096082

4.26.01

REPORT TO THE CONGRESS

74-0267

LM096082

Examination Of Financial Statements For The Year Ended December 31, 1972

B-114827

Federal Home Loan Bank Board

Federal Home Loan Banks

Federal Savings and Loan Insurance Corporation

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

~~701685~~ 096082 AUG.31,1973

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

B-114827

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

This is our report on the examination of the financial statements of the Federal Home Loan Bank Board, the Federal home loan banks, and the Federal Savings and Loan Insurance Corporation for the year ended December 31, 1972.

We made our examination pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53); the Accounting and Auditing Act of 1950 (31 U.S.C. 67); the Government Corporation Control Act, as amended (31 U.S.C. 850 and 857); and the Federal Home Loan Bank Act, as amended (12 U.S.C. 1431(j)).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Chairman of the Federal Home Loan Bank Board.

Elmer B. Staats

Comptroller General
of the United States

C o n t e n t s

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

EXAMINATION OF FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1972
1 Federal Home Loan Bank Board 402
2 Federal Home Loan Banks
3 Federal Savings and Loan Insurance Corporation B-114827 1061

D I G E S T

WHY THE EXAMINATION WAS MADE

The Comptroller General is required by law to examine and report to the Congress annually on the activities of the Federal home loan banks and the Federal Savings and Loan Insurance Corporation.

The Federal Home Loan Bank Board supervises the activities of the banks and the Corporation; therefore, GAO included the Board's financial statements in its examination.

As required by the Federal Home Loan Bank Act, as amended, GAO examined the accounts for calendar year 1972 relating to acquiring land in the District of Columbia and to constructing and equipping buildings on this land for use by the Board and the agencies under its supervision.

OPINION ON FINANCIAL STATEMENTS

Federal Home Loan Bank Board

The Board's financial statements present fairly its financial position at December 31, 1972, and its income and expenses and its changes in financial position for the year then ended, in conformity with the 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.

Federal home loan banks

The financial statements of the banks present fairly their financial position at December 31, 1972, and the results of their operations and the changes in their financial position for the year then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General for executive agencies, applied on a basis consistent with that of the preceding year.

Federal Savings and Loan Insurance Corporation

The financial statements of the Corporation present fairly its financial position at December 31, 1972, and the results of its operations and changes in financial position for the year then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General for executive agencies, applied on a basis consistent with that of the preceding year. (See p. 16.)

OTHER MATTERS OF INTEREST

Acquisition of site for building

The obligating authority to acquire a site and construct and equip the buildings is $21.6 million. However, the Board's fiscal year 1973 appropriation prohibits it from using the funds for administrative

Tear Sheet. Upon removal, the report cover date should be noted hereon.

and nonadministrative expenses for acquiring land and constructing or leasing new quarters.

During fiscal year 1973 the Board proceeded with studies to determine estimated future space needs and cost of facilities to meet these needs. It developed and submitted to the Congress its plans for ownership and funding of a new building in compliance with the report accompanying the 1973 Appropriation Act. (See pp. 6 and 7.)

Housing Opportunity Allowance Program

In fiscal year 1971 the Board and the banks established the Housing Opportunity Allowance Program to help middle-income families buy homes.

In response to a class action, the District Court of the United States for the District of Columbia ruled in March 1972 that no funds could be disbursed under the program as long as it was tailored only for middle-income families.

In June 1972, as a result of the court order, the Board expanded the program to include low-income families, extended the period of subsidy from 5 to 10 years, and increased the assistance to as high as $70 a month.

Plaintiffs in the program litigation agreed that the Board's implementation of the new program constituted compliance with the court order and withdrew their objections to the disbursement of funds.

During calendar year 1972 the Board disbursed $1.7 million under these programs to aid 11,100 families. Additional funds were not approved for fiscal year 1973. (See pp. 7 and 8.)

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations to the Board.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is submitted to the Congress to disclose the results of the financial audit of the Board, banks, and Corporation and other information on their operations.

CHAPTER 1

INTRODUCTION

To make home ownership economical and to encourage thrift, the Congress, in the early 1930s, established three separate but interrelated organizations--the Federal Home Loan Bank Board, the Federal home loan banks, and the Federal Savings and Loan Insurance Corporation.

FEDERAL HOME LOAN BANK BOARD

The main purposes of the Board, an independent supervisory and regulatory agency, are to (1) regulate and supervise the operations of Federal home loan banks, (2) direct the operations of the Federal Savings and Loan Insurance Corporation, (3) charter Federal savings and loan associations, and (4) regulate and examine institutions insured by the Federal Savings and Loan Insurance Corporation.

The Board is directed by a three-man board appointed by the President of the United States with the advice and consent of the Senate. During calendar year 1972 the following persons served.

	Term of office	
	From	To
Preston Martin, Chairman	Mar. 1969	Dec. 1972
Carl O. Kamp, Jr.	May 1969	June 1975
Thomas Hal Clarke	July 1969	June 1973

Preston Martin resigned as Chairman of the Board effective December 1, 1972, and Carl O. Kamp, Jr., was designated as Acting Chairman. Thomas R. Bomar was confirmed as Chairman of the Board effective May 31, 1973.

The three members of the board serve as the directors of the Federal Home Loan Mortgage Corporation, which provides a secondary market for residential mortgages. We are reviewing the financial transactions of the Corporation and will issue a separate report to the Congress on our review.

FEDERAL HOME LOAN BANKS

The 12 banks, corporations chartered under the Federal Home Loan Bank Act (12 U.S.C. 1432), provide reserve banking facilities to their member institutions--which may comprise savings and loan associations, savings banks, insurance companies, and others--and to certain nonmember borrowers.

The act provides that the Federal Home Loan Bank Board may create new Federal home loan banks--not more than 12 nor less than 8--and may liquidate or reorganize any Federal home loan bank. The locations of the headquarters for the 12 bank districts are as follows:

Boston, Massachusetts	Chicago, Illinois
New York, New York	Des Moines, Iowa
Pittsburgh, Pennsylvania	Little Rock, Arkansas
Atlanta, Georgia	Topeka, Kansas
Cincinnati, Ohio	San Francisco, California
Indianapolis, Indiana	Seattle, Washington

Each bank is operated under the direction of a board of directors, of which 4 members are appointed by the Federal Home Loan Bank Board and the remainder, ranging from 8 to 11, are elected by member institutions. The operating responsibility of each bank is vested in a president who is elected by the bank's board of directors subject to the approval of the Federal Home Loan Bank Board.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

The Corporation, a wholly owned Government corporation, insures withdrawable share and deposit accounts up to $20,000 for each insured member in all federally chartered savings and loan associations, all qualified State-chartered savings and loan associations, and similar institutions upon their request and approval by the Federal Home Loan Bank Board.

The Board carries out certain functions of the Corporation, such as processing applications for insurance and examining insured institutions. Other operating responsibilities, such as receivership activities and liquidation of assets, are vested in a director who is appointed by the Board. During calendar year 1972 Roger K. Lindland served as Director of the Corporation.

CHAPTER 2

FEDERAL HOME LOAN BANK BOARD

The Board establishes policies for, and supervises the operation of, various organizations. The type, number, and total assets of the organizations supervised at December 31, 1972, were as follows:

Type of organization	Number	Total assets
		(billions)
Federal home loan banks	12	$ 10.7
Federal Savings and Loan Insurance Corporation	1	3.2
Federal savings and loan associations	2,044	135.9
Insured State-chartered savings and loan institutions	2,147	100.4
Total	4,204	$250.2

The Board's operations are financed by charges to savings and loan institutions to cover part of the cost of examinations and by assessments against the Federal home loan banks and the Corporation to cover administrative expenses and expenses incurred in supervising savings and loan institutions. The Congress placed limits on the amounts that could be expended by the Board in fiscal year 1972--$8,123,500 for administrative expenses and $16,923,000 for nonadministrative expenses incurred in making regular examinations and in supervising insured institutions. The Board's expenses were within the prescribed limits.

SUPERVISION AND EXAMINATION OF INSURED INSTITUTIONS

The Board's field supervisory agents, who are officers of the 12 Federal home loan banks, supervise the insured institutions. Insured institutions are Federal savings and loan associations; building and loan, savings and loan, or homestead associations; and cooperative banks whose accounts are insured by the Corporation. For State-chartered institutions the Board coordinates its supervisory activities with those of the State supervisory authorities.

The Board's supervisory objectives are to obtain insured institutions' compliance with applicable laws and regulations and to avoid the development or continuance of unsafe or unsound financial practices by the institutions. Supervision is based on information obtained primarily through the Board's examinations of the insured institutions and the companies which have a controlling interest in the institutions and through audits conducted by independent accountants.

The Board reviews the institutions' financial condition, compliance with applicable laws and regulations, and operating practices. It also reviews other matters of supervisory interest, such as reserve policies, potential losses, lending and loan collection policies, character of mortgage loans, earnings and expenses, and consistency of competitive practices with general standards of the savings and loan business.

During calendar year 1972 the Office of Examinations and Supervision made 3,228 examinations of insured savings and loan institutions. These examinations were made at intervals of approximately 17 months. The Board used the information to identify problem institutions which are discussed on page 11. In addition, the Office of Examinations and Supervision made 640 miscellaneous examinations.

CONSTRUCTION OF NEW BUILDING

The Federal Home Loan Bank Act, as amended on November 3, 1966 (12 U.S.C. 1438(c)), authorizes the Board to use the services of the Administrator of General Services in acquiring real property in the District of Columbia and in constructing and equipping buildings for use by the Board and the agencies under its supervision.

The amendment to the act provided that the Board (1) incur no obligations in excess of $13.2 million to acquire the land and to construct and equip such buildings and (2) finance such acquisition of land and buildings from assessments against, or advances of funds by, the Federal home loan banks. The amendment provided also that we annually audit the accounts relating to acquiring land and to constructing and equipping buildings. On November 26, 1969, Public Law 91-126 authorized an increase in the obligating authority from $13.2 million to $21.6 million.

In January 1972 the Board approved the acquisition of land at 17th and G Streets NW. as a site for its headquarters building. Early in 1972 the General Services Administration, acting as agent for the Board, sold part of previously acquired land to the U.S. Tax Court and optioned the remainder of the land to the District of Columbia.

As of December 31, 1972, the Board had transferred $6,103,200 to a fund account to be used by the General Services Administration for acquiring land and preparing for construction of a new building. Of this amount, $6,025,000 was advanced to the Board from the 12 Federal home loan banks, which the Board must repay in not more than 25 years. At December 31, 1972, the Board still owed $4,910,680 to the banks.

The Board's 1973 appropriation (Public Law 92-383; 86 Stat. 552), approved on August 14, 1972, prohibits it from using the funds for administrative and nonadministrative expenses for acquiring land and constructing or leasing new quarters. During fiscal year 1973 the Board proceeded with studies to determine estimated future space needs and cost of facilities to meet these needs. It developed and submitted to the Congress its plans for ownership and funding of a new building in compliance with the report accompanying the 1973 Appropriation Act.

HOUSING OPPORTUNITY ALLOWANCE PROGRAM

The Emergency Home Finance Act (12 U.S.C. 1430 note), approved on July 24, 1970, authorized $250 million to be appropriated for the Board for disbursement to Federal home loan banks for the purpose of adjusting the effective interest rates charged by the banks on short- and long-term borrowing to promote an orderly flow of funds into residential construction. Public Law 91-556 (84 Stat. 1461), approved on December 17, 1970, appropriated $85 million for such purpose, and Public Law 92-78 (85 Stat. 283), approved on August 10, 1971, appropriated an additional $62.5 million.

In fiscal year 1971 the Board and the banks established the Housing Opportunity Allowance Program to help middle-income families buy homes. Under the program, eligible prospective home buyers were given direct monthly allowances of $20 for a maximum of 60 months of the terms of their mortgage loans. The allowances were credits to the home buyers' mortgage accounts maintained by eligible lenders. The lenders were reimbursed for such credits by the Federal home loan banks of which they were members, and the banks were to be reimbursed by the Board from the appropriated funds.

In response to a class action, the District Court of the United States for the District of Columbia ruled in March 1972 that no funds could be disbursed for the program as long as it was tailored only for middle-income families--those with incomes from $7,000 to $12,000. At the date of this ruling about 9,000 middle-income families were in the program.

In June 1972, as a result of the court order, the Board devised a mortgage payment subsidy program for families with incomes under $7,000. The new program, called Housing Opportunity Allowance Program I/II, extends the period of subsidies from 5 to 10 years and provides for subsidies up to $70 a month, depending on family incomes. The payments run for 5 years; after a reevaluation of the borrowers' incomes, the payments decrease for the second 5-year period. Middle-income families will continue to receive $20 a month for 5 years.

Plaintiffs in the program litigation agreed that the Board's implementation of the new program constituted compliance with the district court order and withdrew their objections to the disbursement of funds.

On January 1, 1972, the Board had $123,546,400 for the program. Of this amount, about $100 million was declared excess and returned to the Treasury. During calendar year 1972 the Board disbursed $1.7 million under the new and the old programs to aid 11,100 families. Additional funds were not approved for fiscal year 1973.

SCOPE OF EXAMINATION

We reviewed:

1. 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. The examination and audit programs of the Board's Office of Examinations and Supervision and its Office of Audits to determine the adequacy of the prescribed procedures.

3. The reports on examinations and audits to the extent deemed appropriate.

4. The Board's financial statements in accordance with generally accepted auditing standards. We also reviewed selected financial transactions and made tests of accounting records when considered necessary.

CHAPTER 3

FEDERAL HOME LOAN BANKS

The banks' primary function is to make loans to, and accept deposits from, member institutions. Any building and loan association, savings and loan association, cooperative bank, homestead association, insurance company, or savings bank is eligible to become a member of, or a nonmember borrower of, a Federal home loan bank if such institution makes long-term home mortgage loans and meets the other requirements of the Board. All institutions whose accounts are insured by the Federal Savings and Loan Insurance Corporation are members of a Federal home loan bank.

The banks obtain funds for lending activities from earnings, deposits by member institutions, subscriptions to capital stock, and the issuance of consolidated obligations. The banks' consolidated obligations are the joint and several liabilities of all the banks and are not guaranteed by the Government. Also, the banks can obtain funds through the Secretary of the Treasury, who has authority to purchase Federal home loan bank obligations up to $4 billion; however, he had not exercised this authority through calendar year 1972.

Services provided by the banks to their members include:

1. Purchasing, selling, and safekeeping securities.

2. Transferring funds between member accounts, including some automated reconciliations of accounts.

3. Processing data on savings, mortgage, and general ledger accounts with online computers.

4. Publishing research and statistical reports on savings and mortgage trends, commitments, and related data.

5. Handling loans for the Agency for International Development.

6. Handling and coordinating various Board-sponsored housing programs.

During 1972 the banks advanced $4.8 billion to member institutions, compared with $2.7 billion in 1971. Funds advanced typically cover savings withdrawals and mortgage expansion, including funds for Department of Housing and Urban Development-approved programs. Advances repaid totaled $4.7 billion in 1972, compared with $5.4 billion in 1971. Of the $8 billion advances outstanding at December 31, 1972,

$7.3 billion was secured by pledges of collateral consisting of home mortgages, capital stock of the banks, U.S. obligations, and other authorized collateral with a total face value of $19 billion.

Also during the year, the banks sold consolidated obligations of $1.5 billion and retired maturing obligations of $1.7 billion, which decreased the balance of outstanding obligations from $7.1 billion at December 31, 1971, to $6.9 billion at December 31, 1972.

CONSOLIDATED SECURITIES FUND

On May 1, 1972, a consolidated securities fund was established to invest in short-term securities--13 months or less--for 7 of the 12 banks. The fund will operate at least 1 year to determine the effectiveness and desirability of centralized management of investments. Then its performance will be compared with that of the five nonparticipating banks. If the fund is proven superior, the five banks will join; otherwise, the fund will be discontinued. At December 31, 1972, the fund's balance was about $842 million.

SCOPE OF EXAMINATION

We reviewed the Federal Home Loan Bank Act, as amended, and the Board's rules and regulations issued pursuant to the act to ascertain the policies and restrictions within which the banks are required to operate. We also reviewed the banks' lending and investment policies, financial reports and statements, and correspondence with the custodians of securities held at December 31, 1972.

We relied, to the fullest extent practicable, on examinations made by the Board's Office of Audits. In reviewing the work of that Office, we (1) reviewed audit programs to determine the adequacy of prescribed audit procedures, (2) observed its examination of the Federal home loan banks of Indianapolis and Pittsburgh, and (3) reviewed reports and working papers on the examinations to the extent we deemed appropriate.

CHAPTER 4

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

The Corporation insures withdrawable share and deposit accounts in all insured institutions, assesses and collects insurance premiums, and invests surplus funds. In addition, it may be appointed receiver of defaulted insured institutions. The Corporation also acts to prevent a default of an insured institution or to restore an institution in default to normal operation by making loans to, purchasing the assets of, or making a contribution to such an institution.

The Corporation's records showed that financial difficulties of institutions requiring its assistance during the year ended December 31, 1972, had been caused by unsafe and unsound operating practices, such as:

1. Obtaining funds through the extensive use of money brokers for fees paid by the institutions or by the ones to whom loans are granted.

2. Granting loans in violation of existing laws and regulations.

3. Concentrating loans to borrowers having little or no financial means or responsibility.

4. Making excessive loans on the basis of inflated appraisals.

5. Concentrating loans to a few speculative borrowers.

6. Paying dividends in violation of existing laws.

The Congress placed a limit of $509,000 on the amount the Corporation could spend in fiscal year 1972 for administrative expenses excluding supervisory and other services provided by the Board. The Corporation's administrative expenses for fiscal year 1972 were within the limit.

PROBLEM INSTITUTIONS

To insure that insured institutions receive appropriate supervisory attention when needed, the Board's Office of Examinations and Supervision has developed procedures for rating each insured institution and for identifying those showing signs of weakness and trends which could later involve the Corporation.

The most serious cases are classified as category I, financially critical, and the next most serious cases are classified as category II, not financially critical but requiring aggressive supervisory attention. The number of problem institutions classified as categories I and II, which the Board follows closely, and the related estimated insured deposits are as follows:

Category	Number of institutions Dec. 31, 1972	Number of institutions Dec. 31, 1971	Estimated insured deposits Dec. 31, 1972	Estimated insured deposits Dec. 31, 1971
			(000 omitted)	
I	14	13	$ 517,323	$502,543
II	47	(a)	2,483,029	(a)
	61		$3,000,352	

[a]During calendar year 1972, the Board changed the criteria for category II to include other problem institutions. Because 1972 and 1971 data is not comparable, the 1971 figures are deleted.

The Board and the Corporation encourage insured institutions to correct unsound operating practices and aid institutions requiring financial assistance through techniques for reducing cash outlays.

ASSETS ACQUIRED THROUGH THE CORPORATION'S INSURANCE ACTIVITIES AND RELATED ALLOWANCE FOR LOSSES

At December 31, 1972, the Corporation held assets acquired in discharging its insurance indemnity liability to insured institutions and established an allowance for losses on these assets, as follows:

Asset	Book value	Allowance for losses	Net value
Assets acquired from insured institutions	$108,034,174	$57,141,190	$ 50,892,984
Loans to insured institutions and accrued interest	75,548,439	-	75,548,439
Subrogated accounts in insured institutions in liquidation	139,605,531	1,500,000	138,105,531
Insured accounts in institutions in liquidation (pending and unclaimed accounts)	16,848	(a)	16,848
Total	$323,204,992	$58,641,190	$264,563,802

[a]Not applicable.

The allowance for losses is based on the evaluations and judgments of Corporation officials who consider such data as actual losses experienced by the Corporation, latest financial data available on insured institutions in liquidation, and results of independent appraisals made by contract appraisers. As of December 31, 1972, the Corporation did not anticipate that any losses would be incurred on the loans to insured institutions. Any losses which might occur would be recognized when and if collection of the loans becomes doubtful.

The book value of assets acquired from insured institutions represents unpaid balances of mortgage loans at the time of acquisition, the acquisition cost of real estate and other assets, and capitalized expenditures--such as taxes and insurance--less amounts received on the principal of the loans. The net value of assets acquired at December 31, 1972, was $51 million, about $25 million less than the balance at December 31, 1971.

The loans to insured institutions and accrued interest of $76 million consisted of interest-bearing loans of $72 million to associations that required financial assistance and accrued interest of $4 million.

Subrogated accounts of $138 million represent the rights of depositors acquired by the Corporation through payment to the depositors of their insured accounts. Thus the Corporation, in place of the original depositors, has acquired claims against the assets of the association.

At December 31, 1972, insured accounts--$16,848--in one institution in liquidation (pending and unclaimed) had not been subrogated. This amount is shown on the Corporation's statement of financial condition at December 31, 1972, as both an asset and a liability.

RESERVES AND BORROWING AUTHORITY

The Corporation estimated that, at December 31, 1972, savings insured by it in 4,191 insured institutions totaled about $194.5 billion. The resources available to the Corporation at December 31, 1972, to meet demands which may be made upon it for discharge of its insurance liability are described below.

Cumulative net income of $1.8 billion from operations has been retained as a primary reserve pursuant to section 404(a) of the National Housing Act (12 U.S.C. 1727). The secondary reserve, amounting to $1.4 billion at December 31, 1972, consisted of (1) cumulative insurance premium prepayments of $884 million assessed against insured institutions from fiscal year 1962 through calendar year 1969 and (2) cumulative interest of $500 million on the outstanding balance of the prepayments.

The Corporation's primary and secondary reserves are available to meet future losses. These reserves, established pursuant to law and administrative action, do not represent a measure of the insurance risk which is imposed on the Corporation by pertinent legislation. In our opinion, the reserves were adequate to meet potential losses that might result from problem conditions known to exist in specific insured institutions at December 31, 1972, under existing economic conditions. The adequacy of the reserves, however, is directly affected by economic conditions. Whether these reserves would be adequate during periods of severely adverse economic conditions is currently not determinable.

The Corporation may draw on three other sources, in addition to its reserves, for insurance purposes. It may:

1. Require insured institutions to deposit with the Corporation up to 1 percent of their withdrawable deposits. The exercise of this authority as of December 31, 1972, would have provided funds of about $2 billion to the Corporation.

2. Assess additional premiums against insured institutions equal to accumulated losses and expenses of the Corporation. Such assessments against an institution in any one year may not exceed one-eighth of 1 percent of the total amount of the insured members' accounts.

3. Borrow up to $750 million from the U.S. Treasury.

The Corporation had not drawn on any of these sources of funds through calendar year 1972.

The insured institutions have their own reserves and surpluses available to meet losses. As of December 31, 1972, they had a total of about $14.2 billion in reserves and surpluses.

SCOPE OF EXAMINATION

Our examination of the Corporation consisted principally of a review of its statement of financial condition at December 31, 1972, and the related statements of income, expense, and primary reserve and of changes in financial position for calendar year 1972. Also, we reviewed the basic laws, rules, and regulations applicable to the Corporation to ascertain the policies and restrictions under which it is required to operate. We made the examination at the

Corporation in Washington, D.C., and at its Midwest office in Westchester, Illinois.

Our review of data on insured institutions classified by the Board as serious problem cases and other problem cases needing supervisory attention and our statistical sample review of data on all other insured institutions were limited to examining reports and related records of the Board's Office of Examinations and Supervision on such institutions.

Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other procedures as we considered necessary in view of the effectiveness of the system of internal control and the work performed by the Board's Office of Audits.

CHAPTER 5

OPINION ON FINANCIAL STATEMENTS

The Board prepared the financial statements, schedules 1 through 9.

The Board's financial statements (schs. 1, 2, and 3) present fairly its financial position at December 31, 1972, and its income and expenses and changes in financial position for the year then ended, in conformity with the 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.

The financial statements (schs. 4, 5, and 6) present fairly the financial position of the banks at December 31, 1972, and the results of their operations and changes in financial position for the year then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General for executive agencies, applied on a basis consistent with that of the preceding year.

The financial statements (schs. 7, 8, and 9) present fairly the financial position of the Corporation at December 31, 1972, and the results of its operations and changes in financial position for the year then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General for executive agencies, applied on a basis consistent with that of the preceding year.

FEDERAL HOME LOAN BANK BOARD

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1972, AND DECEMBER 31, 1971

	December 31, 1972	December 31, 1971
ASSETS		
CASH WITH U.S. TREASURY (note 2)	$ 751,678	$ 693,770
ACCOUNTS RECEIVABLE	5,641,857	2,847,266
INVENTORY--supplies	18,999	25,890
LEASEHOLD IMPROVEMENTS	206,305	24,563
LAND AND BUILDING	3,540,652	6,072,372
FURNITURE, FIXTURES AND EQUIPMENT, net	1,032,628	821,979
Total assets	$11,192,119	$10,485,840
LIABILITIES AND CAPITAL		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 3,051,907	$ 2,371,171
LIABILITIES FOR EMPLOYEES' ACCRUED ANNUAL LEAVE	1,498,994	1,503,291
LOANS PAYABLE TO FEDERAL HOME LOAN BANKS	4,910,680	5,151,680
Total liabilities	9,461,581	9,026,142
CAPITAL, RETAINED EARNINGS (sch. 2)	1,730,538	1,459,698
Total liabilities and capital	$11,192,119	$10,485,840

The notes following schedule 3 are an integral part of this statement.

SCHEDULE 2

FEDERAL HOME LOAN BANK BOARD

COMPARATIVE STATEMENT OF INCOME, EXPENSE, AND RETAINED EARNINGS

FOR THE YEARS ENDED

DECEMBER 31, 1972, AND DECEMBER 31, 1971

	December 31, 1972	December 31, 1971
INCOME:		
Examination fees, examinations of savings and loan institutions	$10,296,961	$ 6,487,359
Assessments against:		
Federal home loan banks	5,842,941	5,033,661
Federal Savings and Loan Insurance Corporation	10,325,449	13,964,815
Reimbursements for services performed for other agencies	376,001	115,632
Leases--Federal Home Loan Bank Board property	12,062	28,562
Miscellaneous	15,595	7,137
Total income	26,869,009	25,637,166
EXPENSES:		
Personnel compensation	18,326,483	17,348,543
Personnel benefits	1,495,913	1,525,275
Travel and transportation of persons	2,605,328	3,134,206
Transportation of things	13,973	28,883
Rent, communications, and utilities	1,720,130	1,355,257
Printing and reproduction	307,500	98,899
Other services	1,381,411	1,031,262
Supplies and materials	271,204	234,746
Depreciation of furniture, fixtures, and equipment and acquisition of expendable property items	243,766	172,685
Interest on Federal home loan bank loans	232,461	242,671
Total expenses	26,598,169	25,672,427
INCOME IN EXCESS OF EXPENSES	270,840	-35,261
RETAINED EARNINGS AT BEGINNING OF YEAR	1,459,698	1,494,959
RETAINED EARNINGS AT END OF YEAR (sch. 1)	$ 1,730,538	$ 1,459,698

FEDERAL HOME LOAN BANK BOARD

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1972

FUNDS PROVIDED BY:	
Examination fees and charges	$10,296,961
Assessments against:	
Federal home loan banks	5,842,941
Federal Savings and Loan Insurance Corporation	10,325,449
Reimbursements from other agencies	376,001
Leases--Federal Home Loan Bank Board property	12,062
Miscellaneous	15,595
Net increase in other assets and liabilities	420,458
	$27,289,467
FUNDS APPLIED TO:	
Administrative expenses	$ 8,312,754
Nonadministrative expenses	18,016,152
Repayment of loans to Federal home loan banks	241,000
Purchase of furniture, fixtures, and equipment	411,785
Leasehold improvements	249,868
Increase in cash balance	57,908
	$27,289,467

NOTES TO FINANCIAL STATEMENTS

1. Significant accounting policies--Furniture, fixtures, and equipment are depreciated over their estimated useful lives on a straight-line basis. Leasehold improvements are amortized on a straight-line basis with all improvements to be fully amortized by 1976.

2. An additional $23,551,740 is available in a separate fund provided by appropriations pursuant to the provisions of the Emergency Home Finance Act of 1970. Use of such funds is for the purpose of adjusting the effective interest charged by the Federal home loan banks on short-term and long-term borrowing in order to promote an orderly flow of funds into residential construction.

SCHEDULE 4

FEDERAL HOME LOAN BANKS

COMPARATIVE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1972, AND DECEMBER 31, 1971

ASSETS

	December 31, 1972	December 31, 1971
CASH:		
On hand and in banks	$ 107,869,449	$ 111,725,839
Treasurer of the United States	21,055,754	30,044,340
Total cash	128,925,203	141,770,179
INVESTMENTS:		
Securities at amortized cost	[a]2,125,361,881	2,270,267,547
Participation in Interbank Investment Pool	-	150,000,000
Stock in Federal Home Loan Mortgage Corporation	100,000,000	100,000,000
Total investments	2,225,361,881	2,520,267,547
ADVANCES TO MEMBERS:		
Secured	7,271,177,896	7,169,188,596
Unsecured	707,410,179	766,943,082
Total advances	7,978,588,075	7,936,131,678
OTHER LOANS	314,653,951	324,432,928
ACCRUED INTEREST RECEIVABLE	56,867,363	56,472,911
DEFERRED CHARGES	11,032,154	12,960,937
BANK PREMISES AND FURNISHINGS (net)	[b]14,661,013	8,845,792
OTHER ASSETS	1,178,787	571,135
Total assets	$10,731,268,427	$11,001,453,107

GAO notes:

[a]The market value of securities at December 31, 1972, was $2,126,911,456.

[b]Includes $1,650,402 for the former premises of the fourth district bank at Greensboro, North Carolina.

LIABILITIES AND CAPITAL

	December 31, 1972	December 31, 1971
DEPOSITS:		
Members:		
Time	$ 999,235,229	$ 1,294,063,918
Demand	548,067,842	493,891,395
Government instrumentalities--demand	619,119	581,776
Applicants for membership	272,950	46,250
Total deposits	1,548,195,140	1,788,583,339
ACCRUED INTEREST PAYABLE	123,296,078	146,964,557
ACCOUNTS PAYABLE	2,039,512	7,035,213
OTHER DEFERRED CREDITS	4,483,001	811,960
OTHER LIABILITIES	28,033,283	18,786,047
CONSOLIDATED OBLIGATIONS (note 2)	6,970,665,000	7,139,760,000
Total liabilities	8,676,712,014	9,101,941,116
CAPITAL STOCK $100 PAR VALUE:		
Total paid in on subscriptions	1,756,010,450	1,617,553,575
RETAINED EARNINGS:		
Legal reserve	208,405,550	196,190,947
Unreserved earnings	90,140,413	85,767,469
Total retained earnings (note 3)	298,545,963	281,958,416
Total capital	2,054,556,413	1,899,511,991
Total liabilities and capital	$10,731,268,427	$11,001,453,107

The notes following schedule 6 are an integral part of this statement.

SCHEDULE 5

FEDERAL HOME LOAN BANKS

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME AND EXPENSE

FOR THE YEARS ENDED

DECEMBER 31, 1972, AND DECEMBER 31, 1971

	December 31, 1972	December 31, 1971
EARNED INCOME:		
Interest on advances	$428,485,564	$580,237,314
Interest on other loans	2,227,395	424,279
Interest on securities	149,969,064	180,589,076
Interest on mortgages	-	114,539
Income from other services	3,052,482	1,275,018
Miscellaneous	2,893,777	3,671,820
Total income	586,628,282	766,312,046
COST AND EXPENSES:		
Interest and other financing costs:		
Interest and concessions for marketing consolidated obligations	451,981,656	596,617,847
Paid through office of Fiscal Agent	1,035,285	1,142,447
Interest on members' deposits	51,412,602	80,205,522
Other interest costs	95,032	-
Gain (-) or loss on sale of securities	-4,148,305	-6,608,962
Fees for servicing mortgage loans	-	4,850
Total interest and other financing costs	500,376,270	671,361,704
Other costs and expenses:		
Employee compensation and benefit costs	11,191,363	10,176,888
Travel	810,490	766,708
Other administrative expenses	14,329,233	11,895,709
Total other costs and expenses	26,331,086	22,839,305
Income (-) and expense adjustments--prior years	-116,323	-24,265
Total costs and expenses	526,591,033	694,176,744
Net income	$ 60,037,249	$ 72,135,302

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1972

FUNDS PROVIDED:		
Repayment of advances made to members		$ 4,749,896,589
Investments redeemed or sold (at amortized cost)		21,771,616,132
Sale of consolidated obligations		1,500,000,000
Capital paid in by members		185,122,375
Payment on loan for office building, Federal Home Loan Bank Board		406,320
Loans guaranteed by Agency for International Development (net)		9,372,657
Total funds provided		$28,216,414,073
FUNDS APPLIED:		
Net decrease in funds resulting from operations:		
Amortization of net discount on investments	$72,876,792	
Less net income for the period ($60,037,249) and depreciation of bank premises and furnishings ($821,742)	60,858,991	
Net decrease		$ 12,017,801
Advances made to members		4,792,352,986
Purchase of investments		21,403,833,67[illegible]
Redemption of consolidated obligations		1,660,095,000
Repurchase of capital stock		46,665,500
Purchase of furniture and equipment		1,037,547
Dividends declared on capital stock		43,022,359
Purchase or construction of bank premises		5,599,417
Moving expenses (Atlanta from Greensboro)		320,775
Payment to life insurance company (Pittsburgh)		55,488
Net changes in other assets and liabilities		242,413,526
Total funds applied		$28,216,414,073

NOTES TO FINANCIAL STATEMENTS

1. Significant accounting policies:

    --Furniture, fixtures, and equipment are depreciated over their estimated useful lives on a straight-line basis.

    --Securities are shown on schedule 4 at amortized cost. Discounts and premiums are amortized over the term of the related securities.

2. Consolidated Federal Home Loan Bank obligations issued by the Federal Home Loan Bank Board and now outstanding are the joint and several obligations of all Federal home loan banks.

3. Analysis of retained earnings accounts for the calendar year 1972:

Balance, December 31, 1971		$281,958,416
Additions:	Net income for 1972	60,037,249
Subtotal		341,995,665
Deductions:	Dividends declared to stockholders	43,022,359
	Dividend adjustment for 1971	51,080
	Payment made to Crown Life Insurance Company	55,488
	Moving expense (Greensboro to Atlanta)	320,775
Subtotal		43,449,702
Balance, December 31, 1972		$298,545,963

4. As of December 31, 1972, contractual commitments to make advances to members aggregated $308,238,716.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1972, AND DECEMBER 31, 1971

ASSETS	December 31 1972	December 31, 1971
CASH WITH THE U.S. TREASURY	$ 1,630,695	$ 792,021
ACCOUNTS RECEIVABLE	935,452	423,089
INVESTMENTS AT AMORTIZED COST (note 2)	2,874,994,705	2,692,384,919
ACCRUED INTEREST ON INVESTMENTS	44,003,636	39,322,866
ASSETS ACQUIRED FROM INSURED INSTITUTIONS (after allowance for losses)	50,892,984	75,890,579
LOANS TO INSURED INSTITUTIONS AND ACCRUED INTEREST	75,548,439	89,010,540
SUBROGATED ACCOUNTS IN INSURED INSTITUTIONS IN LIQUIDATION (after allowance for losses)	138,105,531	140,833,849
INSURED ACCOUNTS IN INSURED INSTITUTIONS IN LIQUIDATION (pending and unclaimed accounts)	16,848	739,726
DEFERRED CHARGES AND OTHER ASSETS	96,552	95,699
Total assets	$3,186,224,842	$3,039,493,288
LIABILITIES AND RESERVES		
MISCELLANEOUS ACCRUED AND OTHER LIABILITIES (note 3)	$ 8,133,109	$ 6,113,226
PENDING AND UNCLAIMED ACCOUNTS IN INSURED INSTITUTIONS	16,848	739,726
ALLOWANCE FOR ESTIMATED LOSSES--CONTRIBUTION AGREEMENTS	25,802,507	29,072,041
DEFERRED CREDITS	9,904,689	16,709,528
PRIMARY RESERVE (cumulative net income) (sch. 8) (note 4)	1,758,444,827	1,528,913,773
SECONDARY RESERVE (premium prepayments) (note 4)	1,383,922,862	1,457,944,994
Total liabilities and reserves	$3,186,224,842	$3,039,493,288

The notes following schedule 9 are an integral part of this statement.

SCHEDULE 8

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

COMPARATIVE STATEMENT OF INCOME, EXPENSE, AND PRIMARY RESERVE

FOR THE YEARS ENDED

DECEMBER 31, 1972, AND DECEMBER 31, 1971

	December 31, 1972	December 31, 1971
INCOME:		
Insurance premiums and admission fees	$ 153,504,294	$ 129,208,031
Interest on U.S. and Federal agency securities	158,919,929	144,383,247
Interest on loans to insured institutions	6,600,927	5,989,745
Income on assets acquired from insured institutions	7,608,998	7,292,762
Miscellaneous	108,674	134,232
Nonoperating	1,671,214	1,627,081
Total income	328,414,036	288,635,098
EXPENSES:		
Administrative expenses	504,976	461,586
Services rendered by Federal Home Loan Bank Board	[a]11,685,259	13,948,034
Insurance settlement and other expenses	6,244,541	6,484,832
Net provision for losses	1,178,153	52,772,861
Interest applicable to premium prepayments credited to members' equity in secondary reserves	79,270,053	80,165,254
Total expenses	98,882,982	153,832,567
Net income transferred to primary reserve	229,531,054	134,802,531
BALANCE, PRIMARY RESERVE, AT THE BEGINNING OF THE YEAR	1,528,913,773	1,394,111,242
BALANCE PRIMARY RESERVE, AT END OF YEAR	$1,758,444,827	$1,528,913,773

[a]This amount differs from the amount shown in schedule 2 by $1,359,811 in 1972 due to overestimated assessments by the Corporation and differences in classification by the Board and the Corporation. The appropriate adjustments were made in the following year.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1972

FUNDS PROVIDED BY:	
Repayment of loans	$ 26,773,967
Sale of acquired security or collateral	17,145,998
Income on assets acquired from insured institutions	7,608,998
Gain on assets acquired from insured institutions	1,671,214
Interest on investments and loans	165,520,856
Insurance premiums and admission fees	153,504,294
Retention of return on insurance premium prepayments	79,270,053
Miscellaneous income	108,674
Proceeds from sales and redemptions of securities	3,001,463,000
Total funds provided	$3,453,067,054
FUNDS APPLIED TO:	
Purchase of fixed assets	$ 4,785
Other expenses applied to costs	1,178,153
Administrative expenses	504,976
Other operating expenses	17,924,382
Refund and transfer of premium prepayments	153,292,184
Return on additional premiums--prepayment	79,270,053
Purchase of securities	3,182,715,000
Increase in cash balance	839,637
Increase in selected working capital	17,337,884
Total funds applied	$3,453,067,054

NOTES TO FINANCIAL STATEMENTS

1. Significant accounting policies:

   --The Corporation depreciates its furniture, fixtures, and equipment over a 10-year period using the straight-line method.

   --Investments are shown on schedule 7 at amortized cost. Discounts and premiums are amortized over the term of the related securities.

   --Income from insurance premiums is recognized as earned when the associations are assessed.

2. The market value of investments at December 31, 1972, was $2,845,159,112.

3. Miscellaneous accrued and other liabilities includes the Corporation's estimate of losses of $2 million as of December 31, 1972, which it may suffer as the result of loans and contracts sold to various insured institutions under guaranty or repurchase plans. The unpaid principal balance of the loans and contracts sold was estimated at $33 million at December 31, 1972.

4. The Corporation considers the primary and secondary reserves to be more than adequate to absorb the additional disbursements that it is estimated the Corporation might be required to make in discharging its insurance indemnity liability for insured institutions currently in financial difficulty.

Copies of this report are available at a cost of $1 from the U.S. General Accounting Office, Room 6417, 441 G Street, N.W., Washington, D.C. 20548. Orders should be accompanied by a check or money order. Please do not send cash.

When ordering a GAO report please use the B-Number, Date and Title, if available, to expedite filling your order.

Copies of GAO reports are provided without charge to Members of Congress, congressional committee staff members, Government officials, news media, college libraries, faculty members and students.

AN EQUAL OPPORTUNITY EMPLOYER

UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE $300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE

SPECIAL FOURTH-CLASS RATE
BOOK