REPORT TO THE CONGRESS

Examination Of Financial Statements Of The Federal Home Loan Bank Board, Federal Home Loan Banks, And Federal Savings And Loan Insurance Corporation For The Year Ended December 31, 1971

B-114827

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

NOV. 28, 1972

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, 1971.

Our examination was made 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)).

Copies of this report are being sent 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

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ABBREVIATIONS

GAO General Accounting Office

GSA General Services Administration

HOAP Housing Opportunity Allowance Program

COMPTROLLER GENERAL'S
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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, the General Accounting Office (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 1971 relating to acquiring land in the District of Columbia and to constructing and equipping buildings on this land needed for use by the Board and the agencies under its supervision.

OPINION ON FINANCIAL STATEMENTS

Federal Home Loan Bank Board

In GAO's opinion, the Federal Home Loan Bank Board's financial statements present fairly its financial position at December 31, 1971, and its income and expenses and the sources and application of its funds 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

GAO is of the opinion that the financial statements of the Federal home loan banks present fairly the financial position of the banks at December 31, 1971, and the results of their operations and the sources and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

Federal Savings and Loan Insurance Corporation

GAO is of the opinion that the financial statements of the Federal Savings and Loan Insurance Corporation present fairly its financial position at December 31, 1971, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws. (See p. 19.)

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OTHER MATTERS OF INTEREST

Establishment of the Federal Home Loan Mortgage Corporation

In July 1970 the Federal Home Loan Mortgage Corporation was established to provide a secondary market for residential mortgages. The Corporation is owned by the 12 Federal home loan banks, and the three members of the Federal Home Loan Bank Board's board of directors serve as the directors of the Corporation. We are reviewing the financial transactions of the Corporation and plan to issue a separate report to the Congress on our review.

Acquisition of site for building

Land previously acquired by the General Services Administration (GSA) for the Federal Home Loan Bank Board's new office building is being sold because the Board wants to be closer to the financial district and requires more space because of the creation of the Federal Home Loan Mortgage Corporation.

The obligating authority to acquire a site and construct and equip the buildings is $21.6 million. However, the appropriation act for fiscal year 1973 prohibits the Board from using the funds made available for administrative or nonadministrative expenses in connection with acquiring land and constructing or leasing new quarters. (See pp. 8 and 9.)

Housing Opportunity Allowance Program

In fiscal year 1971 the Board and the banks established the Housing Opportunity Allowance Program to help middle-income families attain home ownership. Under the program eligible prospective home buyers were provided with direct monthly allowances of $20 for maximum periods of 60 months of the terms of their mortgage loans.

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 devised a new 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 district court order and withdrew their objections to the disbursement of funds.

If all the funds obligated during fiscal years 1971 and 1972 are used, the old and the new programs will have aided 13,000 families at a cost of about $23.5 million. Additional funds have not been approved for fiscal year 1973. (See pp. 10 and 11.)

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations to the Board.

AGENCY ACTIONS AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report, required by law, contains no recommendations or suggestions requiring action by the Congress.

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

In 1932 the Federal Home Loan Bank Act (12 U.S.C. 1421) created the Federal Home Loan Bank Board, an independent supervisory and regulatory agency.

The main purposes of the Board 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 by and with the advice and consent of the Senate. During calendar year 1971 the following persons served.

	Term of office	
	From	To
Preston Martin, Chairman	Mar. 1969	June 1974
Carl O. Kamp, Jr.	May 1969	June 1975
Thomas Hal Clarke	July 1969	June 1973

Under the Emergency Home Finance Act of 1970 (12 U.S.C. 1452), the three members of the board serve as the directors of the Federal Home Loan Mortgage Corporation, which was established on July 24, 1970, to provide a secondary market for residential mortgages. We are reviewing the financial transactions of the Corporation and plan to issue a separate report to the Congress on our review.

FEDERAL HOME LOAN BANKS

The 12 Federal home loan banks are corporations chartered under the Federal Home Loan Bank Act (12 U.S.C. 1432), approved July 22, 1932, for the purpose of providing reserve banking facilities to their member institutions--which may comprise savings and loan associations, savings banks, and insurance companies--and to certain nonmember borrowers.

The act provides that the Federal Home Loan Bank Board may create new Federal home loan banks--no more than 12 nor less than eight--and may liquidate or reorganize any Federal home loan bank. The locations of the headquarters for the 12 Federal home loan bank districts are as follows:

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

In December 1971 the Federal Home Loan Bank of Atlanta was established as headquarters for the fourth district to replace the bank at Greensboro, North Carolina. However, the appropriation act for fiscal year 1973 required that the relocation be approved by a plebiscite of the member associations of the fourth district. In September 1972 the plebiscite approved the move which was completed in October 1972.

Each of the Federal home loan banks is operated under the direction of a board of directors, of which four members are appointed by the Federal Home Loan Bank Board and the remainder, ranging from eight 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 National Housing Act (12 U.S.C. 1725) created the Federal Savings and Loan Insurance Corporation in 1934. 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 Federal Home Loan Bank 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 1971 Robert B. O'Brien, Jr., resigned as Director of the Corporation, and in November 1971 the Board appointed Roger K. Lindland as Director.

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, 1971, were as follows:

Type of organization	Number	Total assets (billions)
Federal home loan banks	12	$ 11.0
Federal Savings and Loan Insurance Corporation	1	3.0
Federal savings and loan associations	2,049	114.2
Insured State-chartered savings and loan institutions	2,222	85.8
Total	4,284	$214.0

The Board's expenses 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 Federal Savings and Loan Insurance Corporation to cover administrative expenses and expenses incurred in supervising savings and loan institutions. The Congress placed limitations on the amounts that could be expended by the Board in fiscal year 1971--$7,122,000 for administrative expenses and $15,776,000 for nonadministrative expenses incurred in making regular examinations and in supervising insured institutions. The Board's expenses were within the prescribed limitations.

SUPERVISION AND EXAMINATION OF INSURED INSTITUTIONS

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

The supervisory objectives of the Board 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. The Board 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 1971 the Office of Examinations and Supervision made 2,966 examinations of insured savings and loan institutions. The examinations at each of the institutions were made at intervals of approximately 14 months. Information obtained during these examinations has been used by the Board to identify problem institutions which are discussed on page 15. In addition, the Office of Examinations and Supervision made 301 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 utilize 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 the General Accounting Office (GAO) 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 to acquire a site and to construct and equip the buildings.

In 1968 the Board purchased through the General Services Administration (GSA) land on each side of Third Street between D and E Streets, Northwest, Washington, D.C., for $5.5 million. In addition, the Board paid $524,306 for site studies, appraisals, and architectural design costs for this site. The Board intended that part of this land would be used for its building and part for parking facilities.

As of December 31, 1971, the Board had transferred $6,089,200 to a fund account to be used by GSA for acquiring the 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 over a period of not more than 25 years. At December 31, 1971, the Board still owed $5,151,680 to the banks.

In June 1970, shortly before GSA was going to issue an invitation to bid for a contract for constructing the building, the Board instructed GSA to defer issuing the invitation until further notice. In December 1970 the Board requested GSA to proceed with a feasibility study for acquiring another site for the building in northwest Washington. The Board requested a new site because it wanted its building closer to the financial district and because it believed the acquired site was too small for a building that would contain sufficient space to meet the increased needs resulting from the creation of the Federal Home Loan Mortgage Croporation.

In January 1972 the Board approved the acquisition of land at 17th and G Streets, Northwest, as a new site for its headquarters building. Early in 1972 GSA, acting as agent for the Board, sold part of the previously acquired land to the U.S. Tax Court for $2,548,600. The District of Columbia has acquired an exclusive option through October 1972 to purchase the remainder of this land for $3,465,000.

The appropriation act for fiscal year 1973 (Public Law 92-383; 86 Stat. 552), approved August 14, 1972, prohibits the Board from using the funds made available for administrative or nonadministrative expenses in connection with acquiring land and constructing or leasing new quarters.

HOUSING OPPORTUNITY ALLOWANCE PROGRAM

The Emergency Home Finance Act of 1970 (12 U.S.C. 1430 note), approved 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 December 17, 1970, appropriated $85 million for such purpose, and Public Law 92-78 (85 Stat. 283), approved August 10, 1971, appropriated an additional $62.5 million.

In fiscal year 1971, pursuant to the act, the Board and the banks established the Housing Opportunity Allowance Program (HOAP) to help middle-income families attain home ownership. Under the program eligible prospective home buyers were provided with direct monthly allowances of $20 for maximum periods of 60 months of the terms of their mortgage loans. The allowances were credits to the home buyers' mortgage accounts maintained by the eligible participating lenders. The participating lenders were reimbursed for such credits by the Federal home loan banks of which they were members, which banks, in turn, were to be reimbursed by the Board out of 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 HOAP 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 HOAP.

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 HOAP I/II, extends the period of subsidies from 5 to 10 years and provides for subsidies 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. The extent of subsidies for low-income families is determined by a formula based on Department of Housing and Urban Development criteria for public housing (42 U.S.C. 1401) and housing obtained under sections 235 and 236 of the National Housing Act, as amended (12 U.S.C. 1715z and 1715z-1).

Plaintiffs in the HOAP 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.

Under the original HOAP the Board obligated about $8 million in fiscal year 1971 to aid 6,600 families and about $3 million in fiscal year 1972 to aid 2,300 families. In fiscal year 1972 the Board obligated an additional $12.5 million for HOAP I/II--$10.4 million to aid 2,400 low-income families and $2.1 million to aid 1,700 middle-income families. If all the funds are used, the program will aid 13,000 families at a cost of about $23.5 million.

Additional funds have not been approved for fiscal year 1973. Consequently, HOAP I/II will not help additional prospective borrowers to attain home ownership. The Board, however, will continue to disburse funds for the next 10 years to those families already included in the program.

SCOPE OF EXAMINATION

Our examination of the Board for the year ended December 31, 1971, consisted of a review of:

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, including an examination of selected financial transactions and such tests of accounting records as we 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. Each institution whose accounts are insured by the Federal Savings and Loan Insurance Corporation is required to be a member of a Federal home loan bank.

The banks obtain funds for their 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 U.S. 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, the Secretary of the Treasury had not exercised this authority through calendar year 1971.

Services provided by the banks to their members include the:

1. Purchase, sale, and safekeeping of securities.
2. Handling of checking accounts, including some automated reconciliations of accounts.
3. Online computer services for processing data on savings, mortgage, and general ledger accounts.
4. Establishment of an office for the Federal Home Loan Mortgage Corporation.
5. Publication of research and statistical reports on savings and mortgage trends, commitments, and related data.
6. Handling of loans for the Agency for International Development.
7. Handling and coordination of various Board-sponsored housing programs.

During 1971 the banks advanced $2.7 billion to member institutions, compared with $3.3 billion in 1970. Funds advanced typically cover savings withdrawals and mortgage expansion, including funds for Department of Housing and Urban Development-approved programs. Advances repaid totaled $5.4 billion in 1971, compared with $1.9 billion in 1970. Of the $7.9 billion advances outstanding at December 31, 1971, $7.2 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 $20 billion.

Also during the year, the banks sold consolidated obligations of $2.9 billion and retired maturing obligations of $6 billion, which decreased the balance of outstanding obligations from $10.2 billion at December 31, 1970, to $7.1 billion at December 31, 1971.

SCOPE OF EXAMINATION

Our examination of the banks included a review of 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. It included also a review of the banks' lending and investment policies, an examination of their financial reports and statements, and correspondence with the custodians of securities held at December 31, 1971.

We relied, to the fullest extent practicable, on examinations made by the Board's Office of Audits. In reviewing the work of this Office, we (1) reviewed audit programs to determine the adequacy of prescribed audit procedures, (2) observed its examination of the Federal Home Loan Bank of Little Rock, and (3) reviewed reports and working papers on the examinations to the extent we deemed appropriate.

liability to insured institutions. It established an allowance for losses on these assets, as follows:

Type of asset	Book value	Allowance for losses	Net value
Assets acquired from insured institutions	$143,562,570	$67,671,991	$ 75,890,579
Loans to insured institutions and accrued interest	89,010,540	-	89,010,540
Subrogated accounts in insured institutions in liquidation	142,333,849	1,500,000	140,833,849
Insured accounts in institutions in liquidation (pending and unclaimed accounts)	739,726	(a)	739,726
Total	$375,646,685	$69,171,991	$306,474,694

[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, 1971, 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, 1971, was $76 million--about $95 million less than the balance at December 31, 1970.

The loans to insured institutions and accrued interest of $89 million consisted of interest-bearing loans of $87 million to associations that required financial assistance and accrued interest of $2 million. Of the $87 million, $1.5 million was for loans made in 1971.

Subrogated accounts of $141 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 associations.

At December 31, 1971, insured accounts--$739,726--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, 1971, as both an asset and a liability.

RESERVES AND BORROWING AUTHORITY

The Corporation estimated that, at December 31, 1971, savings insured by the Corporation in 4,271 insured institutions totaled about $163.6 billion. The resources available to the Corporation at December 31, 1971, to meet demands which may be made upon it for discharge of its insurance liability are described below.

Cumulative net income of $1.5 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, 1971, consisted of cumulative insurance premium prepayments of $1 billion assessed against insured institutions since fiscal year 1962 and interest of $421 million, which represented a return on the outstanding balance of the secondary reserve in accordance with sections 404(d) and 404(e) of the act.

The Corporation's primary and secondary reserves are available to meet future losses. These reserves, which have been established pursuant to law and administrative action, do not represent a measure of the insurance risk which is imposed upon 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, 1971, 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, 1971, would have provided funds of about $1.7 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 1971.

The insured institutions have their own reserves and surplus available to meet losses. As of December 31, 1971, they had a total of about $12.7 billion in reserves and surplus available to meet losses.

SCOPE OF EXAMINATION

Our examination of the Corporation consisted principally of a review of its statement of financial condition at December 31, 1971, and the related statements of income, expense, and primary reserve and of sources and application of funds for calendar year 1971. 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.

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 an examination of 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.

In our opinion, the financial statements (schs. 1, 2, and 3) present fairly the financial position of the Board at December 31, 1971, and its income and expenses and the sources and application of its funds 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.

Also in our opinion, the financial statements (schs. 4, 5, and 6) present fairly the financial position of the Federal home loan banks at December 31, 1971, and the results of their operations and the sources and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

Furthermore the financial statements (schs. 7, 8, and 9) present fairly the financial position of the Corporation at December 31, 1971, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

FEDERAL HOME LOAN BANK BOARD

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1971, AND DECEMBER 31, 1970

	December 31, 1971	December 31, 1970	Net Change
ASSETS			
CASH WITH U.S. TREASURY (note 1)	$ 693,770	$ 1,391,808	$–698,038
ACCOUNTS RECEIVABLE	2,847,266	2,237,503	609,763
INVENTORY--supplies	25,890	17,120	8,770
LEASEHOLD IMPROVEMENTS	24,563	–	24,563
DEFERRED CHARGES	–	24,553	–24,553
LAND AND BUILDING (note 2)	6,072,372	6,072,372	–
FURNITURE, FIXTURES AND EQUIPMENT, NET	821,979	649,183	172,796
Total assets	$10,485,840	$10,392,539	$ 93,301
LIABILITIES AND CAPITAL			
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 2,371,171	$ 2,167,027	$ 204,144
LIABILITIES FOR EMPLOYEES' ACCRUED ANNUAL LEAVE	1,503,291	1,337,873	165,418
LOANS PAYABLE TO FEDERAL HOME LOAN BANKS	5,151,680	5,392,680	–241,000
Total liabilities	9,026,142	8,897,580	128,562
CAPITAL, RETAINED EARNINGS (schedule 2)	1,459,698	1,494,959	–35,261
Total liabilities and capital	$10,485,840	$10,392,539	$ 93,301

[1] An additional $123,546,400 is 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. About $100 million of the funds will be declared excess to the needs of the Board.

[2] Represents payment of $5,548,066 for acquisition of land for new Federal Home Loan Bank Board building and $524,306 to cover site studies, appraisals, and architectural design cost. Title to this land was acquired in the name of the United States on Jan. 17, 1968, by institution of condemnation proceedings by the Attorney General.

SCHEDULE 2

FEDERAL HOME LOAN BANK BOARD

COMPARATIVE STATEMENT OF INCOME, EXPENSE, AND RETAINED EARNINGS

FOR THE YEARS ENDED

DECEMBER 31, 1971, AND DECEMBER 31, 1970

	December 31, 1971	December 31, 1970	Net change
INCOME:			
Examination fees, examinations of savings and loan institutions	$ 6,487,359	$ 8,056,996	$-1,569,637
Assessments against:			
Federal home loan banks	5,033,661	3,782,957	1,250,704
Federal Savings and Loan Insurance Corporation	13,964,815	9,446,573	4,518,242
Reimbursements for services performed for other agencies	115,632	138,174	-22,542
Leases--Federal Home Loan Bank Board property	28,562	39,012	-10,450
Miscellaneous	7,137	4,801	2,336
Total income	25,637,166	21,468,513	4,168,653
EXPENSES:			
Personnel compensation	17,848,543	15,687,438	2,161,105
Personnel benefits	1,525,275	1,289,015	236,260
Travel and transportation of persons	3,134,206	2,427,439	706,767
Transportation of things	28,883	18,775	10,108
Rent, communications, and utilities	1,355,257	1,187,899	167,358
Printing and reproduction	98,899	97,261	1,638
Other services	870,032	465,118	404,914
Services of other agencies	161,230	135,464	25,766
Supplies and materials	234,746	191,564	43,182
Depreciation of furniture, fixtures, and equipment and acquisition of expendable property items	172,685	140,081	32,604
Interest on Federal home loan bank loans	242,671	253,516	-10,845
Total expenses	25,672,427	21,893,570	3,778,857
INCOME IN EXCESS OF EXPENSES	-35,261	-425,057	389,796
RETAINED EARNINGS AT BEGINNING OF YEAR	1,494,959	1,920,016	-425,057
RETAINED EARNINGS AT END OF YEAR (schedule 1)	$ 1,459,698	$ 1,494,959	$ -35,261

FEDERAL HOME LOAN BANK BOARD

STATEMENT OF SOURCES AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1971

FUNDS PROVIDED BY:	
Examination fees and charges	$ 6,487,359
Assessments against:	
Federal Home Loan Banks	5,033,661
Federal Savings and Loan Insurance Corporation	13,964,815
Reimbursements from other agencies	115,632
Leases--Federal Home Loan Bank Board property	28,562
Miscellaneous	7,137
Decrease in cash balance	698,038
	$26,335,204
FUNDS APPLIED TO:	
Administrative expenses	$ 7,646,266
Nonadministrative expenses	17,875,642
Repayment of loans to Federal home loan banks	241,000
Purchase of furniture, fixtures, and equipment	323,314
Net increase in other assets and liabilities	248,982
	$26,335,204

FEDERAL HOME LOAN BANKS

COMPARATIVE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1971, AND DECEMBER 31, 1970

ASSETS

	December 31, 1971	December 31, 1970	Net change
CASH:			
On hand and in banks	$ 111,725,839	$ 69,813,055	$ 41,912,784
Treasurer of the United States	30,044,340	35,394,403	-5,350,063
Total cash	141,770,179	105,207,458	36,562,721
INVESTMENTS:			
Securities	2,270,267,547[a]	3,731,922,627	-1,461,655,080
Participation in Interbank Investment Pool	150,000,000[b]	-	150,000,000
Mortgage loans	-	32,076,081	-32,076,081
Stock in Federal Home Loan Mortgage Corporation	100,000,000	100,000,000	-
Total investments	2,520,267,547	3,863,998,708	-1,343,731,161
ADVANCES TO MEMBERS:			
Secured	7,169,188,596	10,419,148,258	-3,249,959,662
Unsecured	766,943,082	195,383,507	571,559,575
Total advances	7,936,131,678	10,614,531,765	-2,678,400,087
OTHER LOANS	324,432,928	13,885,509	310,547,419
ACCRUED INTEREST RECEIVABLE	56,472,911	105,275,053	-48,802,142
DEFERRED CHARGES	12,960,937	12,344,448	616,489
BANK PREMISES AND FURNISHINGS (net)	8,845,792	7,285,233	1,560,559
OTHER ASSETS	571,135	215,265	355,870
Total assets	$11,001,453,107	$14,722,743,439	-$3,721,290,332

[1]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. The amount shown at December 31, 1970, represents the total unmatured obligations less $6,030,000 held for retirement by four Federal home loan banks.

[2]Analysis of retained earnings accounts for the calendar year 1971:

Balance, December 31, 1971	$260,157,179
Additions: Net income for 1971	72,135,302
Subtotal	332,292,481
Deductions: Dividends declared to stockholders	50,334,065
Balance, December 31, 1971	$281,958,416

As of December 31, 1971, contractual commitments to make advances to members aggregated $280,303,541.

GAO notes:

[a]The market value of securities, principally U.S. Treasury bills and notes, at December 31, 1971, was $2,099,339,746.

[b]This amount represents the participation of several Federal home loan banks in an investment pool supervised by the Federal Home Loan Bank of Boston.

LIABILITIES AND CAPITAL

	December 31, 1971	December 31, 1970	Net change
DEPOSITS:			
Members:			
Time	$ 1,294,063,918	$ 1,998,832,914	$ -704,768,996
Demand	493,891,395	332,007,386	161,884,009
Government instrumentalities--demand	581,776	1,125,648	-543,872
Applicants for membership	46,250	171,350	-125,100
Total deposits	1,788,583,339	2,332,137,298	-543,553,959
ACCRUED INTEREST PAYABLE	146,964,557	219,130,336	-72,165,779
ACCOUNTS PAYABLE	7,035,213	102,288,716	-95,253,503
DIVIDENDS PAYABLE	-	10,323,063	-10,323,063
OTHER DEFERRED CREDITS	811,960	3,894,919	-3,082,959
OTHER LIABILITIES	18,786,047	4,563,628	14,222,419
CONSOLIDATED OBLIGATIONS (note 1)	7,139,760,000	10,183,020,000	-3,043,260,000
Total liabilities	9,101,941,116	12,855,357,960	-3,753,416,844
CAPITAL STOCK $100 PAR VALUE:			
Total paid in on subscriptions	1,617,553,575	1,607,228,300	10,325,275
RETAINED EARNINGS:			
Legal reserve	196,190,947	181,763,887	14,427,060
Unreserved earnings	85,767,469	78,393,292	7,374,177
Total retained earnings (note 2)	281,958,416	260,157,179	21,801,237
Total capital	1,899,511,991	1,867,385,479	32,126,512
Total liabilities and capital	$11,001,453,107	$14,722,743,439	-$3,721,290,332

SCHEDULE 5

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME AND EXPENSE

FOR THE YEARS ENDED

DECEMBER 31, 1971, AND DECEMBER 31, 1970

	December 31, 1971	December 31, 1970	Net change
EARNED INCOME:			
Interest on advances	$580,237,314	$760,139,441	$–179,902,127
Interest on other loans	424,279	276,374	147,905
Interest on securities	180,589,076	177,787,133	2,801,943
Interest on mortgages	114,539	4,120,840	–4,006,301
Income from other services	1,275,018	156,408	1,118,610
Miscellaneous	3,671,820	1,310,737	2,361,083
Total income	766,312,046	943,790,933	–177,478,887
COST AND EXPENSES:			
Interest and other financing costs:			
Interest and concessions for marketing consolidated obligations	596,617,847	779,830,487	–183,212,640
Paid through office of Fiscal Agent	1,142,447	954,129	188,318
Interest on members' deposits	80,205,522	68,131,072	12,074,450
Gain (–) or loss on sale of securities	–6,608,962	–2,470,860	–4,138,102
Fees for servicing mortgage loans	4,850	160,668	–155,818
Total interest and other financing costs	671,361,704	846,605,496	–175,243,792
Other costs and expenses:			
Employee compensation and benefit costs	10,176,888	7,446,277	2,730,611
Travel	766,708	562,768	203,940
Other administrative expenses	11,895,709	8,437,931	3,457,778
Total other costs and expenses	22,839,305	16,446,976	6,392,329
Income (–) and expense adjustments--prior years	–24,265	–2,617	–21,648
Total costs and expenses	694,176,744	863,049,855	–168,873,111
Net income	$ 72,135,302	$ 80,741,078	$ –8,605,776

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

COMBINED STATEMENT OF SOURCES AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1971

FUNDS PROVIDED:		
Repayment of advances made to members		$ 5,392,176,232
Investments redeemed or sold (at amortized cost)		19,691,315,153
Sale of consolidated obligations		2,960,000,000
Capital paid in by members		102,875,575
Total funds provided		$28,146,366,960
FUNDS APPLIED:		
Net decrease in funds resulting from operations:		
Amortization of net discount on investments	$83,838,504	
Less net income for the period ($72,135,302) and depreciation of bank premises and furnishings ($737,607)	72,872,909	
Net decrease		$ 10,965,595
Advances made to members		2,713,776,145
Advances to Federal Home Loan Mortgage Corporation		297,880,000
Loans guaranteed by Agency for International Development		12,667,418
Purchases of investments		18,257,699,333
Redemption of consolidated obligations		6,009,290,000
Repurchase of capital stock		92,550,300
Dividends declared on capital stock		50,334,064
Purchase of furniture and equipment		2,272,317
Improvement of bank premises		25,850
Net changes in other assets and liabilities		698,905,938
Total funds applied		$28,146,366,960

SCHEDULE 7

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1971, AND DECEMBER 31, 1970

ASSETS	December 31, 1971	December 31, 1970	Net change
CASH WITH THE U.S. TREASURY	$ 792,021	$ 2,333,841	$ -1,541,820
ACCOUNTS RECEIVABLE	423,089	747,581	-324,492
INVESTMENTS AT AMORTIZED COST (note 1)	2,692,384,919	2,505,261,923	187,122,996
ACCRUED INTEREST ON INVESTMENTS	39,322,866	34,078,084	5,244,782
ASSETS ACQUIRED FROM INSURED INSTITUTIONS (after allowance for losses)	75,890,579	170,622,889	-94,732,310
LOANS TO INSURED INSTITUTIONS AND ACCRUED INTEREST	89,010,540	100,649,718	-11,639,178
SUBROGATED ACCOUNTS IN INSURED INSTITUTIONS IN LIQUIDATION (after allowance for losses)	140,833,849	143,335,819	-2,501,970
INSURED ACCOUNTS IN INSURED INSTITUTIONS IN LIQUIDATION (pending and unclaimed accounts)	739,726	364,369	375,357
DEFERRED CHARGES AND OTHER ASSETS	95,699	77,838	17,861
Total assets	$3,039,493,288	$2,957,472,062	$ 82,021,226
LIABILITIES AND RESERVES			
MISCELLANEOUS ACCRUED AND OTHER LIABILITIES (note 2)	$ 6,113,226	$ 5,345,112	$ 768,114
PENDING AND UNCLAIMED ACCOUNTS IN INSURED INSTITUTIONS	739,726	364,369	375,357
ALLOWANCE FOR ESTIMATED LOSSES--CONTRIBUTION AGREEMENTS	29,072,041	28,107,418	964,623
DEFERRED CREDITS	16,709,528	20,813,650	-4,104,122
PRIMARY RESERVE (cumulative net income) (schedule 8) (note 3)	1,528,913,773	1,394,111,242	134,802,531
SECONDARY RESERVE (premium prepayments) (note 3)	1,457,944,994	1,508,730,271	-50,785,277
Total liabilities and reserves	$3,039,493,288	$2,957,472,062	$ 82,021,226

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

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

COMPARATIVE STATEMENT OF INCOME, EXPENSE, AND PRIMARY RESERVE

FOR THE YEARS ENDED

DECEMBER 31, 1971, AND DECEMBER 31, 1970

	December 31, 1971	December 31, 1970	Net change
INCOME:			
Insurance premiums and admission fees	$ 129,208,031	$ 111,170,310	$ 18,037,721
Interest on U.S. and Federal agency securities	144,383,247	138,765,795	5,617,452
Interest on loans to insured institutions	5,989,745	3,764,443	2,225,302
Income on assets acquired from insured institutions	7,292,762	10,713,409	-3,420,647
Miscellaneous	134,232	121,099	13,133
Total income	287,008,017	264,535,056	22,472,961
EXPENSES:			
Administrative expenses	461,586	381,230	80,356
Services rendered by Federal Home Loan Bank Board	13,948,034[a]	9,382,681[a]	4,565,353
Insurance settlement and other expenses	6,484,832	5,978,243	506,589
Net provision for losses	51,145,780	14,900,274	36,245,506
Interest applicable to premium prepayments credited to members' equity in secondary reserves	80,165,254	82,888,663	-2,723,409
Total expenses	152,205,486	113,531,091	38,674,395
Net income transferred to primary reserve	134,802,531	151,003,965	-16,201,434
BALANCE, PRIMARY RESERVE, AT THE BEGINNING OF THE YEAR	1,394,111,242	1,243,107,277	151,003,965
BALANCE, PRIMARY RESERVE, AT END OF YEAR	$1,528,913,773	$1,394,111,242	$134,802,531

GAO note:

[a]This amount differs from the amount shown in schedule 2 by $16,781 in 1971 and $63,892 in 1970 due to corrections in the billings after the books were closed. The Corporation and the Board made the appropriate adjustments in the following year.

SCHEDULE 9

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
STATEMENT OF SOURCES AND APPLICATION OF FUNDS
YEAR ENDED DECEMBER 31, 1971

FUNDS PROVIDED BY:	
Repayment of loans	$ 75,436,360
Sale of acquired security or collateral	21,797,898
Income on assets acquired from insured institutions	7,292,762
Gain on assets acquired from insured institutions	1,611,951
Interest on investments and loans	150,372,992
Insurance premiums and admission fees	129,208,031
Retention of return on insurance premium prepayments	80,165,254
Miscellaneous income	134,232
Proceeds from sales and redemptions of securities	2,380,632,000
Decrease in cash balance	1,538,219
Decrease in selected working capital	2,877,502
Total funds provided	$2,851,067,201
FUNDS APPLIED TO:	
Loans made to and mortgages acquired from insured institutions	$ 13,430,978
Cost of security or collateral acquired	21,916,018
Purchase of fixed assets	9,280
Other expenses applied to costs	14,293,853
Administrative expenses	461,586
Other operating expenses	20,428,608
Refund and transfer of premium prepayments	130,950,571
Return on additional premiums--prepayment	80,165,254
Purchase of securities	2,567,490,000
Loss on sale of securities	1,921,053
Total funds applied	$2,851,067,201

GAO note: This statement is based on statements of sources and application of funds submitted by the Board to the Treasury Department in accordance with Treasury Department Circular No. 966.

NOTES TO FINANCIAL STATEMENTS

1. The market value of investments at December 31, 1971, was $2,706,555,863.

2. Miscellaneous accrued and other liabilities includes the Corporation's estimate of losses of $2 million as of December 31, 1971, and $500,000 as of December 31, 1970, 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 $39 million at December 31, 1971, and $10 million at December 31, 1970.

3. 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.

4. At December 31, 1971, 19 legal actions were pending final adjudication or appeal wherein the Corporation was named defendant or codefendant involving claims that had an estimated maximum liability of about $16 million. An Associate General Counsel of the Board is of the opinion that the Corporation's actual liability as a result of these 19 pending legal actions will be substantially less than $16 million. The Corporation's contingent liability on these claims has not been recognized in the accounts.

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