed from the then hard-pressed commercial banks on a short-term basis, and the banks in dire straits were calling these loans (some $300,000,000 of short-term indebtedness was involved). Savers were everywhere withdrawing their accumulated funds because the rainy day had come. Savings and loan associations had to deny credit to new loan applicants; and often they had to rearrange loan terms for hard-hit borrowers, with the result that receipts from loan amortization steadily decreased; savers who wanted to withdraw frequently had to wait for their money. The establishment of the Federal Home Loan Banks was recognized as a way in which to strengthen these institutions, in particular, and to enable them to expand and to serve many times the number of persons they were then serving; such a system of Banks would obviously put these associations in a position to improve their services and would give them every encouragement to make those improvements.

History has borne out the expectations of the sponsors of the System. The next chapter will tell how the Federal Home Loan Banks operate now that they have rounded out two decades of experience.

Headquarters of the Home Loan Bank Board, Washington, D. C.

FEDERAL HOME LOAN BANK DISTRICTS



● FEDERAL HOME LOAN BANK
• BRANCH

DISTRICT 2 INCLUDES PUERTO RICO AND VIRGIN ISLANDS
DISTRICT 11 INCLUDES ALASKA, HAWAII AND GUAM

Chapter II.

THE FEDERAL HOME LOAN BANKS

The method by which the Federal Home Loan Banks give financial strength to thrift and home financing institutions is to provide them with a banking system of their own. A Bank of this specialized type has no transactions directly with the public. Its benefits reach the community through the savings and loan associations, savings banks, and insurance companies which display the emblem of the Bank System in their business quarters, and which use its facilities as the need arises. Both the savers and the borrowers in these institutions, with the community and business in general, are, however, the ultimate beneficiaries of the banking and other services provided by the Federal Home Loan Banks.

In order to understand how this public benefit accrues from a system of Banks which does not touch the lives of the people directly, let us see what the Federal Home Loan Banks do for the thrift and home financing institutions by giving them a reservoir of credit. It will be found that the Banks began life with a double duty imposed upon them.

Liquidity Function of the Federal Home Loan Banks

The first duty of the Banks is to provide additional liquidity to the home financing institutions by making advances available to them when an unusual demand for savers' funds occurs. In this way the people with money invested in a member institution are reassured as to the availability of their savings. As a result more and more people entrust more and more of their savings to such institutions. Actually, by strengthening the liquidity of member savings and home mortgage institutions, the Federal Home Loan Banks are helping them offer a desirable savings facility not available before the creation of the Bank System. In a member institution of the Federal Home Loan Bank System a man may not only save his money where it will become a home loan to his neighbor, but he may now do so with the assurance of additional liquidity by a great reserve credit system.

Supplementing an Undersupply of Loan Funds

The second duty of the Federal Home Loan Banks is to meet the recurring needs of members for more lendable funds than the immediate inflow of savings can supply. A hasty look at some of the factors which tend to create undersupply in some areas and oversupply in other areas will show why this function of the Federal Home Loan Banks is significant.

Savings the Normal Source of Home Financing

The major source of home mortgage credit in the United States has always been the relatively small average savings of a very large number of persons,[4] with the supply thus subject to all of the whims and needs of millions of individuals. Savings may pile up in a thrift and home financing institution in one locality, and they may flow quite laggardly into another fifty, a hundred, or a thousand miles away. A booming industry in one area and idle plants plus idle men in another may be the cause of this uneven situation. It may well be, moreover, that the locality where the savings flow is heavy and steady is the very one where there is not much need for home mortgage funds at the time; or the area with a scant accumulation of savings may be where mortgage

[4] Four or five average savers are required to supply enough mortgage money for one moderate sized home.

needs are most urgent. Thus, some device is required promptly to transfer idle funds to areas of demand, and the Federal Home Loan Bank System is such a device. Funds which the oversupplied institutions deposit in their regional Bank enable the Bank System to make advances to member institutions in the undersupplied areas.

Tapping the Capital Markets

There is, moreover, a larger overall need for home mortgage funds, aside from the uneven geographical distributions, which gives significance to the Federal Home Loan Banks' function of adding to a member's supply of lendable funds. In the long run, the savings of millions of individuals have not proved sufficient to supply the needs for home-owner credit in a country with a constantly rising housing standard, and with a construction industry continually improving its ability to meet that standard. Furthermore, an intensification of the traditional American housing policy of living in one's own home characterized the period beginning with the 1940's and gave rise to a need for still more home mortgage funds. For these three reasons there is now a rather constant need for a larger dollar volume of home-owner credit than was required in the first part of the century.[5] A marginal supply for members has to come from some source other than accumulated savings. In the American enterprise system the logical place to get it is from the capital markets—the markets which supply funds for everything from making steel to buying goods abroad. The Federal Home Loan Banks can tap these markets; they do this by floating securities; the details of this activity will be described in Chapter IV.

---

[5] This is still true when due allowances are made for the inflationary forces with decreases in the buying power of the dollar.

Location of the Federal Home Loan Banks

In order to distribute their facilities as evenly as possible, and to place the Banks close to their members and their problems, each of the eleven Federal Home Loan Banks serves the thrift and home financing institutions in a specific district comprising two or more states and/or territories of the United States. Two of the Banks, those of Pittsburgh and San Francisco, have branches for the greater convenience of their member institutions. Below are listed the eleven Banks, their districts, and the location of the branches mentioned above.

District I	Federal Home Loan Bank of Boston, serving Maine, New Hampshire, Vermont, Massachusetts, Connecticut, and Rhode Island.
District II	Federal Home Loan Bank of New York, serving New York, New Jersey, Puerto Rico, and the Virgin Islands.
District III	Federal Home Loan Bank of Pittsburgh, serving Pennsylvania, Delaware, and West Virginia. Branch—Philadelphia, Pennsylvania.
District IV	Federal Home Loan Bank of Greensboro, serving Maryland, District of Columbia, Virginia, North and South Carolina, Georgia, Florida, and Alabama.
District V	Federal Home Loan Bank of Cincinnati, serving Ohio, Kentucky, and Tennessee.
District VI	Federal Home Loan Bank of Indianapolis, serving Indiana and Michigan.

District VII	Federal Home Loan Bank of Chicago, serving Wisconsin and Illinois.
District VIII	Federal Home Loan Bank of Des Moines, serving Minnesota, Iowa, Missouri, North and South Dakota.
District IX	Federal Home Loan Bank of Little Rock, serving Mississippi, Arkansas, Louisiana, Texas, and New Mexico.
District X	Federal Home Loan Bank of Topeka, serving Kansas, Nebraska, Oklahoma, and Colorado.
District XI	Federal Home Loan Bank of San Francisco, serving Arizona, Nevada, Utah, California, Idaho, Montana, Wyoming, Washington, Oregon, Alaska, Guam, and Hawaii. Branches—Los Angeles, California; Portland, Oregon.

When the districts were designated in 1932, an attempt was made to have each cover approximately an equal dollar volume of home mortgage loans outstanding. As time has gone on, however, the Banks in some of the districts have found a much larger demand for their services than those in other districts. Since use of the Banks' facilities by the home mortgage institutions is purely voluntary, and since even the affiliation of most of these institutions with the Banks is a matter of their own choice, the total assets of the member home mortgage institutions in the various district Banks show wide differences.

All of the Banks are supervised by the Home Loan Bank Board at Washington, D. C., whose functions are described fully in Chapter VII.

Bank Procedures in Federal Home Loan Banks

Federal Home Loan Banks are corporations established by the Federal government. Their stock, issued in $100 shares and owned entirely by their members, receives dividends out of the Banks' earnings at regular intervals. They make advances on which they charge interest; they accept deposits on part of which they pay interest; they have boards of directors for making Bank policy and presidents elected by their directors to serve as the chief executive officers and to carry out policy. They have banking quarters suitable to their needs.

Federal Home Loan Bank stockholders are savings and home financing institutions rather than individuals. The Banks are empowered to make advances with maturities up to ten years. In short, they are banks, as has already been pointed out, created especially to serve savings and home financing institutions, and as such their lending operations are tailored to suit the business needs of those particular entities. Chapter III will describe the lending activities of the Federal Home Loan Banks.

Chapter III.

LENDING ACTIVITIES OF THE FEDERAL HOME LOAN BANKS

The Federal Home Loan Banks make advances to their member institutions, and for all practical purposes their transactions are confined to the institutions which have qualified for membership.[6] The Federal Home Loan Bank Act permits the following financial institutions to become members of the System: building and loan associations, savings and loan associations, co-operative banks, homestead associations,[7] savings banks, and insurance companies. Federally-chartered savings and loan associations are required by statute to be members of the Federal Home Loan Bank System; for all of the other institutions listed above membership is optional.[8]

Stock Ownership by Member Institutions

Each member must own stock of the Federal Home Loan Bank of its district equal to two percent of its loans outstanding to home owners. For example, a savings and home mortgage institution with $8,000,000 in home mortgage loans has to hold $160,000 of Home Loan Bank stock. It could

[6] The law provides for non-member institutions to get loans under special circumstances; very few loans, however, have been made under this provision.

[7] These first four are essentially the same type of institution whose terminology varies with locality.

[8] As of June 30, 1952, the eleven Federal Home Loan Banks had as members:

3,982 building and loan associations, savings and loan associations, cooperative banks, and homestead associations.

22 savings banks.

5 insurance companies.

belong to the Bank System with only $10,000 of stock if it had only $500,000 outstanding on home mortgages. The minimum stock requirement is $500.

Flexibility of Advances from the Banks

To these member institutions the Banks may make any of the several types of advances authorized by the statute. Within the general framework of their legal lending powers they tailor the advances to the circumstances, needs, and wishes of the particular institution. Experience has shown the value of a wide variety of terms and arrangements with borrowing institutions. Advances may be either long or short term; they need not be secured, if they mature in one year or less and otherwise qualify. A borrowing member may shift all or part of its short-term borrowings into a long-term borrowing, and it may pay up today and borrow again tomorrow. It may repay ahead of maturity and it may get an advance renewed. Those who recall the period before the Federal Home Loan Banks existed will contrast this availability of suitable credit with that situation in which a savings and home financing institution could borrow only from commercial banks on a short-term—and usually on a secured—basis such as is customary for business loans. In such circumstances the institution was always running the risk of embarrassment and difficulty for the simple reason that short-term advances with no assurance of renewal possibilities are inappropriate for an institution which deals principally in long-term credit.

Secured Advances

The secured advance, to be amortized within ten years, is the particular innovation of the Federal Home Loan Bank System for the savings and home financing institutions. Thus, this type of advance is at the heart of the improved mortgage credit situation resulting from the Bank System's creation, and its principal features merit some emphasis. Such advances are generally secured by the pledging of home mortgages which the borrowing institution holds in its own portfolio.[9]

To be acceptable as collateral, the mortgage offered must be a first lien on a building primarily residential for not more than four families (*home* loans rather than *apartment* loans being always the objective of the System); it must mature within twenty-five years or less; and it must secure a loan not greater than $20,000. The amount of advance which the law permits the Bank to make on a particular mortgage depends on the type of mortgage—whether it is conventional, FHA-insured, or VA-guaranteed; and whether it is a short-term, or an amortized, long-term loan. The Bank can make a higher percentage advance against a long-term, amortized mortgage than it can make against a short-term, straight mortgage. Highest percentage advances are permitted on those mortgages which are guaranteed or insured by the Veterans Administration or the Federal Housing Administration.

Appropriateness of Long-Term Advance

When a Bank makes a long-term advance, it provides for repayment at least quarterly of a part of the principal. Thus, the long-term advance is amortized. The arrangement is designed especially to fit the pattern of the savings and home financing institution which receives the advance. The plan works in this manner: the member pledges amortized home mortgages as security for the advance; as borrowers pay

[9] Advances may be secured by government obligations.

their monthly installments on their home mortgage loans, the member institution will in turn have the funds with which to repay the Bank in the installments stipulated. Of course, this is an over-simplification of what often happens; the member may repay the Federal Home Loan Bank out of available receipts; and, as was pointed out above, it may pay off more of the advance than its contract with the Bank calls for; in fact, it may repay the whole of the advance at any time without penalty and stop the interest payments accordingly. It should be borne in mind, however, that the basic theory of the long-term advance, secured by a long-term home mortgage, is such that the member institution may rely on the future without facing any threat of a sudden demand to repay an ordinary bank loan when it does not have the cash to meet that demand.

There is considerable variety from time to time, and from district to district, in the ratio of long-term and short-term advances which the several Federal Home Loan Banks have outstanding. Such variations demonstrate the great flexibility which the Bank System has to meet the needs of its members, and the diversity of those needs as the general economy, business conditions, public psychology, and home buying and savings habits fluctuate.

Home Loan Bank Influence on Mortgage Terms

Advances from the Federal Home Loan Banks cost the member institutions different rates at different periods, depending on many factors, chiefly the general level of prime money rates. Each of the eleven Banks establishes its own rates within limits prescribed by the Home Loan Bank Board for the System as a whole. Federal Home Loan Banks must do a banking business along lines which are permanently sound. Their influence is always, however, in the direction of a lower cost of home financing than was prevalent before they were established; their existence provides a constant supply of the type of home mortgage money which is best suited to the individual family's needs and budget; and since supply and demand should determine the cost of money just as they should decide the cost of everything else, this maintenance of an open market for home mortgage money has kept the cost of mortgage money down.

Capacity of Member Institutions to Obtain Advances

How much a member institution may borrow from a Federal Home Loan Bank is a decision for the district Bank's board of directors, within the limits set by law and regulation. Although the Banks are operated primarily to suit the needs of their membership they are also required to do conservative lending which will enable them to pay interest on their obligations, keep their reserves intact, and pay dividends on their stock.

The law requires that a member institution's advances from a Federal Home Loan Bank be not more than twelve times the amount of capital stock which it owns in the Bank; its right to borrow may also be limited by its own charter to a certain percentage of its resources. Each district Bank's board of directors establishes a credit line for a particular institution on the basis of its financial condition. The Bank does not, however, lend a member institution its full credit line in normal times; it holds back a substantial portion of credit for emergencies.

When Members Use Bank Advances

Previous chapters have indicated the recurring need of savings and home financing institutions to get advances from the Federal Home Loan Banks for liquidity purposes and for loan expansion when demand is unusual in their own communities. Since provision of liquidity is a primary purpose of the Federal Home Loan Banks, some idea of the circumstances which may arise to cause a member institution to turn to the Home Loan Bank may be helpful in appreciating the value of the System. Some periods of national stress may cause savers to draw more heavily than usual on their accounts. Periods of rising prices cause people to use savings to buy things before prices go higher. War periods result in uncertainty and cause people to move frequently and to keep savings in cash on hand rather than in savings institutions. These and other factors in abnormal periods cause a decline in the volume of new savings and an increase in withdrawals. Since confidence of savers is dependent on availability of funds, savings and home financing institutions are strengthened by being able to get prompt advances from the Federal Home Loan Bank.

Advances for loan expansion are often merely a seasonal need. Where an institution emphasizes home construction loans, for instance, its heavy loan demand will probably be concentrated in the season from April through October. Little building goes on in the dead of winter (except in subtropical Southern and Southwestern states and some territories), and therefore there may be little loan demand then for institutions specializing in construction financing.

Home building and home buying also fluctuate widely from year to year as well as from month to month. The peaks and slumps in this activity form the basis for the members' needs to borrow at a particular time for loan expansion and conversely at other times to liquidate their loans. All in all, the dependence of member institutions on the facilities afforded by the Federal Home Loan Banks embraces hundreds of emergent situations of varying degrees of seriousness. Time has proved that the existence of such a banking service strengthens beyond measure the members' service to their communities.

Record of Repayments on Bank Advances

The Federal Home Loan Banks have never lost money on any advance to a member institution. Such a record over a twenty-year period might sound fantastic if it were not based on the superior backing of these advances; in most instances an advance is actually a prior lien on the total assets of the borrowing institution; the member institution's stock in the Bank is additional security for its loans; and in the case of long-term loans, there is the additional collateral of mortgages or government bonds.

The complete avoidance of any losses has been particularly important for the early, formative years of the system. The Banks have thus been able to build up their strength without any drain on their reserves, and they are in a good position to meet any crises of the future.

Monthly Repayment Mortgage Standard Practice

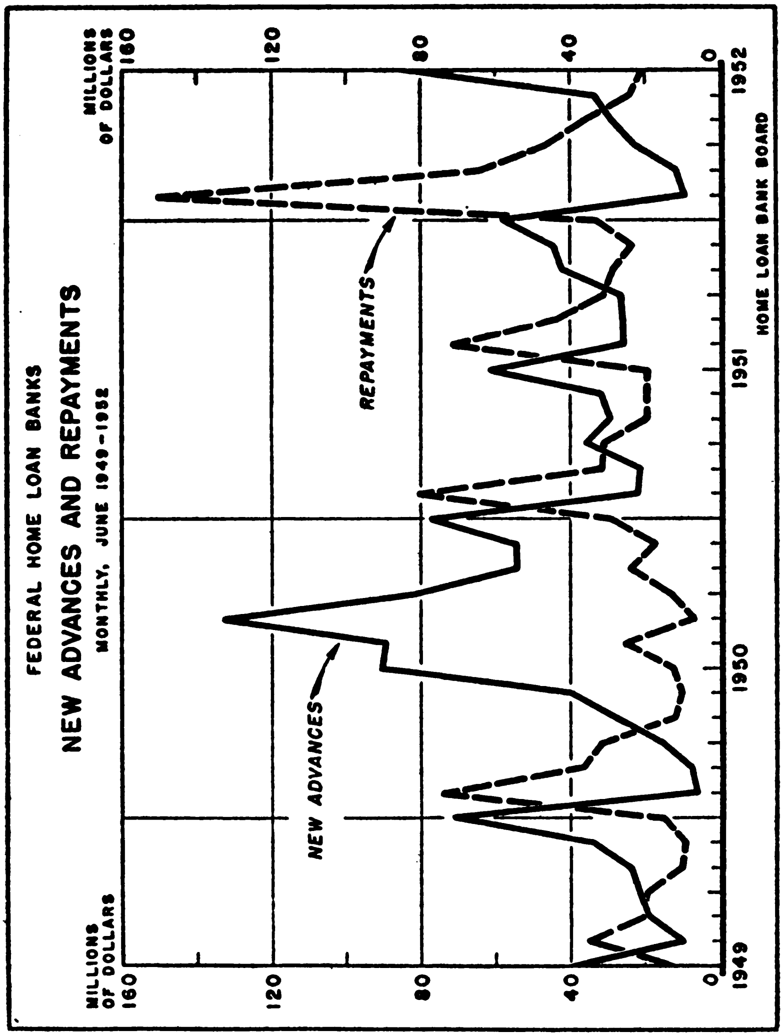
Contemplated from the beginning of the Federal Home Loan Bank System, the adoption of the monthly repayment, long-term home mortgage as the standard method of home financing in the United States is a change everywhere evident in the home mortgage field. Since savings and loan associations were the pioneers in this type of lending a hundred years before the Home Loan Bank System was established, the adoption of their type of mortgage as the standard has brought greater growth to these associations and an immeasurably greater opportunity for them to serve the potential home-owner. The Federal Home Loan Banks have had a part in making this situation possible; they continue to offer the strengthening hand which will enable these and other savings and home financing institutions to perform for the benefit of the national economy.

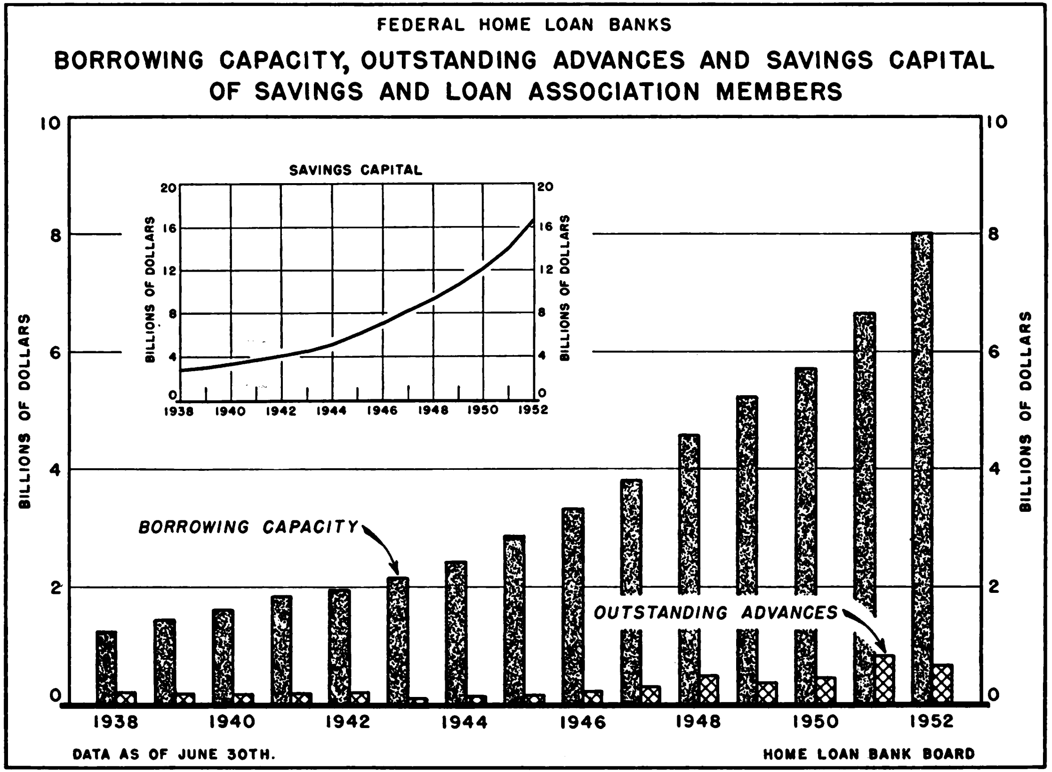
General Improvement in Home Mortgage Conditions

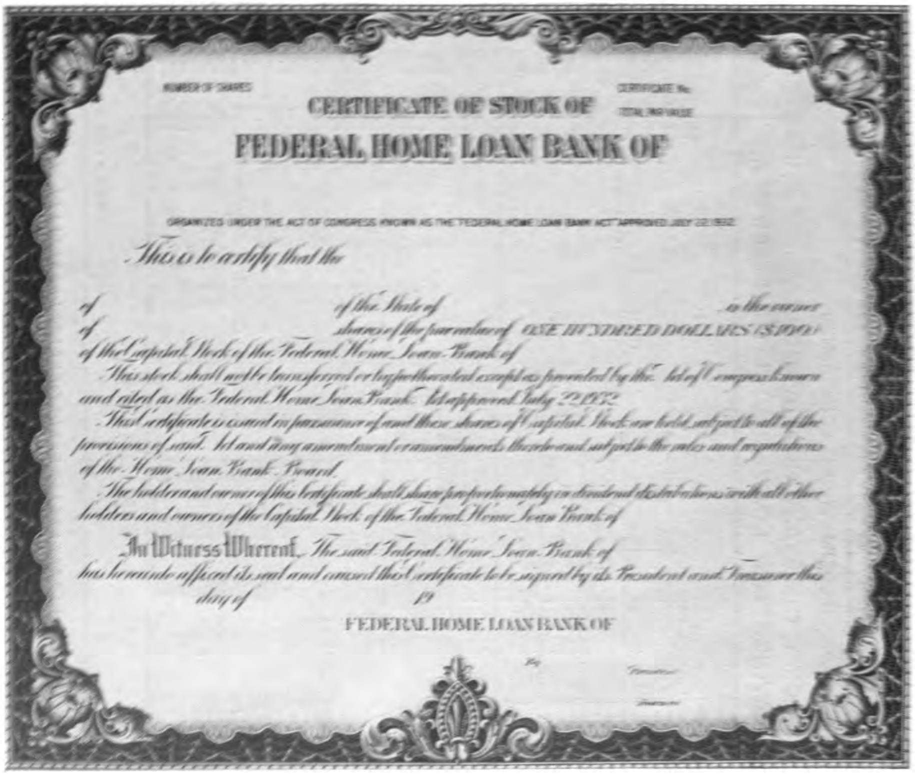
The lending operations of the Federal Home Loan Banks have had by-products of vast improvement in home mortgage conditions. Chief among these has been the gradual standardization of home mortgage costs and practices. Similar equitable terms are now available, in the main, to the purchaser of a four-room cottage and to the buyer of a radiant-heated, 3,500-square-foot ranch house. The importance of this development, like that of so many others, is evidenced only against a knowledge of things as they used to be. Nothing had been more diverse and, in many cases, inequitable than the former uncoordinated system of home financing. Confusion and variance between the arrangements offered by one lender and those of another made it impossible in the 1920's for a buyer or borrower to know if he were getting a reasonable deal in his home ownership undertaking. The standardization of members' practices in the wake of the Federal Home Loan Bank System's activities has contributed substantially to ending this confusion and this purposeless diversity. The basic concept of the Federal Home Loan Bank System, which was written into the statute, was that it should operate through thrift and home financing institutions whose financial condition, management, and home-financing policy were consistent with sound and economical home financing; the by-products as well as the major improvements effected by the Banks have been in line with this objective.

Possibility in Restricting Home Financing

So far the entire discussion of the part played by the Federal Home Loan Banks in lending has been directed to their part in helping meet a need for funds. A new and deeply involved question which should be commented on, in passing, is the ability of the Federal Home Loan Banks to act as a possible damper on any threat of undesirable expansion of home mortgage credit. This prospect was little discussed when the legislation was in process; a period of such deflation as 1932 was not conducive to such pondering. But from 1950 on, deliberate contraction of home mortgage credit of the nation has been often considered. Use of credit controls to put at least a light brake on home building and to save critical materials for war purposes was an accepted part of the national defense program begun in 1950. The Federal Home Loan Banks responded to the anti-inflation needs of 1950 by some immediate curtailment of the use of members' credit lines for loan expansion. To what extent their policies effect a contraction of the overall supply of mortgage money when funds are plentiful in the member institutions has yet to be proved by experience. The complete machinery of the Bank System, on the other hand, has been shown in this chapter to be directed toward the supplying of *sufficient* home mortgage credit. Chapter IV will show where the Banks get the money to perform the banking duties required of them by law.


FEDERAL HOME LOAN BANKS
NEW ADVANCES AND REPAYMENTS
MONTHLY, JUNE 1949-1952
MILLIONS OF DOLLARS
160
120
80
40
0
NEW ADVANCES
REPAYMENTS
1949
1950
1951
1952
HOME LOAN BANK BOARD


FEDERAL HOME LOAN BANKS
BORROWING CAPACITY, OUTSTANDING ADVANCES AND SAVINGS CAPITAL
OF SAVINGS AND LOAN ASSOCIATION MEMBERS
SAVINGS CAPITAL
BILLIONS OF DOLLARS
BORROWING CAPACITY
OUTSTANDING ADVANCES
1938
1940
1942
1944
1946
1948
1950
1952
DATA AS OF JUNE 30TH.
HOME LOAN BANK BOARD



NUMBER OF SHARES

CERTIFICATE No.

TOTAL PAR VALUE

CERTIFICATE OF STOCK OF

FEDERAL HOME LOAN BANK OF

ORGANIZED UNDER THE ACT OF CONGRESS KNOWN AS THE "FEDERAL HOME LOAN BANK ACT" APPROVED JULY 22, 1932

This is to certify that the

of *of the State of* *is the owner*
of *shares of the par value of* ONE HUNDRED DOLLARS ($100)
of the Capital Stock of the Federal Home Loan Bank of

This stock shall not be transferred or hypothecated except as provided by the Act of Congress known and cited as the "Federal Home Loan Bank Act" approved July 22, 1932.

This Certificate is issued in pursuance of and these shares of Capital Stock are held subject to all of the provisions of said Act and any amendment or amendments thereto and subject to the rules and regulations of the Home Loan Bank Board.

The holder and owner of this Certificate shall share proportionately in dividend distributions with all other holders and owners of the Capital Stock of the Federal Home Loan Bank of

In Witness Whereof, *The said Federal Home Loan Bank of has hereunto affixed its seal and caused this Certificate to be signed by its President and Treasurer this day of 19*

FEDERAL HOME LOAN BANK OF

By

President

Treasurer

Facsimile of a Certificate of Stock in a Federal Home Loan Bank

Photographs facing pages 46 and 47 show typical office buildings of member savings and loan associations and typical interiors of associations.

Chapter IV.

SOURCES OF FEDERAL HOME LOAN BANK FUNDS

The Federal Home Loan Banks obtain funds from three sources. They issue stock to members; they take deposits from members; chiefly, they issue and sell their own obligations.

Capital stock is sold only to home mortgage institutions. The principal depositors are the member institutions and other Federal Home Loan Banks. These methods of obtaining funds serve mainly to even up the geographical distribution of savings already earmarked for home mortgage investment. The sale of consolidated obligations is the method through which the Bank System taps the great capital markets of the nation to supplement the savings of individuals for home financing.

Capital Stock as a Source of Funds

The most nearly constant money in the System is that derived from members' ownership of stock. As has already been pointed out, member institutions are required to hold Bank stock equivalent to two percent of their outstanding home mortgage loans in order to maintain membership. They may, however, buy more than the required two percent if the Federal Home Loan Bank approves. If a member wishes to borrow more than twelve times its stock holdings, it may purchase additional stock. Furthermore, as their home mortgage loans expand, member institutions each year must adjust their stock ownership to bring their holdings into line with the two percent stock requirement. Thus, in the very nature of the Bank-member relationship there is a periodic readjustment of capital funds. Dividends are paid out of the Banks' earnings and are usually distributed semi-annually.

Deposits from Members

The Banks accept deposits from their members subject to demand or on a time basis. One reason why members leave money on deposit is the occasional piling up of savings in excess of home mortgage loan demands. Of recent years with more and more emphasis on an increased ratio of liquid assets in member institutions, there has been a wider use of the deposit facilities of the Federal Home Loan Banks as a means of keeping a certain portion of a member's assets at work and readily available without security market risk. The Banks pay interest on time deposits but not on demand money.

Inter-Bank Deposits

A Federal Home Loan Bank makes a deposit in another regional Bank when there is a surplus of funds in one area and a demand for funds in another. Through the device of inter-bank deposits a geographical equalizing of supply and demand of funds is possible over wide areas.

Federal Home Loan Bank Consolidated Obligations

One of the basic reasons for the creation of the Federal Home Loan Banks was to provide a way by which the home mortgage institutions might have access to the capital markets for supplementary funds. When, therefore, the Banks issued their first consolidated obligations in 1937, a truly pioneering activity was launched. The first offering was readily subscribed, and every offering since that time has been oversubscribed. There is also a standby provision for an emergency market for these obligations, since the Secretary of the Treasury is authorized to buy up to $1,000,000,000 of these offerings by the System.

The obligations are the joint and several obligations of the eleven Banks. The rate of interest at which they are marketed indicates that they are regarded as prime securities. They are not guaranteed by the United States Government as to either principal or interest. The total volume outstanding is limited to twelve times the total paid-in capital stock and legal reserves of the combined Banks. In order to assure payment of the obligations, the Banks are required to maintain assets of specified types[10] free from any lien or pledge equal at least to the total dollar volume of issues outstanding.

Basic Soundness of the Obligations

It should always be borne in mind that the soundness of the Federal Home Loan Banks which issue the obligations is buttressed by the worth of their members. The fundamental soundness of these institutions, derived from the unusually compelling character of a man's obligation to pay the debt on his home, plays its part in giving financial prestige to the consolidated obligations of the Federal Home Loan Banks.

Under the law, each of the eleven Federal Home Loan Banks could issue its own bonds or debentures, but practical experience leans heavily in favor of the consolidated obligations of the eleven Banks. Total issues offered during the first twenty years, ranging from $13.5 millions to $174 millions per issue, amounted to $3,589,250,000. They have varied in maturity from a few weeks to five years.

[10] These assets may include: cash; obligations of the United States; secured advances to members; or mortgages on which the Federal Home Loan Banks themselves have a guarantee, or insurance, or commitment therefor, by the government or an agency of the government.

Marketing Procedure for Consolidated Obligations

For the marketing of its consolidated notes the Federal Home Loan Bank System has a fiscal agent in New York to develop and maintain direct relations with dealers and prospective buyers. The widest possible distribution of the regional Banks' consolidated notes is the objective. This distribution is obtained by offering new issues for subscription to a selling group consisting of about five hundred dealers and dealer banks located in all parts of the country. The consolidated notes which are allotted to the members of the selling group are sold by them to banks, corporations, and institutional and other investors.

Test of the System's Ability to Get Funds

The unsettling effect of the Korean difficulties in June, 1950, brought extraordinary demand for additional funds by the member institutions. This demand constituted a major test of the ability of the Federal Home Loan Banks to meet the liquidity needs of the members. The Banks met the emergency by issuing an unprecedented amount of obligations—$619,000,000 in the six months ended December 31, 1950.

A dependable, constant flow of funds to the Banks is essential to meet the requirements of the members. This can be assured only through the development and maintenance of markets outside of the Bank System. The widened distribution, the broadened markets, and the nationwide recognition of the soundness and desirability of the obligations of the Banks as a medium for investment combine to assure a dependable and ready source of funds from which to meet the requirements of the members of the Federal Home Loan Bank System.

Home Loan Bank System Essentially Private Credit

The foregoing analysis of the three sources of funds for the Federal Home Loan Banks, and of the conservative conditions under which the funds are utilized, emphasizes the firm grounding the System has in the private credit structure of the country. Far from being stimulants of real estate credit beyond the dictates of sound economics, the Banks use their power to issue obligations strictly in accord with the ebb and flow of the demand from the established home mortgage institutions. As the member institutions steadily increase both in size and in their utilization of Bank service, the Federal Home Loan Banks will probably have more occasions to supply reserve credit in future years than they have had in the past. But the role which they will continue to play will be largely that of assisting the member thrift and home financing institutions to continue on a firm foundation in order that they may better serve both their savers and those who apply for home mortgage loans.

Chapter V.

FINANCIAL STATEMENTS OF THE BANKS

The foregoing description of the Federal Home Loan Banks has purposely omitted any unnecessary emphasis on the details of their balance sheets or of their operations as they would be seen by an accountant. This chapter will bridge that gap in the reader's knowledge of the eleven Banks, since there are many students of the subject for whom no adequate concrete picture can emerge without reference to a balance sheet and a profit and loss statement.

By the close of approximately twenty years of operations (June 30, 1952), the combined Federal Home Loan Banks had over $1,000,000,000 in assets. Their consolidated statements of conditions would naturally vary up or down from this norm as they were called on to use more or less of their possible resources. Objective of this chapter will be to explain the principal items on both sides of the balance sheet,[11] and also to analyze the profit and loss statement of the combined Banks for the six months ended June 30, 1952.

Asset Side of the Balance Sheet

Cash

Cash, constituting 3.64 percent of assets on the June 30, 1952, balance sheet, is simply the cash on hand and indicates little more than what is considered an immediate working

[11] Balance sheets of the several Home Loan Banks are available at the end of each month to the supervisors, and statements of condition are published annually.

Consolidated Statement of Condition of the Federal Home Loan Banks

June 30, 1952

ASSETS		
Cash	$ 36,495,236	
Investments: Bills, Certificates of Indebtedness, Notes	143,324,296	
Bonds	167,522,401	
Other	35,000	
Advances Outstanding		
Short Term	409,062,171	
Long Term Amortized	243,649,285	
Other	2,938,623	
Total		$1,003,027,012
LIABILITIES AND CAPITAL		
Liabilities:		
Deposit Liabilities		
Members' Time Deposits	350,476,214	
Members' Demand Deposits	56,320,564	
Consolidated Obligations	258,250,000	
Other	4,663,484	
Total		$670,127,912
Capital:		
Capital Stock	299,684,350	
Surplus—Earned		
Legal Reserve	16,473,949	
Reserve for Contingencies	5,628,353	
Undivided Profits	11,112,448	
Total Capital		332,899,100
Total Liabilities and Capital . . .		$1,003,027,012

fund. A large part of the cash need will be met by other means, as for example, the sale of short term government paper, incoming funds which can be expected, and possibly open market borrowing. Some part of each Federal Home Loan Bank's cash is deposited with the Treasurer of the United States (about 25 percent is typical but by no means a rule or even a formula); a nominal petty cash fund is also maintained by most of the Banks.

Investments

The second largest asset item of the Banks consists of their investments. In the balance sheet shown here all such investments were in obligations of the United States. They include bonds of varying maturities, and bills, certificates of indebtedness, and notes.

A Federal Home Loan Bank's volume of investments and cash are dictated to some extent by the law; beyond this basic guidance the Banks follow policies adopted after frequent consultation with the supervisory Home Loan Bank Board, and after obtaining any required approval of the United States Treasury Department. The statutory provisions for cash and investments are explained in the summary below.

Section 11 (g) of the Federal Home Loan Bank Act as amended requires that amounts equivalent to the deposits of all the member institutions be kept in:

1) obligations of the United States;
2) deposits in banks or trust companies;
3) advances to members or non-member borrowers with a maturity of not more than one year.[12]

[12] Careful conditions are set up to determine which short-term advances may be used in meeting this requirement.

Section 16 of the Federal Home Loan Bank Act, as amended, provides that the reserves of each Bank shall be invested in direct obligations of the United States or in securities which are eligible for investment of fiduciary and trust funds under the laws of the state in which the Bank is located.

The liquidity of the Federal Home Loan Banks represented by their cash and investments is always a primary concern of their management. It should be recalled that these Banks must not only stand ready to meet their depositors' needs at all times, but they are also obligated to stand by with additional funds when a member institution may require advances in order to pay withdrawals applied for by its own savers. Over and above this, the Federal Home Loan Banks must keep enough liquid assets to perform their function as a banking system for over 4,000 member institutions whose principal business is to make loans. Liquidity policy is summed up by recalling that the ratio of cash and investments to total assets of the Federal Home Loan Banks is dictated in the final analysis by the Banks' acceptance of their responsibility to help the thrift and home financing institutions through ups and downs in public psychology or in financial realities.

Advances Outstanding

Generally speaking, advances outstanding constitute the largest asset item on the consolidated balance sheet of the Federal Home Loan Banks. On the June 30, 1952, balance sheet shown they constitute 65.07 percent of the total; $492,057,992 of these were secured advances, and the remaining $160,653,464 were unsecured. As collateral the Banks held 180,249 home mortgages with unpaid balances amounting to $958,153,088; government securities with a face value of $114,819,000; and other collateral permitted by the Regulations with face value of $2,150,000.

Other Assets

The item "Other" in the Asset column includes: accrued interest receivable, and other miscellaneous receivables, deferred charges, and a nominal value placed on furniture and equipment.

Liabilities Side of the Balance Sheet

Deposit Liabilities

On the above consolidated balance sheet time deposits of member institutions stand in a ratio of more than 6 to 1 to demand deposits. As has already been indicated, the statute requires the banks to keep specified liquid investment in amounts equivalent to these deposits.

Interbank deposits which are typically only a few million dollars do not show, of course, on the balance sheet consolidating the data for all eleven Banks.

Consolidated Obligations

Consolidated obligations of the Federal Home Loan Banks, under normal circumstances, constitute one of their principal liabilities. As Chapter IV pointed out, such obligations cannot be issued in excess of twelve times the total paid on capital stock and legal reserves of the Banks. In the balance sheet here shown, the consolidated obligations are considerably less than the dollar volume of the capital stock.

Under the Government Corporation Control Act the issuance of obligations of the Federal Home Loan Banks is subject to the approval of the Secretary of the Treasury.

Other Liabilities

The miscellaneous item, "Other", among the Liabilities includes dividends payable, which had been declared upon the paid-in value of capital stock outstanding at the close of business on June 30, accrued interest on consolidated obligations and deposits, and accounts payable.

Capital Stock

Member institutions have owned all of the capital stock of the eleven Banks since July 2, 1951. Home mortgage institutions applying for membership pay at least one-fourth of their total capital stock subscription at the time of application. The $299,684,350 capital stock outstanding on June 30, 1952, excludes the subscribed-for amounts yet to be paid in.

Par value of Federal Home Loan Bank stock is $100, and regardless of its book value, the stock has always been sold at par to members or to those applying for membership; all stock repurchased by the Banks has been at par.

Section 6 of the statute prescribes $5,000,000 as minimum capital for any one Federal Home Loan Bank.

There is a close similarity between many of the functions of the Federal Home Loan Banks and those of the Federal Reserve System, and therefore, comparisons are inevitably made between their rates of return to members, capital structures, etc. The relationship of the home mortgage institutions with their reserve banking system is based on the capital structure alone. It should be borne in mind that there is no requirement for the member institutions to keep a specified amount of non-earning liquid reserves on deposit at the Banks, as is the case with commercial banks and their Federal Reserve System. This distinction between the financial relationship of the Federal Reserve System with its member banks and that of the Federal Home Loan Bank System with its member institutions is important since it explains the smaller return which the Home Loan Banks pay on members' capital stock as compared with the Federal Reserve System.

Surplus, Reserves, and Undivided Profits

The surplus of the Banks consists of reserves allocated according to the terms of the statute, and of additional reserves and undivided profits which the several Banks have allocated over the years. On the balance sheet shown, surplus constitutes more than 10 percent of the total capital.

Section 16 of the Federal Home Loan Bank Act requires that each Bank put 20 percent of its net earnings into a reserve twice a year and that it shall keep on doing so until the reserve equals 100 percent of paid-in capital. After that only 5 percent of net earnings need be allocated to the legal reserve semi-annually.

Most of the Federal Home Loan Banks have made higher reserve allocations than the law requires, and thus substantial reserves for contingencies have been built up; undivided profit accounts have also been substantially increased over the years. The result is that roughly half of the surplus on the typical balance sheet shown here consists of the legal reserve, with the other 50 percent divided in about a 2 to 1 ratio between undivided profits and contingent reserves. Of course, the relationship between these different surplus accounts is subject to fluctuation over the years. The legal reserve has steadily increased since the Banks' inception.

Consolidated Statement of Profit and Loss of the Federal Home Loan Banks

January 1, 1952 through June 30, 1952

OPERATING INCOME		
Interest on: Advances	$7,693,536	
Securities	3,696,434	
Other	2,825	
Total Operating Income		$11,392,795
OPERATING EXPENSES		
Compensation	$ 557,442	
Travel	51,325	
Consolidated Obligation Costs	4,265,308	
Interest on Deposits	2,509,835	
General Accounting Office—Audit Expense	5,699	
Assessment for Home Loan Bank Board	205,911	
Other Administrative Expenses	218,094	
Total Operating Expenses		7,813,614
Net Operating Income		3,579,181
Non-Operating Income	$236,819	
Non-Operating Expense	124,639	
Net Non-operating Income		112,180
Net Income		$3,691,361

Consolidated Statement of Profit and Loss

In order that the reader may have a concrete idea of the sums in which the Federal Home Loan Banks deal in a typical six-month period, with a glimpse at their cost of administration, and of the normal ratio of profit in their banking transactions, a consolidated statement of profit and loss for the first six months of 1952 is printed here. Some comment on the relationship of the various kinds of income and expenses is appropriate.

Earned Operating Income

The income of a Federal Home Loan Bank can be very simply analyzed. The operating income consists primarily of interest on advances and on investments. Interest on advances ordinarily forms the bulk of the operating income. On the profit and loss statement here income from advances is more than twice that from investments.

Operating Expenses

The cost to the Federal Home Loan Banks of their consolidated obligations and of their deposits is the principal operating expense.

A glance at the administrative expenses shown here indicates the economical operation in which the Banks are engaged; including compensation, travel, auditing, and miscellaneous overhead costs, they amount to 7.3 percent of the operating income.

Besides the administrative expense in each particular Bank, the eleven Banks combined have one other expense which can also be characterized as administrative. They contribute annually a major portion of the cost of maintaining the Home Loan Bank Board in Washington. The amount is measured by the Board's expenses arising out of supervision of the Bank System, with a proportionate share of the salaries of the Board personnel who are partially or wholly engaged in work with the Banks.

Non-Operating Income and Charges

To date the primary source of non-operating income or expense has been the Banks' relatively minor transactions in securities. The profit and loss statement here shows that these activities do not loom large in the Banks' over-all profit and loss situation.

Net Income

It will be seen that net income, in the half year shown, amounts to some 32.1 percent of the Banks' gross income.

All in all the outlook for continued profitable operations on the part of the Federal Home Loan Banks is a good one. Dividend rates to stockholders have ranged from 1 percent to a top (to date) of 2-1/4 percent. Primary purpose of the System, as has been repeatedly mentioned, is not to make profits but rather to strengthen and give flexibility to the nation's home financing system. Every Federal Home Loan Bank's management is well aware, however, that a Bank cannot accomplish that primary purpose unless it is a solvent, self-supporting institution paying justly for its money and capable of placing proper amounts into reserves against all sorts of contingencies. The eleven Federal Home Loan Banks have been able to do this without difficulty so far; their prospects of continuing to do so seem to be very good.

Chapter VI.

PERSONNEL OF THE FEDERAL HOME LOAN BANKS

The human as well as the financial resources of the Federal Home Loan Banks are part of the how and why of their operations. Some two hundred and fifty to three hundred individuals are involved, as directors and as full time executive and administrative staff, in the conduct of the eleven Banks. This chapter will tell how they are chosen, cite some of their principal duties, and suggest the calibre of person customarily entrusted with such posts.

A Directorate of Twelve for Each Bank

The law vests the authority for the operation of each Federal Home Loan Bank in a Board consisting of twelve directors. The Federal Home Loan Bank Act stipulates that eight of the twelve directors shall directly represent the stockholding member institutions with which the Bank does business; a complement to this group are the other four who are representatives of the general business and professional community as public interest directors.

Elected Directors

The eight directors who represent the stockholders are either officers or directors of the thrift and home financing institutions affiliated with the Bank; usually they are the principal managing officers of member institutions. They are elected by the members. Two are chosen by all member institutions in the district, and the other six are picked to represent Class A, (large); Class B, (medium-sized); and Class C, (small) institutions, respectively, with the member institutions in each of these three classes choosing two directors each. Thus six members, or half of the entire directorate, are persons intimately acquainted with the needs of a particular size group of thrift and home financing institutions, and their combined experience embraces the whole fabric of the Bank's membership. Balloting for the directors takes place by mail each autumn under the auspices of the Home Loan Bank Board. Terms are two years and are staggered so that some directorships every year must be filled by re-election or by a new choice. The Home Loan Bank Board has taken precautions to assure geographical as well as institutional-size balance in a Bank's directorate; its regulations provide a minimum representation from each state.

Public Interest Directors

Public interest directors are always chosen from among residents of the geographical district served by the Bank; they are presumed to have broad knowledge of the principal group interests, institutional patterns, and business activities of the general area. Their role is to safeguard the basic purpose of the Bank System and to guide policies in the best interest of the savings and home financing structure as a whole.

These four directors are appointed by the Home Loan Bank Board at Washington and serve for four-year initial terms. In making these appointments the Board maintains equal representation from the two major political parties. Many of the public interest directors have been reappointed to successive terms; such reappointment assures a continuity of judgment and experience in this special segment of the Banks' directorate, and it also evidences the interest which these public appointees have taken to date in their Federal Home Loan Bank responsibilities.

A complete list of the public interest directors' backgrounds would constitute a thorough cross-section of community and business leadership; there would be found the university president, the newspaper publisher, the jurist, the banker, the security dealer, the insurance executive, the industrialist, the agriculturist, the capitalist, the lawyer, and a score of other vocational categories implying the trust and esteem of a community.

Duties of Directors

Directors' duties embrace the customary concerns of all bank directors. Directors determine management policies; they prescribe by-laws under which the Bank's business is conducted; they choose the officers of the Bank, defining the duties of each and delegating management responsibilities where they logically inhere. They fix officers' compensation with the concurrence of the Board at Washington; they adopt the annual budget for the Bank, subject to the approval of the Home Loan Bank Board; they elect the Bank's representative on the Federal Savings and Loan Advisory Council (described more fully in the next chapter); they decide where the Bank's major emphasis shall be from time to time, making that decision on the invaluable basis of group judgment.

The Home Loan Bank Board names a chairman, usually one of the public interest directors, and a vice chairman, customarily one of the directors elected by the member institutions, for each Bank for each calendar year. Directors' meetings are held according to a schedule adopted by each Bank, and typically there is an executive committee made up of a lesser number of directors, sometimes rotating, who meet more frequently than the entire board.

Officers of the Federal Home Loan Banks

Officers of each Federal Home Loan Bank are elected annually by the directors with the concurrence of the Home Loan Bank Board. The president is the chief administrative officer; below the presidency, the personnel pattern varies somewhat. While each Bank has a vice president, many combine this with another officer responsibility; for example, combination of the office of vice president and treasurer is a frequent one. Each Bank has a secretary and several have one or more assistant treasurers and secretaries.

The president is expressly charged with the responsibility for the successful operation of the Bank. He is at the same time banker-counselor to the member thrift and home financing institutions in much the same way as a commercial bank president in a community is impressed into an advisory role by individuals with varying financial problems. As part of his administrative function, he employs and maintains a competent staff, he anticipates the needs of the Bank, and he makes suggestions to the directors about how to meet them; he also weighs the recurring possibility of new services to member institutions and brings such possibilities to the attention of the directors.

Regulations of the Home Loan Bank Board make the Bank president directly responsible for member compliance with law and regulations. He also acts for the Home Loan Bank Board as chief supervisory officer for federally-chartered savings and loan associations in the Bank's district, a responsibility which is more fully explained in the next chapter.

Calling for a mature person with experience comparable to that of active management or public supervision of financial institutions, the presidential office in a Federal Home Loan Bank has become, over the years, more and more of a career post. A list of the eleven Bank presidents will show average tenure of ten to twelve years in the post, with some of the incumbents having served throughout the lifetime of their particular Banks.

All of the presidents meet twice a year—or even more frequently—for discussions with the Home Loan Bank Board. These conferences normally consider economic questions, general financial problems, status of the members, interest and dividend policies of the Banks, and financing of the Banks. One continual joint enterprise of all eleven Banks, as has been pointed out, is the issuance of obligations; in this connection, a committee of three of the Bank presidents acts as a budgeting group for the annual expenses of their fiscal agent. Similarly, other joint enterprises are conducted from time to time, either in the interest of the member institutions or of the Banks, and the detailed work of such undertakings is handled by committees named in the Presidents' conference.

The officers of a Federal Home Loan Bank have a multitude of contacts with the thrift and home financing institutions in the community over and above the specific banking operations which they conduct. They act as agents of the Federal Savings and Loan Insurance Corporation in taking applications from the state-chartered savings and loan associations in their district who wish to avail themselves of the opportunity to insure their accounts—another special program which will be fully described in the next chapter, but which is touched on here to show the broad inter-relationship of the district Bank with the community thrift and home financing institutions. Groups of citizens wishing to form new savings and loan associations under federal charter, or wishing to convert existing state associations to federal charter, make their first contact with the officers of the Federal Home Loan Bank in the District, who handle the details of the application.

The Banks' desire to serve their member institutions gives the officers many services to perform, over and above the original specifications for Home Loan Bank operation. Among the additional services rendered by the Banks, according to the needs which have developed in their respective districts, are the following: detailed statistics of member operations, safekeeping of Government bonds without charge, and execution of bond orders for members.

Once each year the Bank holds a meeting of the representatives of all the member institutions in its district. Besides serving to increase the feeling of solidarity among the several hundred institutions engaged in thrift and home financing activity, the stockholders' meeting is a witness to the democratic concept of the Bank. Reports of the year's highlights in the Bank's operations are made by the officers, and the general atmosphere in which home financing will be carried on in the year ahead is previewed, often with an outstanding economist or business leader from another field as the speaker.

All of the people whose money is invested in a member thrift and home financing institution, and all who borrow for home ownership, are the indirect beneficiaries of the Bank personnel's influence on these institutions. The human element in the Federal Home Loan Bank System has measured up well to the demands of a carefully drafted statute and to the vision which brought into being this specialized reserve banking system.

Chapter VII.

THE HOME LOAN BANK BOARD

Supervision of the Federal Home Loan Banks is in the hands of the Home Loan Bank Board, a constituent unit of the Housing and Home Finance Agency of the Federal Government. The Board consists of three members, appointed by the President of the United States, with the consent of the Senate, for terms of four years; no more than two of its members may be of the same political party. Its office is in the Federal Home Loan Bank Board building at 101 Indiana Avenue, N.W., Washington 25, D.C.

Although the Board was originally created by the Federal Home Loan Bank Act for the express purpose of supervising the Banks, it has been assigned other duties in subsequent Acts of Congress. This chapter will summarize its responsibility in connection with the Banks and also describe the additional functions which it performs in relation to the savings and loan associations.

Expenses of the Board Not Paid by Treasury

Noteworthy is the fact that the Board receives no appropriations from the Federal Treasury. All of its expenses, including salaries of Board members and of its entire staff, are paid from two general sources of income; these are (1) assessments on the Federal Home Loan Banks (see Chapter V); and (2) fees and charges arising out of the other operations for which the Board is responsible. All of its expenditures of funds are subject, however, to authorization by the Congress each fiscal year.

Issuance of Consolidated Obligations

An important function of the Board is the issuance of all consolidated obligations of the Banks, the proceeds of which furnish the Banks with funds which they acquire from the capital markets. The securities bear the signature of the Board Chairman on behalf of the Banks; the legal responsibility for seeing that these obligations are paid when they mature rests with the Board. The ultimate decision as to the total amount of obligations to be issued at any one time, the terms of the obligations, and the rate of interest on the issue must be made by the Board, after due consultation with the Fiscal Agent and the Presidents of the Federal Home Loan Banks, with the Open Market Committee of the Federal Reserve System, and with the Treasury Department.

Board Regulations Governing the Banks

Other chapters have already explained the relation of the Board to general policy-making by the directors of the eleven Banks; they have shown that within a general framework of Home Loan Bank Board policy on interest rates, maturity of advances, collateral acceptable for advances, terms for acceptance of deposits, and rate of return on deposits, the various Banks make their own decisions on basis of district conditions and needs. The Board has put into effect a careful set of Regulations governing its relations with the Banks and with the member institutions.

Supervision of the Banks

Reference has also been made in previous chapters to the Board's responsibility for annual audits and examinations of the Banks to check their compliance with the statute and the Board's regulations; this function is, of course, a routine part of supervision of the Banks. In addition the Banks are subject to audit by the General Accounting Office of the Government. Review of the annual budgets and salaries of the Bank officers is also part of the Board's supervisory duty, as is the admission of new members to the System, after the Federal Home Loan Bank of the district has made its recommendations.

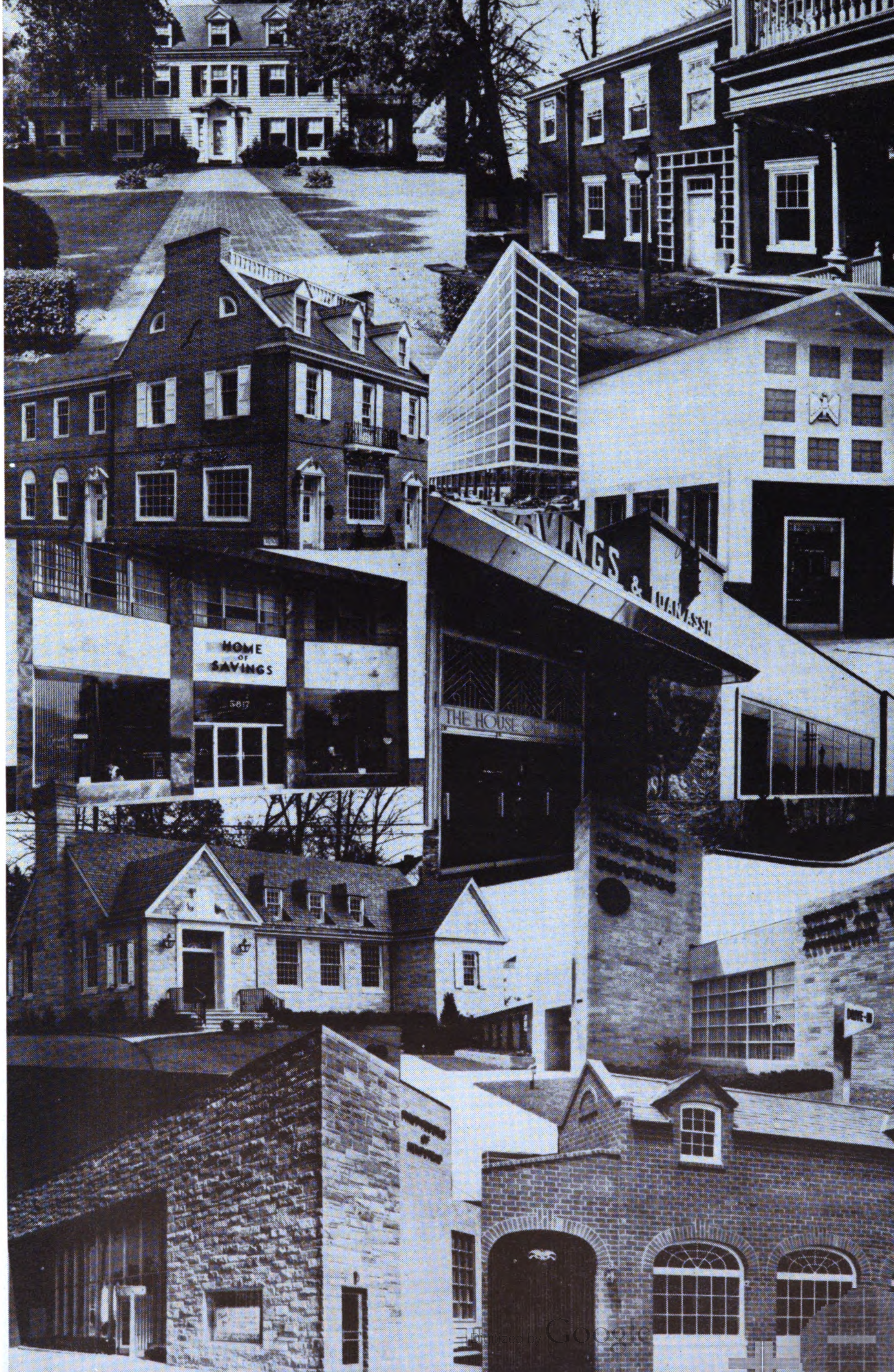
Liquidity Requirement for Member Institutions

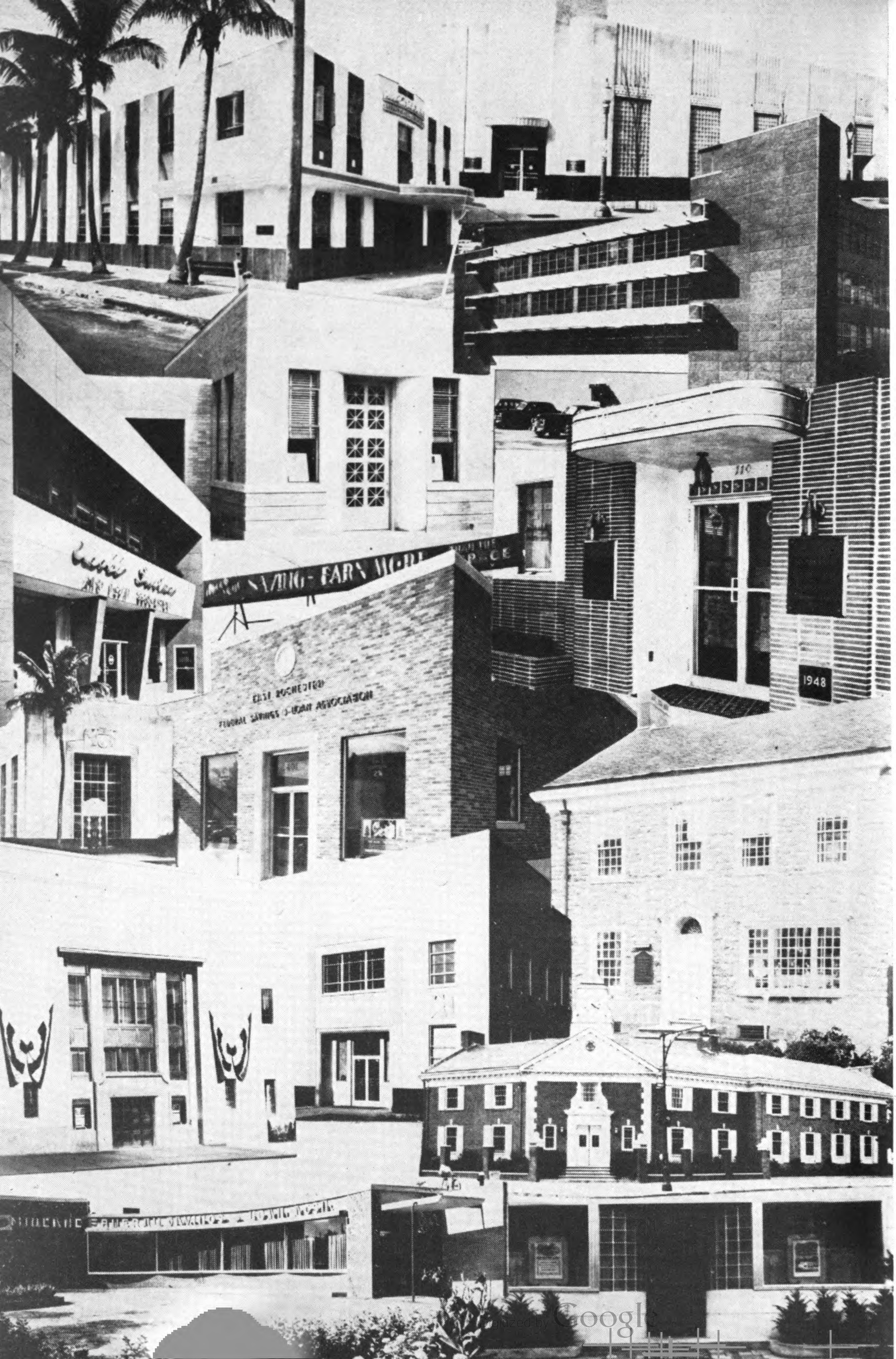
The Board is required by law to set a minimum liquidity ratio for member savings and loan associations and savings banks—somewhere between 4 and 8 percent liquidity to shareholders' withdrawable funds; such a member institution is prohibited from making loans when its liquidity ratio is below the set point. Purpose of this provision is to heighten the responsibility of thrift and home financing institutions for keeping savers' funds available as well as safe. The current liquidity ratio required is 6 percent, the same rate as the required reserves for time money in commercial banks.

Before an attempt is made to summarize other activities of the Home Loan Bank Board, it is appropriate to explain the major responsibilities which Congress entrusted to it after the Federal Home Loan Bank System was established. Most of the functions of the Board so closely intermingle its activities toward the Banks with the other activities that any understanding of the Board's over-all performance must be based on some knowledge of the entire scope of its present responsibility.

Federal Savings and Loan Associations

In 1933, within less than a year after the Bank system was established, Congress authorized a system of federal savings and loan associations to function side by side with the state-chartered building and loan and savings and loan associations


HOME OF SAVINGS
5817
SAVINGS &


1948

which already had a century of history. The Home Loan Bank Board was given the duty of chartering, regulating, and supervising these federally chartered associations.[18] Much of the work of the Board's staff, as well as of the Board itself, is derived from this responsibility toward the "federals", as they are familiarly called. Within the Board there is an examining division and also a supervisory division which judges from the data assembled by the examining force the operating condition of the associations. As Chapter VI mentioned, the president of each Federal Home Loan Bank is the supervisory agent of the Board in his own district.

Federal Savings and Loan Insurance Corporation

Within a year after the Federal Savings and Loan System was established Congress created another instrumentality to provide a needed service in the savings and loan field. This is the self-supporting Federal Savings and Loan Insurance Corporation, organized in 1934 to offer further protection for savings and to stimulate the flow of funds into associations, where they would be available for home financing. The Corporation now insures the safety of the accounts of savers and investors in insured associations up to a maximum of $10,000.

All federal savings and loan associations are required by law to be insured, and state-chartered institutions may become insured upon application and approval. All insured associations are also members of the Federal Home Loan Bank System.

---

[18] Charters were issued to 1,546 federal associations within the first 19 years after the Federal Savings and Loan System was inaugurated. Of these, 681 were new institutions, and 883 had previously operated under state charter.

The original $100,000,000 subscription by the Government to the Corporation's capital has been augmented primarily by annual premiums paid by insured associations and by interest on Corporation investments. In 1951 the Corporation began a program of retirement of the Government investment, on a basis of annual payments equivalent to 50 percent of its net income.

The insurance fund, which currently is in excess of $200,000,000, is available for the payment of any losses that might develop through the insurance operation. In addition, the Corporation has the power to borrow from the U. S. Treasury such funds as may be needed up to $750,000,000 outstanding at any one time.

The Home Loan Bank Board constitutes the Board of Trustees for the Corporation, and as such the Board is responsible for executive direction of the Corporation's operations. This responsibility includes such supervision over insured associations as is necessary to protect the insured risk of the Corporation, management of Corporation investments, and actions under the Corporation's authority to prevent default of insured associations or to make payment to savers and investors in case of liquidation.

Quasi-Judicial Function of the Board

With its major responsibility for the federal savings and loan associations and the Federal Savings and Loan Insurance Corporation as well as for the Federal Home Loan Banks, the Board has to exercise a quasi-judicial function on many occasions. Whenever custom suggests or the statute requires a hearing to be held, the Board must decide the merits of a case after both sides have presented their arguments.

The Board's Relation to Legislation

The Board initiates some legislative proposals affecting the Federal Home Loan Bank System, the federal savings and loan associations, and the Federal Savings and Loan Insurance Corporation, as these changes are suggested by prevailing conditions. The Committees of Congress call on the Board for suggestions whenever any legislation affecting the Bank System or the federal and insured associations is proposed.

Co-ordinating Functions

The Board is called on to co-ordinate the financial policy for which it is responsible with the policies of other Government Corporations and Departments of the Executive Branch of the Federal Government which have any bearing upon them. Such co-ordination has to be carefully maintained with respect to the policies of the Treasury Department, the Federal Reserve Board, and the Federal Deposit Insurance Corporation; it necessitates frequent conferences with these other governmental institutions. The Board also has the responsibility for presenting to the Bureau of the Budget its predictions about the scope of the Bank System's financing operations over a reasonable period in order that this outlook may be considered by the Executive Branch of the Government in its over-all planning.

The chairman of the Home Loan Bank Board is a member of the Board of Directors of the Federal National Mortgage Association; through this post, he helps co-ordinate the policies of his organization with the Government's operations as a secondary market for home mortgages.

The Housing and Home Finance Agency, of which the Home Loan Bank Board is a constituent unit, functions primarily as a co-ordinating agency among the various government activities in the housing and home finance field. A statutory body known as the National Housing Council, meeting frequently to assist in such co-ordination, includes in its membership the Chairman of the Home Loan Bank Board.

Federal Savings and Loan Advisory Council

A statutory advisory body to the Home Loan Bank Board, known as the Federal Savings and Loan Advisory Council, meets twice each year in Washington under its own chairman, officers, and by-laws. It confers with the Board on general business conditions and on specific concerns of the Board, the Federal Home Loan Banks, the federal savings and loan associations, and the Federal Savings and Loan Insurance Corporation. Major changes in the Board's policies are customarily submitted to the Advisory Council before they are put into effect. The Council may, of course, initiate recommendations to the Board on matters within the Board's jurisdiction. It is empowered to obtain from the Board information with reference to any of its activities.

Members of the Advisory Council are chosen in the main from the directorate of the Federal Home Loan Banks, and the majority of the Council usually consists of savings and loan association managers. The Board appoints annually six Advisory Council members in addition to those chosen by the boards of the respective Banks.

Statistical Summary Published by Board

In collaboration with the Federal Home Loan Banks and with the supervisory departments within its own establishment, the Home Loan Bank Board has developed over the years significant statistics which fill a need long felt by thrift and home financing institutions. Some data on savings which were never before available so frequently or on so wide a basis have also been developed into regular statistical series under the Board's auspices. These newly developed statistics are important not only to thrift and home financing institutions but also to members of Congress and others who have in them a reliable reference. As guide to supervisory action, the Home Loan Bank Board itself relies on the careful operating data collected from month to month.

The Board publishes an Annual Statistical Summary which is a ready reference for member institutions, students, and the public. The Summary includes: 1) data on the total mortgage debt on 1-to-4 family homes; 2) figures on non-farm foreclosures; 3) month-by-month data on the loans made by savings and loan associations; and 4) number and dollar amount of non-farm mortgage recordings each month and the type of lender recording them. The Statistical Summary is available at each of the Federal Home Loan Banks, at many member institutions, and at the Board in Washington.

Since the Federal Home Loan Bank System was purposely decentralized at its very beginning in order to give it all the flexibility and effectiveness of an enterprise close to the communities which it serves, the Board does not make the decisions in day-to-day banking operations. It conducts a careful policy of supervision and of co-ordination among the Banks themselves and between the Banks and other governmental agencies.

Chapter VIII.

BACKGROUND AND HISTORY OF THE SYSTEM

Frequent reference has been made in preceding chapters to the time when the Federal Home Loan Banks were started and to the unsatisfactory thrift and home financing situation then prevailing. A few more details about how the Banks came into being, and about the deeper-rooted history of the entire System, may be helpful to those who want the full story of this important component of the nation's credit machinery.

Insurance Companies Since Colonial Days

The origin of the thrift and home financing institutions through which the Federal Home Loan Bank System reaches the savings and borrowing public is the logical beginning of the story. Of the three types of institutions eligible for membership in the System, life insurance companies have been longest in existence on this side of the Atlantic; the first of them dates back to Colonial America, having had its beginning in 1759; it was not until much later that such institutions began to play any part in home financing. When the Federal Home Loan Bank System was established, the number of companies which were making home loans varied, by states, between the following extremes: while only one was making loans in Nevada and only one in New Hampshire, thirty-three were making home loans in Texas and twenty-six in Illinois. Eighty-four companies, in all, replied to a questionnaire sent out in 1931 to find out the situation then prevalent in home financing. Since home financing is only a part of insurance companies' investment program, their part in the overall financing of home ownership has always varied as a result of many market factors.

Savings Banks' Beginnings

The first two savings banks to begin operations in this country opened their doors in Philadelphia and Boston in 1816. They were the forerunners of a fine, long tradition of safety for savings and of material assistance to home financing later in the century. Like the insurance companies, however, they have always had a highly diversified investment program. Sixty-two of the banks affiliated with the Savings Bank Division of the American Bankers Association in 1931 reported that they were making home loans for terms of upwards of eight years; thus, there was obviously a small group of them at the time of the creation of the Federal Home Loan Bank System for whom the whole program had some, if a limited, appeal. As the Banks have grown in experience and usefulness, their program has shown evidence of more appeal to the savings banks.[14]

Century of Savings and Loan Activity

Since the Federal Home Loan Bank System has contact with the public chiefly through savings and loan associations, and since these associations were the successful pioneers in long-term, amortized home financing, some elaboration on their history is necessary in depicting the background of the System. It was exactly a full century before the establishment of the Federal Home Loan Banks that the first savings and loan type of thrift and home financing institution appeared on the American scene.

---

[14] On June 30, 1952, twenty-two savings banks with approximately $400,000,000 in assets were affiliated with the System.

First Savings and Loan Institution

In 1831, in Frankford, Pennsylvania, a suburb of Philadelphia, a little group of townspeople decided that some way must be found for persons of small means to own their homes. As a result, some thirty-seven subscribers to a savings fund were gathered together in what was known as the Oxford Provident Building Association.[15] Week by week they paid in a stipulated amount saved out of their wages. As enough money accumulated in the treasury for one member to borrow for a home, the money was allotted as a loan to one of their number. He paid the money back, in monthly installments with interest. The plan at that time was for full repayment in ten years; then when all the original members had gotten their homes, the association was to cease taking new members, and it was to go out of business when all of the loans were paid.

This original American building and loan association made its first loan on April 11, 1831, to the village lamplighter, a poor man with the paradoxical name of Comly Rich,[16] who borrowed $500. It has often been said that he proved a lamplighter for millions of future home owners, because he was the test case of the first installment repayment home mortgage loan. This transaction was, in fact, the first installment credit

---

[15] In Womrath Park, Philadelphia, a small marker in stone indicates the site of the organization meeting of this first building and loan association. It was placed there, with the sanction of the Philadelphia Historical Society, in commemoration of the centenary of the building and loan movement.

[16] The house which he bought at 4276 Orchard Street was still standing in 1947, at which time the Federal Savings and Loan Associations of Philadelphia purchased it as a home ownership shrine and placed a bronze plaque upon it, marking its permanent place in economic history.

of any kind to be granted in a country which was destined a century later to be famous for a standard of living largely financed by installment credit.

Savings and Loan Progress

It is a far cry from this Oxford Provident Building Association, which actually closed its doors after the original thirty-seven members had procured homes, to the farflung Federal Home Loan Bank System, which has issued several billion dollars in obligations and has influenced the home financing terms for several million American families through thousands of member savings and loan associations. But in the course of a century this development came. By 1893 the combined savings and loan associations of the country had $453,000,000 in assets. They reached their first billion in 1911. By the time the Federal Reserve System was under discussion, a few farsighted thinkers in the savings and loan business felt a similar reserve banking facility could appropriately be created for home financing credit. Such a system, serving the local thrift and home financing units, was implicit in some of the informal discussions held when the Federal Reserve System was under debate. But public and Congressional attention was focused at that time on the urgent needs of the commercial banking segment of the credit system; that was in 1913. A few months after the Federal Reserve Act became law, World War I had started, and the opportunity to get Congressional attention on domestic problems and legislation diminished month by month as the seriousness of the war and of American involvement in it became clear.

Land Bank of New York

The New York legislature was the first law-making body to be convinced that the leaders of the savings and loan business were appropriately concerned about the provision of some system of long-term credit for these thrift and home financing institutions. In 1914 it enacted a law providing for the incorporation of the "Land Bank of the State of New York"; accordingly the Superintendent of Banks chartered such a Land Bank on December 29, 1914.[17] By 1930 it had 144 savings and loan associations in membership and had outstanding to them loans of $15,496,500, financed by bonds outstanding in almost the same amount. It was regarded as a highly effective and necessary adjunct of savings and loan association operation in New York State.

Early Concern with Long-Term Credit Aids

As soon as the end of World War I was in sight, the savings and loan association leaders revived the idea of getting some kind of legislation, on a nationwide basis, which would enable them to use their existing, sound home mortgage loans as a basis for long-term credit. A resolution adopted at the 1918 convention of the United States Savings and Loan League instructed the legislative committee to work toward passage of federal legislation enabling the associations to rediscount mortgages with the Federal Reserve System.

Meanwhile, the War came to an end and focused the attention of national political leaders on the shortage of urban housing, and upon the shortage of long-term mortgage credit for home financing resulting from the expanding demand for credit in industry, commerce, and business after the War.

[17] Following this pattern, the State of Virginia enacted similar legislation in 1930, but no corporation was ever organized to implement the law. The movement to create a Federal system was already in the talk stage by the time the Virginia law was passed, and probably the prospect of such enactment prevented the Virginia Bank from becoming a reality.

The Department of Labor was most concerned about these problems, because employment in the home building trades was closely tied up with them. The construction industry was concerned with them also, since the market for home building is always dependent on the supply of mortgage credit.

First Proposal of Home Loan Bank System

Savings and loan leaders, construction industry representatives, and officials of the Department of Labor held a conference on what should be done in January, 1919. At the second conference a few weeks later they were joined by representatives from the Treasury and by members of Congress. After this conference the savings and loan representatives drew up a proposal for the "Organization of Federal Cooperative Banks"; this early proposal embodied the essential features of the Federal Home Loan Bank System which had to wait, however, some thirteen years to become a reality.

Legislation subsequently introduced in both houses of Congress in 1919 embraced the principles of this early proposal in a measure entitled "A Bill to Create a Federal Home Loan Bank Board and Home Loan Banks for the purpose of Aiding and Financing the Construction of Homes."

The bills got as far as hearings in the Banking Committees of both houses, and six witnesses appeared in behalf of the savings and loan associations urging adoption of such legislation. It was not, however, reported favorably by either Committee. Similar bills were introduced in subsequent Congresses, with the support of the savings and loan leaders, but interest in them waned, as the home building boom of the 1920's got underway, and as prosperity came and went and came again during that decade of postwar adjustments.

Idea Kept Alive

Some of the savings and loan leaders kept the idea of such a system of banks alive in spite of the general lack of interest on the part of the construction industry and the Congress and the public during the middle '20's. An elaborately worked-out plan for a system of federally-chartered savings and loan institutions with an auxiliary Federal Home Loan Bank System was on paper in 1927 and was circulated as a feeler among the responsible leaders of the savings and loan business, which, by this time, had attained spectacular new heights in size and service, having tripled its total assets since the beginning of the '20's. In 1930 the United States Savings and Loan League appointed a Committee on Reserve Credits and Banking Relations to study this proposal and others. Thus it was that the thinking within the savings and loan business prepared the soil for the proposal issuing from the White House in 1931.

There was now in the White House a chief executive with a greater understanding of the home financing problems of the country and of the unique service of savings and loan associations than any previous incumbent. Herbert Hoover had pledged himself, during his campaign for the Presidency, to sponsor legislation looking toward a regional banking system to promote home financing. In May, 1930, he told the Chamber of Commerce of the United States that the provision of a steady flow of capital to the home builder was one area of credit "most inadequately organized"; he added that it had almost ceased to function under the stress of the business downturn at the time.

Downtrend of Business Cycle Revives Need for System

The business cycle continued downward and home construction slowed its pace still further. In the fall of 1931 a dozen business leaders were called to a conference at the White House, including representatives of the National Association of Real Estate Boards, which were pushing a proposal for a system of Federal Mortgage Discount Banks, leaders in mortgage banking who had a plan of their own, and the savings and loan group, which had its well worked out Federal Home Loan Bank plan. An official statement from this meeting said the conference had considered a program which contemplated "the formation of a more developed association of building and loan associations, with more liquid and strong financial resources."

In mid-November, 1931, the President announced that he would ask the Congress for legislation to "strengthen and support" the building and loan associations. The next month he made his specific proposal for establishing a system of Home Loan Banks, in an address before the participants in his Conference on Home Building and Home Ownership (representatives of real estate, of mortgage financing of all kinds, of the architectural profession, and of the building industry and allied interests). Emphasis was placed on the permanency of the proposed Home Loan Bank System although its obvious appeal was as an anti-depression factor in the home building field.

On December 4 the conference unanimously approved the plan for a Home Loan Bank System. On December 8, 1931, in his message to Congress on the State of the Union the President recommended passage of a Home Loan Bank Act.

Legislation Introduced

The Home Loan Bank Bill was introduced in the Senate by Senator James E. Watson of Indiana and in the House of

Representatives by Representative Robert Luce of Massachusetts. Subsequently, a revised bill was sponsored in the House by Representative Michael K. Reilly of Wisconsin. It provided for a $125,000,000 advance out of the U.S. Treasury for the purchase of the stock of the several Home Loan Banks, such stock to be repaid to the Government as the eligible home financing institutions should become members, and subscribe for capital stock.[18]

Inauguration of the System

The measure was signed into law on July 22, 1932. Congress had gone home and the President made interim appointments to the Federal Home Loan Bank Board in order to prevent delay in setting up the system.

This original Federal Home Loan Bank Board had a prodigious task. It had to designate Bank districts, choose Bank sites, and devise yardsticks which should determine eligibility of specific thrift and home financing institutions for membership. Membership in the newly created Federal Home Loan Banks was purely voluntary, for there were then in existence only the state-chartered associations. Boards of directors of thousands of the savings and home mortgage institutions had to be informed of the facts of Bank membership and persuaded that the institution was acting wisely and legally in subscribing for stock in the Banks. Enabling legislation had to be sought in many states before it was patently legal for thrift and home financing institutions in many jurisdictions to affiliate.

[18] The Government eventually subscribed to and paid for a total of $124,741,000 of capital stock in the banks, the final retirement of all of which was completed by July 2, 1951, from which date the stock in the banks has been owned solely by their member institutions.

Opening of the Banks for Business

The date of October 15, 1932 was set for the opening of the doors of the twelve Federal Home Loan Banks.[19] The first spectacular service which any of them performed came at the time of the Bank Holiday in March, 1933, when the supplying of funds to the member institutions (which had not been required to close their doors) enabled some much needed currency to flow into the hands of consumers and thence to tradesmen, and to help keep commerce alive.

Early Functioning

During the early years, a large part of the borrowing of savings and loan associations from the Federal Home Loan Banks was to pay withdrawals so that the confidence-inspired flow of money from savers into these institutions could be restored. This task of restoration had largely been accomplished by the end of the first five years; the Home Loan Banks were then in a position to point some of their emphasis toward their second goal of furnishing funds to the associations for relending—especially for loans for home building. During the next few years, 1938 through mid-1941, there was a marked increase in the percentage of the savings and loan institutions' loans which financed the construction of homes; this development was a direct corollary of the substantial expansion of the Federal Home Loan Banks' advances; at this

---

[19] The original twelve banks were located in the following cities: Cambridge, Mass.; Newark, N. J.; Pittsburgh, Pa.; Winston-Salem, N. C.; Cincinnati, O.; Indianapolis, Ind.; Evanston, Ill.; Des Moines, Ia.; Little Rock, Ark.; Topeka, Kans.; Portland, Ore.; and Los Angeles, Calif. Subsequently the FHLB's of Cambridge, Newark, Evanston, and Winston-Salem were moved to Boston, New York, Chicago, and Greensboro, respectively. The Portland and Los Angeles Banks were merged to form the San Francisco Bank in 1946.

period the System was at last launched on its first non-emergency period of operations.

Statute Amended in Light of Experience

Succeeding Congresses have adopted measures to perfect details of the Federal Home Loan Bank Act during the period since the basic law was adopted. Proposals to improve the service of the System, on the basis of practical experience, have received the support of both President Roosevelt and President Truman. In 1935 and in 1950 substantial improvement of the Act took place.

Federal Home Loan Banks in World War II

When the United States entered World War II, the Federal Home Loan Banks had a new wartime role in supplying funds to member institutions. The customary heavy withdrawals of savings from all types of institutions were an early after-effect of the Pearl Harbor shock. The thrift and home financing institutions got these troubles behind them in a few short months, thanks to their ready access to Federal Home Loan Bank advances and the consequent lack of any delay in handing savers the money they wanted. Savers relaxed in the knowledge that their money was obviously safe and available.

Beyond this role, the Banks were most active in the whole program of helping finance the war expense. In collaboration with approved Treasury methods, they made substantial advances—repayable in six months—to the member savings and loan associations to purchase government bonds for their own portfolios. Furthermore, member institutions became active in selling war bonds to the public and in the purchase of billions of dollars worth of bonds out of funds of their own. The Federal Home Loan Banks became the channel through which the bonds were purchased and through which they were issued by the associations to the public. Later when the redemption of bonds for the public was adopted as one of the savings and loan association services, the Federal Home Loan Banks served as the clearing house for the redeemed bonds.

Situation at Twentieth Anniversary

Then the end of World War II in 1945 brought another crisis. The United States was confronted with the most serious shortage of homes in its history. Home building literally broke all its bonds. The Federal Home Loan Banks played their balanced and balancing role in the savings and home mortgage sphere, with the nation building a million new homes a year and the stimulation of the whole spirit of home ownership apparent in every architect's study and every lumber yard and carpenter shop. The Federal Home Loan Banks arrived at their twentieth year with the experience of nearly a full cycle of challenges—the rehabilitation of the savings and loan system, its expanded service in wartime, and its rise to the occasion in the great revival of home building following World War II. The twentieth anniversary came as the Banks were turning to one of their most delicate roles of all—that of balancing their assistance to the savings and home mortgage institutions in an era of strangely mingled inflationary and deflationary forces which wrinkled the brows of statesmen and financiers while the people went on building and buying new homes.

Chapter IX.

SUMMARY

Since 1932 a system of Federal Home Loan Banks has been in operation to strengthen the thrift institutions which are the traditional sources of home financing in the United States. By the close of their twentieth year the eleven district Banks had combined assets of more than $1,000,000,000 and were providing reserve banking facilities for more than 4,000 member home financing institutions, chiefly savings and loan associations. They have made it possible for vastly increased numbers of families to avail themselves of the long-term, monthly repayment type of home financing which is the soundest method of paying for a home. Their activities have also encouraged the flow of more and more savings into thrift and home financing institutions in general, and into savings and loan associations in particular; thus the supply of mortgage money is plentiful the year round and the cost to the borrower is kept within equitable limits by the adequacy of supply.

Decline of Second Mortgage, Short-Term Financing

The operations of the Federal Home Loan Banks and of their member institutions have helped erase the unhappy memories of second mortgage exorbitant costs and the uncertainties of the straight, short-term financing methods on which too many home borrowers had to depend before 1932. A whole generation of home owners has grown up which knows little of the second mortgage or of the phrase "getting the mortgage renewed;" and more than half of all American families today have found it possible to own their homes.

Meeting Credit Needs of Member Institutions

The member thrift and home financing institutions own over a quarter of a billion dollars of stock in the Federal Home Loan Banks. Through their member-ownership relation to these reserve Banks they have access to various types of advances especially designed to suit their seasonal, cyclical, and emergency needs. Advances may be obtained for terms as long as ten years with monthly or quarterly amortization. Such advances are made on the security of mortgages pledged as collateral as well as on collateral consisting of obligations of the United States. Thus, for the first time in the financial history of the nation, it is possible for a home mortgage to be used as security for a long-term advance; and as a result, the entire savings and loan system, with its funds largely invested in home mortgages, has a hitherto unapproached degree of liquidity and a much more flexible and adequate lending capacity.

The Banks' deposit facilities have also provided the member institutions with a natural outlet for the short-term investment of their liquid assets.

Successful Market for Consolidated Obligations

A successful market for the consolidated obligations of the Federal Home Loan Banks has been established in some fifteen years of experience with the offering of securities to the capital markets. These securities are backed by prime assets of the Banks and of their member institutions, and the volume in which they are issued is circumscribed by conservative ratios to the capital stock and required reserves of the Banks. There is no government guarantee of either principal or interest; the Bank System has thus successfully pioneered the acceptability, in their own right, of securities which are backed in the main by home mortgages. Through this device there is brought into the home financing stream whatever supplementary funds the times require, over and above the ordinary savings in the community which supply home financing needs.

Lending Without Losses

The Federal Home Loan Banks have had a highly successful first two decades in making advances to member institutions; they have had no losses arising from their lending operations and they have built up a surplus in which the amounts allocated to legal reserves are matched by undivided profits and miscellaneous reserves. Earnings have been such as to permit regular payment of dividends on the capital stock. In the course of their evolution the Banks have repaid to the Federal Treasury all of the original capital stock subscription, and they paid dividends on this stock regularly during all the years in which it was in use; there was, in effect, no ultimate cost to the Federal Treasury in the launching of this now well-established system of Banks.

Sustained Interest of Community Leaders

A striking witness to the prestige of the Federal Home Loan Banks is given by the sustained interest of community leaders in their activities. Four out of twelve of each Bank's directors are public interest representatives, and they have shown such genuine responsibility toward the Banks that many have been reappointed time and time again to these posts. The Banks have also attracted to careers in full-time management men with enviable experience and standing in financial management and supervision. The Banks have become an integral part of the financial community in their immediate cities and are recognized increasingly as a key factor in the home mortgage situation throughout their respective districts. The vision of those who pioneered the Federal Home Loan Bank System has been vindicated in the establishment of this reserve system firmly and favorably in the financial structure.

Finally, the improved organization of home mortgage credit which has been achieved continues without any drain on the Federal Treasury. Even the supervisory agency for the Federal Home Loan Banks, the Home Loan Bank Board, receives no appropriations from the Government but is supported out of the earnings of the eleven Banks.

Conservative Influence of Federal Home Loan Banks

While supervised by a Board which is part of the executive establishment in Washington, the Federal Home Loan Banks as a matter of practice enjoy a major degree of independence in their banking transactions and decisions. Because of their grounding in the orthodox financial machinery of the country, because they float securities in the capital markets and observe careful ratios of collateral to advances made, they exert a conservative influence on home mortgage practice.

The establishment of these Banks crowned a century of the history and development of the savings and loan associations which were the originators of the long-term, amortized loan to home borrowers. Leaders in these associations had thought of establishing such a system long before it became a reality; when it had been started it was called on to face a totally unanticipated series of emergencies and crises and to adapt its performance to the needs of new days in the economic history of the nation and the world. It has met the tests well.

INDEX