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REPORT TO **FILE**  
THE CONGRESS OF THE UNITED STATES

EXAMINATION  
OF  
FINANCIAL STATEMENTS  
OF THE  
FEDERAL HOME LOAN BANK BOARD  
FOR THE  
YEAR ENDED DECEMBER 31, 1966



BY  
THE COMPTROLLER GENERAL  
OF THE UNITED STATES

AUGUST 1967

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

AUG 25 1967

B-114827

To the President of the Senate and the  
Speaker of the House of Representatives

The General Accounting Office has made an examination of the financial statements of the Federal Home Loan Bank Board for the period January 1, 1966, to December 31, 1966, which is the reporting period for the corporations supervised by the Board.

The report contains our opinion that the accompanying financial statements present fairly the financial position of the Federal Home Loan Bank Board at December 31, 1966, and its income and expenses for calendar year 1966.

The report is being sent to the Congress because of the interrelationship of the Board's activities with those of the Federal home loan banks and the Federal Savings and Loan Insurance Corporation, which are supervised by the Board and on which this Office is required to report annually, under the provisions of the Government Corporation Control Act.

Copies of this report are being sent to the Director, Bureau of the Budget, and to the Chairman of the Federal Home Loan Bank Board.

A handwritten signature in cursive script that reads "James B. Stewart".

Comptroller General  
of the United States

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REPORT ON EXAMINATION  
OF  
FINANCIAL STATEMENTS  
OF THE  
FEDERAL HOME LOAN BANK BOARD  
FOR THE  
YEAR ENDED DECEMBER 31, 1966

The General Accounting Office has made an examination of the financial statements of the Federal Home Loan Bank Board, an independent supervisory and regulatory agency, for the year ended December 31, 1966, pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The scope of our audit is described on page 15 of this report.

GENERAL COMMENTS

The Federal Home Loan Bank Board was created as an independent agency in 1932 by the Federal Home Loan Bank Act (47 Stat. 725; 12 U.S.C. 1421) and was made a constituent organization of the Housing and Home Finance Agency under Reorganization Plan No. 3 of 1947 (5 U.S.C. 133y-16 note). On August 11, 1955, the Board was reestablished as an independent agency by the Housing Amendments of 1955 (12 U.S.C. 1437(b)). Reorganization Plan No. 6 of 1961 (12 U.S.C. 1437 note), effective August 12, 1961, transferred to the Chairman certain of the Board's administrative and managerial functions.

The basic functions of the Board are (1) to provide, through the medium of 12 Federal home loan banks, reserve banking facilities for member-savings and home-financing institutions, (2) to

charter Federal savings and loan associations and regulate Federal and insured State-chartered savings and loan associations, and (3) to direct the operations of the Federal Savings and Loan Insurance Corporation.

## MANAGEMENT AND FINANCING

The Federal Home Loan Bank Board is directed by a three-man board. The three members are appointed by the President of the United States by and with the advice and consent of the Senate for full, or unexpired portions of, 4-year terms; no more than two members may be members of the same political party.

During calendar year 1966, the Board was composed of the following members:

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
John E. Horne, Chairman	Aug. 1963	Present
John deLaittre	Sept. 1962	June 1966
Michael Greenebaum	Apr. 1965	Present
Robert L. Rand (note a)	Oct. 1966	Present

<sup>a</sup>Mr. Rand was appointed to the Board to fill the vacancy created by the expiration of Mr. deLaittre's term.

At December 31, 1966, the Board had 1,143 employees--a net decrease of four employees from the number at December 31, 1965.

The Board does not receive appropriated funds to carry out its activities; its expenses are financed by (1) charges to savings and loan institutions to cover most of the cost of examinations and (2) assessments against the Federal home loan banks and the Federal Savings and Loan Insurance Corporation to cover administrative expenses and expenses incurred in supervising savings and loan institutions. Effective January 1, 1967, the Board began assessing the Corporation for a larger share of the examination and supervisory costs. (See p. 14.) Limitations are placed by the Congress on the amounts that may be expended each fiscal year for (1) administrative expenses and (2) nonadministrative expenses of regular

examinations and supervision of savings and loan institutions. The expenses of the Board for the fiscal year ended June 30, 1966, were within the prescribed limitations.

## OPERATIONS

The activities of the Board consist principally of (1) establishing policies, issuing regulations, and supervising the operations of Federal home loan banks, (2) directing the operations of the Federal Savings and Loan Insurance Corporation, (3) chartering Federal savings and loan associations, (4) regulating Federal and insured State-chartered savings and loan associations, and (5) examining the Federal home loan banks, Federal and insured State-chartered savings and loan associations, institutions applying for insurance of accounts or for conversion from State to Federal charter, and noninsured member institutions of the Federal Home Loan Bank system in States where examinations are not provided for under State law. The number of supervised organizations and their total assets at December 31, 1966, were as follows:

<u>Number</u>	<u>Organization</u>	<u>Total assets</u>
12	Federal home loan banks	\$ 9,649,000,000
1	Federal Savings and Loan Insurance Corporation	1,868,000,000
2,051	Federal savings and loan associations	69,581,000,000
2,459	Insured State-chartered savings and loan associations	59,465,000,000

### FEDERAL HOME LOAN BANKS

The Federal home loan banks are corporations chartered under the Federal Home Loan Bank Act, approved July 22, 1932 (12 U.S.C. 1421). The banks were created for the purpose of providing reserve banking facilities for their member institutions which may comprise savings and loan institutions, savings banks, and insurance companies.

A report on the examination of the financial statements of the Federal home loan banks for calendar year 1966 has been submitted to the Congress (B-114827, July 10, 1967).



## FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

The Federal Savings and Loan Insurance Corporation is a wholly owned Government corporation created in 1934 by the National Housing Act (48 Stat. 1256; 12 U.S.C. 1752(a)). The Corporation insures withdrawable share and deposit accounts in savings and loan associations up to the statutory maximum of \$15,000 for each insured account. This maximum was established by the Financial Institutions Supervisory Act of 1966 (Public Law 89-695); prior to the enactment of this act on October 16, 1966, the statutory maximum for each insured account was \$10,000.

All Federal savings and loan associations are required to be insured, and qualified State-chartered savings and loan associations and similar institutions, such as homestead associations and cooperative banks, may become insured upon their request and the approval of the Federal Home Loan Bank Board. A report on the audit of the Federal Savings and Loan Insurance Corporation for the calendar year 1966 will be submitted to the Congress.

## FEDERAL SAVINGS AND LOAN ASSOCIATIONS

Under the Home Owners' Loan Act of 1933 (12 U.S.C. 1461), the Board is authorized, under such rules and regulations as it may prescribe, to charter Federal savings and loan associations--local mutual thrift associations--in which people may invest their savings and obtain economical home financing. The Board makes no charges for considering applications for charters or for granting charters. At December 31, 1966, there were 2,051 Federal savings and loan associations--an increase of 40 during the year then ended. The 2,051 associations constituted about 33 percent of all savings and loan institutions and their combined assets constituted about 52 percent of the total assets of all such institutions.

The Board has prescribed regulations governing the organization of Federal savings and loan associations, the form of charter to be issued to associations, and the bylaws under which chartered associations shall operate. The uniform Federal charters set forth the general objectives and powers of Federal associations and include provisions relating to voting rights of members, election of directors, appointment of officers, ownership rights of shareholders, distribution of net earnings, and distribution of net assets in the event of liquidation of an association. The bylaws provide for meetings of the members and of the boards of directors and specify the powers of the boards of directors.

Other regulations prescribed by the Board pertain to the making of loans, establishment of branch offices, submission of financial reports, and examinations and audits. Also, the regulations state the conditions under which mergers or dissolutions of associations may be effected, with approval of the Board, and specify procedures for the administration of conservatorships and receiverships.

#### SUPERVISION OF SAVINGS AND LOAN ASSOCIATIONS

The supervision of Federal and insured State-chartered savings and loan associations is carried out through the Board's Office of Examinations and Supervision and its field supervisory agents who are officers of the 12 Federal home loan banks. In the supervision of insured State-chartered associations, the Board coordinates its activities with those of the State supervisory authorities.

Information upon which supervision is based is obtained primarily through examinations and audits of the insured associations, conducted by the Board's Office of Examinations and Supervision, either unilaterally or jointly with State examiners, and audits

conducted by independent accountants retained by the insured associations.

Examination and audit reports are transmitted to the district supervisory agents for their review and such supervisory action as may be necessary. In addition, the Office of Examinations and Supervision reviews, on a test basis, both the examination and audit reports and the actions taken by the district supervisory agents. The Office of Examinations and Supervision and the supervisory agents review also monthly and semiannual financial statements submitted by the insured associations.

Compliance with supervisory recommendations is usually achieved by the Office of Examinations and Supervision and the supervisory agents, without formal action by the Board. Prior to enactment of the Financial Institutions Supervisory Act of 1966 on October 16, 1966, the Board's enforcement powers with respect to Federal savings and loan associations were limited to a proceeding under section 5(d)(1) of the Home Owners' Loan Act of 1933 (HOLA) to require the correction of violations of law or regulation, or a proceeding under section 5(d)(2) of the act for the appointment of a conservator or receiver.

Under the former section 5(d)(1) of HOLA, the Board was required to give the Federal association a notice of the facts involved and a 30-day period to make correction. After the 30-day period, if the Board determined that correction had not been made, there was a second notice followed by an administrative hearing. However, within that 30-day period, the association could bypass the administrative hearing and submit the controversy to a United States district court.

The Board could, pursuant to the former section 5(d)(2) of the HOLA, appoint a conservator or receiver for a Federal association, after a hearing. If the Board determined that grounds existed for such appointment, and that an emergency existed requiring immediate action, the Board could appoint a Supervisory Representative in Charge to take custody of the association and operate it, pending the outcome of the hearing.

In the case of insured State-chartered associations, if the Board was unable to achieve by persuasion correction of violations or improper practices, its only recourse was a proceeding provided for under section 407 of the National Housing Act (NHA) for termination of insurance of accounts.

Under the procedure for termination of insurance under section 407 of the NHA, the Board was required to give the State-supervisory authority a statement with respect to the unsafe or unsound practices or violations of law or regulation by a State-chartered association and provide 120 days in which the association was to take corrective action. Such period could be shortened by the State-supervisory authority. If satisfactory corrective action had not been taken by the association within the specified time, the Board could, after a hearing, terminate the insured status of the association.

Instead of appointing a Supervisory Representative in Charge to operate a Federal association, pending the completion of a hearing on whether grounds exist for appointment of a conservator or a receiver, the Board, under the Financial Institutions Supervisory Act, may now appoint a conservator or receiver ex parte, and without notice. The grounds for such appointment, similar to those of the former section 5(d)(2), are (1) insolvency, (2) substantial

dissipation of assets or earnings because of violation of law or regulation or improper practices, (3) being in an unsafe or unsound condition to transact business, (4) willful violation of a final cease-and-desist order, and (5) concealment of records or assets of a Federal association. The association may, however, bring an action into the United States district court within 30 days thereafter for an order to set the appointment aside.

Under section 407 of the NHA, as amended by the Financial Institutions Supervisory Act, the Federal Savings and Loan Insurance Corporation may now shorten the 120-day period allowed for correction of alleged violations or improper practices to a period of not less than 20 days in any case where it determines that its insurance risk status, with respect to a State-chartered association, would be unduly jeopardized by further delay in effecting corrective action. As under the former section 407, the State supervisor also may shorten the 120-day correction period.

The Financial Institutions Supervisory Act also provided the Board with cease-and-desist powers applicable to both Federal and insured State-chartered associations. Under the act, permanent cease-and-desist orders may be issued, after a hearing, in cases involving violations of law, regulations, or conditions imposed in writing by the agency in connection with the granting of any application or other request by the association, or written agreement with the agency, or unsound practices. In the more serious cases as specified in the act, an association may be served with a temporary cease-and-desist order, effective upon service and remaining in effect until the completion of the cease-and-desist hearing. Temporary orders may be stayed by a United States district court, upon application filed within 10 days after service of the order upon the association.

Directors or officers of both Federal and insured State-chartered associations may be suspended and removed from office by the Board, after a hearing, for violations or improper practices or breach of fiduciary duty, demonstrating personal dishonesty on the part of a director or officer, and resulting in substantial financial loss or other damage to the association. In the more serious cases, directors or officers may be suspended from office, pending the completion of the hearing in the removal proceeding.

Before commencing a cease-and-desist proceeding against an insured State-chartered association or a removal proceeding against directors or officers of such associations, the Corporation is required to give advance notice to the State-supervisory authority and afford such authority an opportunity to effect corrective action.

In addition, any director or officer who is indicted or charged with a felony involving dishonesty or breach of trust may also be suspended and, if convicted, be removed from office.

Hearings provided for in the Supervisory Act in connection with (1) the termination of insurance, (2) the issuance of cease-and-desist orders, and (3) the suspension and removal of directors or officers, are required to be held in accordance with chapter 5 of title 5 of the United States Code. Judicial review of orders, issued after a hearing in any proceeding, may be held in a United States court of appeals.

## EXAMINATION OF SAVINGS AND LOAN ASSOCIATIONS

Federal and insured State-chartered savings and loan associations are examined by the Board for the purpose of ascertaining their financial condition, their compliance with applicable laws and regulations, and their operating practices. The examinations also cover other matters of supervisory interest, such as reserve policies, adequacy of reserves, potential losses, lending policies, character of mortgage loans, earnings and expenses, collection policies, consistency of competitive practices with general standards of the savings and loan business, and improper use of position by any official or employee. The Financial Institutions Supervisory Act has provided the Board with authority to examine affiliates of insured associations and to examine, and take testimony under oath as to, the affairs or ownership of any such association or affiliate.

The examinations of Federal savings and loan associations are made by examiners of the Board's Office of Examinations and Supervision. The examinations of insured State-chartered associations are made also by the Board's examiners, either unilaterally or, where possible, jointly with State examiners. The current policy of the Board provides, however, that joint examinations be made only in those cases where agreements can be reached with State authorities to conduct the examinations in accordance with the Board's standards.

The Board's Office of Examinations and Supervision made 2,123 examinations of Federal savings and loan associations and 2,455 examinations of insured State-chartered associations during the period January 1 to December 31, 1966. In accordance with the

Board's policy, the examinations of the Federal associations were made at approximate intervals of 12 months. There were 63 Federal associations at December 31, 1966, compared with 95 at December 31, 1965, which had not been examined for 12 months or more.

Of the 2,455 examinations made of insured State-chartered associations, 2,321 were conducted jointly with State examiners. Examinations of the State-chartered associations also were made at approximate intervals of 12 months, in accordance with the Board's policy. There were 81 State-chartered associations at December 31, 1966, compared with 134 at December 31, 1965, which had not been examined for 12 months or more.

In addition, the Office of Examinations and Supervision made 31 eligibility examinations of State-chartered associations applying for insurance of accounts by the Federal Savings and Loan Insurance Corporation and 127 miscellaneous examinations.

#### RESULTS OF OPERATIONS

The Board's statement of income, expenses, and retained earnings for the year ended December 31, 1966, is presented in schedule 2. The following summary shows the assessments and examination fees charged to supervised organizations, the related expenses allocated to examination and supervision of the savings and loan institutions, and the administrative expenses, for the year ended December 31, 1966.



	<u>Total</u>	<u>Supervised organizations</u>			<u>Services provided for other agencies</u>
		<u>Savings and loan institutions</u>	<u>Federal home loan banks</u>	<u>Federal Savings and Loan Insurance Corporation</u>	
<b>Income:</b>					
Assessments and examining fees	\$15,969,572	\$11,213,097	\$2,014,980	\$2,741,495	\$ -
Reimbursement for services performed for other agencies	163,518	-	-	59,602	103,916
Miscellaneous	<u>8,375</u>	<u>1,725</u>	<u>6,650</u>	<u>-</u>	<u>-</u>
	<u>16,141,465</u>	<u>11,214,822</u>	<u>2,021,630</u>	<u>2,801,097</u>	<u>103,916</u>
<b>Expenses:</b>					
Examination of savings and loan institutions:					
Regular	11,395,927	11,395,927	-	-	-
Special	261,296	195,852	34,338	31,106	-
Supervision of savings and loan institutions	951,150	-	502,700	448,450	-
Services performed for other agencies	163,518	-	-	59,602	103,916
Administrative	<u>3,703,175</u>	<u>-</u>	<u>1,441,236</u>	<u>2,261,939</u>	<u>-</u>
	<u>16,475,066</u>	<u>11,591,779</u>	<u>1,978,274</u>	<u>2,801,097</u>	<u>103,916</u>
Excess of expenses over income; income over expenses(-)	\$ <u>333,601</u>	\$ <u>376,957</u>	\$ <u>-43,356</u>	\$ <u>-</u>	\$ <u>-</u>

The \$376,957 excess of expenses over income from the savings and loan institutions is attributed to the fact that the rates charged for examinations of the institutions were not adequate to recover all costs of such examinations. The Board, in lieu of increasing the examination fee, has initiated an additional assessment effective January 1, 1967, to the Federal Savings and Loan Insurance Corporation. In the Board's opinion the Corporation should bear a larger share of the examination and supervisory costs since these functions are intended to minimize the insurance risks of the Corporation.

### SCOPE OF AUDIT

Our audit of the Federal Home Loan Bank Board for the year ended December 31, 1966, consisted principally of (1) a review of the basic laws authorizing the Board's activities and the rules and regulations of the Board, to ascertain the extent of its authority and responsibilities, (2) a review of the examination and audit programs of the Board's Office of Examinations and Supervision and Office of Audits, to determine the adequacy of the prescribed procedures, (3) a review, to the extent deemed appropriate, of reports on examinations and audits, and (4) a review of the Board's financial statements in accordance with generally accepted auditing standards, including an examination of selected financial transactions and such tests of the accounting records as we considered necessary in the circumstances.

### OPINION OF FINANCIAL STATEMENTS

The financial statements, schedules 1 and 2, were prepared by the Federal Home Loan Bank Board. In our opinion, these financial statements present fairly the financial position of the Federal Home Loan Bank Board at December 31, 1966, and its income and expenses for the year then ended in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States applied on a basis consistent with that of the preceding year.



FINANCIAL STATEMENTS



## F E D E R A L    H O M E    L O A N    B A N K    B O A R D

## STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 1966

## A S S E T S

CASH WITH THE U.S. TREASURY		\$ 671,359
ACCOUNTS RECEIVABLE:		
Examination fees from savings and loan institutions	\$1,119,236	
Assessments against:		
Federal home loan banks	\$22,165	
Federal Savings and Loan In- surance Corporation	<u>27,897</u>	50,062
Advances to employees		225,435
Other		<u>31,676</u>
Total accounts receivable		1,426,409
PRINTING AND DUPLICATING SUPPLIES		18,877
FURNITURE, FIXTURES, AND EQUIPMENT, at cost	1,262,669	
Less allowance for depreciation	<u>542,119</u>	
Total furniture, fixtures, and equipment		<u>720,550</u>
Total assets		<u>\$2,837,195</u>

## L I A B I L I T I E S    A N D    C A P I T A L

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		\$1,705,896
LIABILITY FOR EMPLOYEES' ACCRUED ANNUAL LEAVE		1,127,123
PREPAID ASSESSMENT BY FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION		<u>111,298</u>
Total liabilities		2,944,317
CAPITAL, DEFICIT (schedule 2)		<u>-107,122</u>
Total liabilities and capital		<u>\$2,837,195</u>

SCHEDULE 2

F E D E R A L    H O M E    L O A N    B A N K    B O A R D

STATEMENT OF INCOME, EXPENSES, AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1966

INCOME:

Examination fees:	
Examinations of savings and loan institutions	\$11,213,097
Assessments against:	
Federal home loan banks	2,014,980
Federal Savings and Loan Insurance Corporation	2,741,495
Reimbursement for services performed for other agencies	163,518
Miscellaneous	<u>8,375</u>
Total income	<u>16,141,465</u>

EXPENSES:

Personnel compensation	11,585,371
Personnel benefits	854,655
Travel and transportation of persons	2,570,827
Transportation of things	6,784
Rent, communications, and utilities	865,209
Printing and reproduction	42,389
Other services	175,687
Services of other agencies	129,266
Supplies and materials	127,294
Depreciation of furniture, fixtures, and equipment	103,294
Acquisition of nonaccountable property items	<u>14,290</u>
Total expenses	<u>16,475,066</u>

EXPENSES IN EXCESS OF INCOME -333,601

RETAINED EARNINGS AT BEGINNING OF YEAR 226,479

DEFICIT AT END OF YEAR (schedule 1) \$ -107,122