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REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

LM099973

Examination Of Financial Statements For The Year Ended December 31, 1974

Federal Home Loan Bank Board

Federal Home Loan Banks

Federal Savings and Loan Insurance Corporation

BEST DOCUMENT AVAILABLE

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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, 1974.

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 Acting Chairman of the Federal Home Loan Bank Board.

Elmer B. Staats

Comptroller General
of the United States

Contents

ABBREVIATIONS

AID	Agency for International Development
FHLBB	Federal Home Loan Bank Board
FHLB	Federal home loan banks
FHLMC	Federal Home Loan Mortgage Corporation
GAO	General Accounting Office

BLANK

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

EXAMINATION OF FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1974
Federal Home Loan Bank Board
Federal Home Loan Banks
Federal Savings and Loan Insurance Corporation

D I G E S T

The Government Corporation Control Act and the Federal Home Loan Bank Act require the Comptroller General to examine the financial transactions 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.

In GAO's opinion, the accompanying financial statements present fairly the financial position of the Board, banks, and Corporation at December 31, 1974, and their income and expenses and their changes in financial positions for the year then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General of the United States.

The public accounting firms audited the 12 banks' financial statements for the year ended December 31, 1974. (See p. 15.)

The Board, through its Office of Examinations and Supervision, supervises the insured institutions--Federal savings and loan associations; building and loan, savings and loan, or homestead associations; and cooperative banks whose accounts are insured by the Corporation.

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 independent accountants' audits.

During calendar year 1974, the Office of Examinations and Supervision examined 3,327 savings and loan institutions. The Board used the information to identify problem institutions. 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.

At December 31, 1974, there were 9 category I and 42 category II problem institutions with estimated insured deposits of $425 million and $2,018 million, respectively. (See p. 11.)

This report contains no recommendations to the Board.

CHAPTER 1

INTRODUCTION

In the early 1930s, the Congress 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--to provide economical home financing and to encourage thrift. 402

FEDERAL HOME LOAN BANK BOARD

The Board, an independent supervisory and regulatory agency, (1) regulates and supervises the operations of Federal home loan banks and the Federal Home Loan Mortgage Corporation, (2) directs the operations of the Federal Savings and Loan Insurance Corporation, (3) charters Federal savings and loan associations, and (4) regulates and examines 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. (See appendix.) These Board members also constitute the Board of Directors of the Federal Home Loan Mortgage Corporation, which provides a secondary market for residential mortgages.

FEDERAL HOME LOAN BANKS

The 12 banks, corporations chartered under the Federal Home Loan Bank Act, 12 U.S.C. 1421, et seq. (1970), 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. Since inception, Federal home loan banks have provided many services to their member institutions, such as receiving deposits and providing checking accounts, investment and safekeeping services, and on-line computer services.

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:

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

Each bank is operated under the direction of a Board of Directors, of which six members are appointed by the Board and the remainder, ranging from eight to nine, 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 $40,000 for each insured member in all federally chartered savings and loan associations and similar institutions upon their request and upon 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. (See appendix.)

ECONOMIC IMPACT ON THE SAVINGS AND HOME FINANCING INDUSTRY

At the end of 1973 a major concern of the Board was the prospect of a major profits squeeze in the savings and loan industry which became a reality in 1974. Also, an economic downturn during the last half of 1974 brought into focus some questionable loan underwriting that had taken place in the three preceding years, particularly in land- and income-producing properties. This, compounded with the earnings squeeze, created the likelihood that a number of institutions would face major difficulty in 1975.

The Board knows that the current economic climate indicates the need for its field examiners to make more frequent examinations and more indepth reviews of savings and loan operations. The examinations interval was reduced in 1974 but the examination time is expected to increase in 1975 as examination efforts intensify. The Congress authorized and funded additional examiners during the year which should permit the Office of Examinations and Supervision to meet its workload requirements.

BOARD, BANKS, AND CORPORATION
ACCOUNTING SYSTEMS

The Accounting and Auditing Act of 1950, 31 U.S.C. sec. 66(a) (1970) places responsibility for establishing and maintaining adequate systems of accounting and internal control with the head of each executive agency. These systems are required to meet the accounting principles, standards, and related requirements prescribed by the Comptroller General.

The act also requires that the Comptroller General approve accounting systems when they are deemed adequate and conform to his prescribed principles, standards, and related requirements. However, this approval is not required of Government corporations subject to the Government Corporation Control Act (31 U.S.C. 841) and certain quasi-governmental entities that, by law, are subject to that act. The Comptroller General approves the accounting system in two stages--the agency's statement of principles and standards and the design of the accounting system.

Under the guidance of the Executive Assistant to the Chairman of the Federal Home Loan Bank Board, the Director, Financial Management Division, designs, installs, and maintains all Board accounting systems and is responsible for the related financial reporting functions and budget activities. The Board's fiscal and accounting services are carried out by about 35 employees at its office in Washington, D.C.

The Comptroller General approved the Board's principles and standards for its accounting system in June 1972. The Board estimates that the accounting system design will be completed and informally submitted for GAO evaluation in July 1976. The previous estimated date was December 1974.

The accounting systems of the 12 Federal Home Loan Banks, corporations chartered under the Federal Home Loan Bank Act, 12 U.S.C. 1421, et. seq., and the Federal Savings and Loan Insurance Corporation, a wholly owned Government corporation, do not require approval by the Comptroller General.

CHAPTER 2

FEDERAL HOME LOAN BANK BOARD

The Board establishes policies for, and supervises the operation of, the following organizations.

Organization	Number	Total assets as of December 31, 1974
		(billions)
Federal home loan banks	12	$ 25.5
Federal Savings and Loan Insurance Corporation	1	3.8
Federal savings and loan associations	2,060	167.7
Insured State-chartered savings and loan institutions	2,081	120.6
Federal Home Loan Mortgage Corporation	1	4.9
Total	4,155	$322.5

The Board's operations are financed by charging savings and loan institutions for examinations and by assessing the banks and the Federal Savings and Loan Insurance Corporation for administrative expenses and expenses incurred in supervising insured institutions. The Congress placed limits on the amounts the Board could spend in fiscal year 1974--$9,772,580 for administrative expenses and $18,702,023 for nonadministrative expenses. The Board's expenses were within the prescribed limits.

SUPERVISION AND EXAMINATION OF INSURED INSTITUTIONS

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

Through its Office of Examinations and Supervision, the Board supervises and examines insured institutions, which includes Federal savings and loan associations; building and loan, savings and loan, or homestead associations; and cooperative banks whose accounts are insured. 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. In supervising State-chartered institutions, the Board coordinates these activities with respective State authorities.

To carry out its responsibilities, the Office of Examinations and Supervision had 723 professionals as of December 31, 1974. This staff is assigned to 12 district offices throughout the country and to the Board's headquarters in Washington, D.C.

During calendar year 1974, the Office of Examinations and Supervision examined 3,327 savings and loan institutions. The Board used the examination data to identify problem institutions discussed on pages 11 and 12. The Office also made 1,295 other examinations for such purposes as approving mergers of associations, approving insurance eligibility requirements, and insuring compliance with applicable laws and regulations.

The examinations were made at intervals which averaged 15 months during 1974, a reduction from the previous year's average of 15.5 months. The Board's goal, however, is to achieve an examination interval of 12 months.

As part of our review of the Office of Examinations and Supervision, we analyzed and reviewed reports and related documents pertaining to associations the Board classified as problem and nonproblem associations, and we discussed the results with appropriate officials. On the basis of our review, we found that problem associations were being recognized, the classification of problem and nonproblem associations appeared reasonable, and additional supervisory attention was given those associations experiencing problems.

CHAPTER 3

FEDERAL HOME LOAN BANKS

The primary function of the 12 Federal home loan banks is to provide a credit reservoir for thrift and homefinancing institutions. Any savings and loan association, savings bank, or building and loan association is eligible to became a member 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 Corporation are members of a Federal home loan bank.

SOURCE OF FUNDS

The Federal home loan banks obtain funds for their lending activities primarily from three main sources.

1. Consolidated obligations--Bonds and discount notes, issued with the approval of the Federal Home Loan Bank Board, are the joint and several obligations of all the banks.

According to regulations, the Board may not issue consolidated obligations in excess of 12 times the total paid-in capital and reserves of all banks. The banks must maintain a total amount of unpledged assets consisting of cash, obligations of, or fully guaranteed by, the United States; Federal funds; secured advances; and federally insured or guaranteed mortgages at least equal to the outstanding obligations.

In contrast to the traditional long-term bond issues, the banks began a new discount note program in May 1974. This new program, consisting of obligations of 30- to 270-day maturities, serves as a means of interim financing between bond sales, thus expanding the banks' financing flexibility and enhancing their capacity to raise short-term funds.

The banks' Office of Finance acts as a coordinator and issues these consolidated obligations.

2. Member deposits--The banks' members provide another source of funds The banks accept both demand and time deposits. Members are not required to maintain cash balances with the banks; however, the time deposit facilities of the banks enable members with excess funds to earn interest, hold liquid assets, and place funds in the system for redistribution through member advances. A portion of member deposits may be used by the banks for making advances. This means that remaining deposits must be held in a deposit liquidity reserve.

3. Capital stock--The banks' capital stock serves several purposes. It supplies funds for making advances to members or for obtaining other earning assets. To the extent that it is used for member advances, the capital stock outstanding redistributes funds within each bank district. Each member institution must purchase capital stock to bring its holdings equal to 1 percent of their residential mortgage portfolio at the end of the preceding year. The act stipulates that indebtedness of a member to its bank cannot exceed 12 times the amount of stock held by the member.

Also the banks can obtain funds through the Secretary of the Treasury who has authority to purchase bank obligations up to $6 billion. Through calendar year 1974 the Secretary has exercised his authority in the amount of $695 million.

USE OF FUNDS

The major uses of bank funds are advances to members and holdings of cash and investments.

1. Federal home loan bank advances--A major purpose of the bank system is to serve as an emergency source of liquidity for its members. The basic functions of the member institutions are to receive deposits from various savers and to invest these funds in long-term mortgages. It is neither economically feasible nor desirable for these institutions to carry enough liquid assets to guard against such contingencies, as smoothing imbalances in savings receipts and mortgage loan disbursements. Thus, the banks provide the funds necessary to meet such contingencies when the liquid assets carried for this purpose are not sufficient. A basic premise of the bank system is that system credit should supplement, not supplant, the saver as the major source of funds for member institutions.

2. Cash and investments--The cash and deposit balances and security investments of the banks represent their operating funds and liquidity reserves. Reserves also are used to meet the members' demands for advances. The deposit liquidity reserves provide funds to members who withdraw their deposit balances at the banks. Only a small part of the banks' liquidity is maintained in the form of cash on deposit in commercial banks or with the Federal Reserve Bank of New York. The most important source of liquidity is the investments and marketable government obligations which also provide the banks with earning assets. Under the law the banks can only invest in obligations of the United States, the Federal National Mortgage Association, and the Government National Mortgage Association, and other securities that are eligible

for investment by fiduciary and trust funds under the laws of the State in which the banks are located. Since investments serve the purpose to provide liquidity, a vast amount of them have always been maintained in relatively short-term obligations.

EARNINGS AND DIVIDENDS

The banks' retained earnings are placed in two accounts: undivided profits and a legal reserve. Each bank must semiannually transfer 20 percent of its net earnings to the legal reserve until the account equals 100 percent of paid-in capital. Thereafter, 5 percent of its net earnings must be allocated for this purpose semiannually. The capital stock of the banks has grown so rapidly that earnings are still being allocated at the 20-percent rate. The banks also pay dividends to their members out of earnings.

OPERATIONS

During 1974, bank advances increased $6.7 billion over the previous 1973 record high of $7.2 billion. The banks made loans of $12.8 billion and $10 billion and repayments of loans were $6.1 billion and $2.8 billion during 1974 and 1973, respectively. Of the $21.8 billion in outstanding advances as of December 31, 1974, $21 billion were secured by pledges of collateral comprising home mortgages, United States obligations, and other authorized collateral and capital stock of the banks owned by borrowing members with a total face value of $24.6 billion.

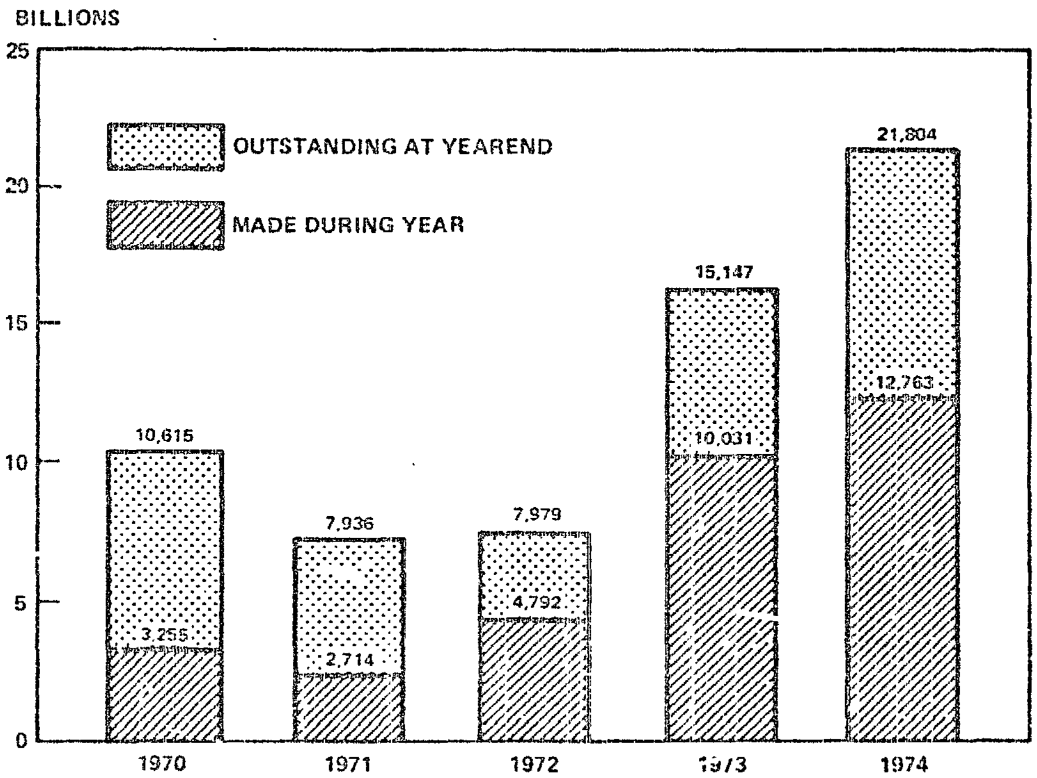
In May of 1974 the banks undertook a special advance program to assist housing. The below-market interest rate program was a commitment to make $4 billion available to savings and loans at about one-half of 1 percent below the cost of funds to the banks. In 1974, the entire $4 billion was raised in the capital market and more than $3.5 billion was advanced or committed to member institutions at a 1974 subsidized cost of about $5.2 million to the 12 banks.

Following is a 5-year graphic presentation of bank advances made during the year and the outstanding yearend advances.

The banks in 1974 surpassed consolidated obligations records that had been set only a year earlier. During the year, the banks issued a record $11.6 billion in consolidated bonds and retired maturing obligations of $5.6 billion for a net increase in lendable funds of $6 billion of consolidated bonds. Also during the year, the banks obtained an additional $2.3 billion in funds through the newly established discount note program.

The banks' participation in consolidated obligations stood at $19.4 billion on December 31, 1974, a record from the previous yearend balance of $14.4 billion.

Bank profits were also the highest in history in 1974. The banks earned $304 million, of which $139 million was returned to members as dividends. For the first time the 12 banks' net worth exceeded the $3 billion level.


BILLIONS
25
20
15
10
5
0
OUTSTANDING AT YEAREND
MADE DURING YEAR
10,615
3,255
7,936
2,714
7,979
4,792
15,147
10,031
21,804
12,763
1970
1971
1972
1973
1974

CHAPTER 4

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

The Corporation insures withdrawable share and deposit accounts in all federally 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 Congress placed a limit of $747,473 on the amount the Corporation could spend in fiscal year 1974 for administrative expenses, excluding supervisory and other services provided by the Board. The Corporation's administrative expenses were within the limit.

PROBLEM INSTITUTIONS

To see that insured federally chartered savings and loan associations and similar 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; other 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, 1974	Dec. 31, 1973	Estimated insured deposits Dec. 31, 1974	Dec. 31, 1973
			(000 omitted)	
I	9	6	$ 424,682	$ 303,109
II	42	44	2,017,866	2,009,894
	51	50	$2,442,548	$2,313,003

The Corporation's records showed that financial difficulties of institutions requiring its assistance during the year ended December 31, 1974, had been caused by unsafe and unsound operating practices, such as:

--Excessive compensation of association management.

--Concentration of lending on substandard security properties.

--Excessive loans made on the basis of inflated appraisals.

--Concentration of loans to a few speculative borrowers.

The Board and Corporation encourage insured institutions to correct unsound operating practices and to aid institutions requiring financial assistance through contribution or merger agreements. These agreements are negotiated between the participating parties and have a specific contract life. Although they are financially costly to the Corporation, they are less costly than the alternative receivership or voluntary liquidation.

During 1974 preventive actions were taken for two associations which were in critical financial condition. One of the associations was merged; one received financial assistance through a loan and an infusion of capital under a financial assistance agreement. A third association and the Corporation entered into an assistance agreement.

<u>ASSETS ACQUIRED THROUGH THE CORPORATION'S INSURANCE ACTIVITIES AND RELATED ALLOWANCE FOR LOSSES</u>

At December 31, 1974, 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	$ 61,388,640	$ 8,959,076	$ 52,429,564
Loans to insured institutions and accrued interest	62,048,803	5,000,000	57,048,803
Subrogated accounts in insured institutions in liquidation and related interest	56,941,742	1,500,000	55,441,742
Total	$180,379,185	$15,459,076	$164,920,109

The allowance for losses is based on (1) the evaluations and judgments of Corporation officials who consider such data as actual losses experienced by the Corporation, (2) the latest financial data available on insured institutions in liquidation, and (3) results of independent appraisals made by contract appraisers.

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, 1974, was $52 million.

The loans to insured institutions and accrued interest, net of $5 million allowance for losses, is $57 million. The interest-bearing loans consisted of $61 million to associations that required financial assistance and accrued interest of $1 million.

Subrogated accounts of $54 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.

RESERVES AND BORROWING AUTHORITY

The Corporation's primary and secondary reserves are available to protect the savings of insured account holders in insured institutions. Reserves of about ~~$3.8~~ billion were available to protect insured savings of about $236.7 billion in 4,141 institutions at December 31, 1974.

Public Law 93-100 (87 Stat. 346), approved August 16, 1973, discontinued all payments to the secondary reserve. Public Law 93-495 (88 Stat. 1503), approved October 28, 1974, provided for the 10-year phaseout of the secondary reserve through partial premium charges and actual cash refunds to the industry. It is anticipated that a substantial amount of these funds will be funneled into the housing market over the next few years to the benefit of the consumer and the industry as well.

The Corporation's primary and secondary reserves are available to meet future losses. These reserves, established pursuant to 12 U.S.C. 1727 and to administrative action, do not necessarily 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, 1974, under existing 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. The Board may 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, 1974, would have provided funds of about $2.4 billion to the Corporation. (12 U.S.C. 1727(h)) The Corporation may:

--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. (12 U.S.C. 1727(c))

--borrow up to $750 million from the Department of the Treasury. (12 U.S.C. 1725(i))

The Corporation had not drawn on any of these sources through calendar year 1974.

CHAPTER 5

SCOPE OF EXAMINATION AND

OPINION ON FINANCIAL STATEMENTS

We have examined the statements of condition of the Federal Home Loan Bank Board, the Federal home loan banks, and the Federal Savings and Loan Insurance Corporation as of December 31, 1974 and 1973; and their related statements of income, expenses, retained earnings, primary reserve for the years then ended; and their statements of changes in financial position for the year ended December 31, 1974. Our examination of the accompanying financial statements was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such auditing procedures as we considered necessary in the circumstances.

We used, to the extent possible, the work of the Board's internal auditors on their examination of the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation and the public accounting firms' reports on their audits of the banks, thus reducing the scope of our audits.

The Board's statement of accounting principles and standards was approved in June 1972. We are currently reviewing the Board's accounting system design

In our opinion, the accompanying financial statements (schs. 1 through 9) present fairly the financial positions of the Board, banks, and Corporation at December 31, 1974 and 1973; and the results of their operations for the years then ended; and the changes in their financial positions for the year ended December 31, 1974, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

BLANK

SCHEDULES

BLANK

SCHEDULE 1

FEDERAL HOME LOAN BANK BOARD

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1974 AND 1973

ASSETS	1974	1973
Cash with U.S. Treasury (note 2)	$ 591,567	$ 346,230
Accounts receivable	6,650,934	5,228,503
Land and building (note 3)	11,189,044	10,207,445
Furniture, fixtures and equipment, net (note 1)	1,854,855	949,999
Other	210,039	121,162
Total Assets	$20,496,439	$16,853,339
LIABILITIES AND CAPITAL		
Accounts payable and accrued liabilities	$ 3,428,339	$ 3,042,672
Employees' accrued annual leave	1,846,141	1,611,538
Deferred credit - FHLBB cost of quarters (note 4)	10,189,680	-0-
Loans payable to Federal home loan banks (note 4)	-0-	8,869,680
Total liabilities	15,464,160	13,523,890
Capital, retained earnings	5,032,279	3,329,449
Total liabilities and capital	$20,496,439	$16,853,339

The notes following schedule 3 are an integral part of these statements.

SCHEDULE 2

FEDERAL HOME LOAN BANK BOARD

COMPARATIVE STATEMENT OF INCOME, EXPENSE, AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1974 AND 1973

INCOME:	1974	1973
Fees from examinations of savings and loan institutions	$12,631,198	$12,340,516
Assessments:		
Federal home loan banks	6,825,863	6,170,170
Federal Savings and Loan Insurance Corporation	15,041,256	11,382,764
Reimbursements for services performed	172,530	229,733
Miscellaneous	17,542	28,190
Total Income	34,688,389	30,151,373
EXPENSES:		
Personnel compensation	21,973,300	19,371,750
Personnel benefits	1,976,577	1,953,911
Travel and transportation of persons	3,739,742	2,713,750
Rent, communication, and utilities	2,062,076	1,739,307
Interest on Federal home loan bank loans	453,491	292,438
Depreciation of furniture, fixtures and equipment	439,600	395,328
Other services	1,291,987	1,259,359
Printing and reproduction	405,343	429,827
Supplies and materials	321,191	200,600
Miscellaneous	322,252	196,192
Total Expenses	32,985,559	28,552,462
INCOME IN EXCESS OF EXPENSES	1,702,830	1,598,911
RETAINED EARNINGS AT BEGINNING OF YEAR	3,329,449	1,730,538
RETAINED EARNINGS AT END OF YEAR	$ 5,032,279	$ 3,329,449

The notes following schedule 3 are an integral part of these statements.

SCHEDULE 3

FEDERAL HOME LOAN BANK BOARD

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1974

FINANCIAL RESOURCES WERE PROVIDED FROM:	
Operations - Income	
Examination fees and charges	*$12,631,198*
Assessments:	
Federal home loan banks	*6,825,863*
Federal Savings and Loan Insurance Corporation	*15,041,256*
Reimbursement for services performed to other agencies	*172,530*
Miscellaneous	*17,542*
	34,688,389
Less - Expenses	
Personnel compensation and benefits	*23,949,877*
Travel and transportation of persons	*3,739,742*
Rent, communication, and utilities	*2,062,076*
Other services	*1,291,987*
Printing and reproduction	*405,343*
Supplies and materials	*321,191*
Interest on Federal home loan bank loans	*453,491*
Miscellaneous (other than amortization of leasehold improvements totaling $170,035)	*152,217*
	32,375,924
Total resources provided by operations	*2,312,465*
Increase in:	
Accounts payable and accrued liabilities	*385,667*
Deferred credit - FHLBB cost of quarters	*10,189,680*
Employees' accrued annual leave	*234,603*
Total	*$13,122,415*
FINANCIAL RESOURCES WERE APPLIED TO:	
Purchase of furniture, fixtures and equipment	*$ 1,344,456*
Acquisition of land and building	*981,599*
Loans payable to Federal home loan banks	*8,869,680*
Increase in:	
Accounts receivable	*1,422,431*
Other assets	*258,912*
Cash	*245,337*
Total	*$13,122,415*

FEDERAL HOME LOAN BANK BOARD

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1974 AND 1973

1. Summary of significant accounting policies:

   a) Furniture, Fixtures, and Equipment - These assets are stated at cost less accumulated depreciation of $1,233,867 and $1,139,260 at December 31, 1974 and 1973, respectively. Depreciation is computed on the straight-line method over the estimated useful lives of the property.

   b) Leasehold Improvements - These assets are stated at cost less accumulated amortization, and they are amortized on the straight-line method over the estimated useful life of the lease. The net balance of this account is insignificant and is included in other assets.

   c) Reclassifications - Certain reclassifications have been made in 1973 financial statements to conform to the classifications used in 1974.

2. An additional $7,673,299 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 Banks on short and long-term borrowing in order to promote an orderly flow of funds into residential construction.

3. Includes about $3.5 million which is the cost of the remaining portion of the original site for the new building.

4. The Board received advances from the Banks under authority of Section 18 of the Federal Home Loan Bank Act for the purpose of constructing an office building in Washington, D.C. The advances represented an unsecured obligation which was being repaid in annual installments over a 25-year period with interest at 4-1/2%.

   On December 19, 1974, the Board assessed the Banks $40,000,000, the total estimated cost of constructing the building. The advance of $10,189,680, which includes $8,869,680 charged against the loans payable, is shown as "Deferred Credit-FHLBB Cost of Quarters." The Board will request payment of the remaining $29,810,320 at such times and in such amounts as deemed necessary to meet anticipated construction expenditures.

   When the Board occupies the new building, this deferred credit will be systematically amortized to income over 25 years.

SCHEDULE 4

SCHEDULE 4

FEDERAL HOME LOAN BANKS

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1974 AND 1973

(In thousands)

ASSETS	1974	1973
Cash (note 2)	$ 144,392	$ 156,659
Investments, at cost (note 3)	3,097,415	3,437,495
Advances to members (note 4)	21,804,462	15,147,143
Other loans:		
Guaranteed by AID, net (note 5)	84,440	25,620
Other FHL Banks	20,000	57,000
Other FHL Banks - special series	70,750	15,200
FHLBB for office building (note 12)	-	8,994
Total other loans	175,190	206,814
Accrued interest receivable	126,382	85,689
Accounts receivable	1,547	1,499
Bank premises and equipment	22,339	18,862
Less: accumulated depreciation and amortization	(6,433)	(4,531)
Net book value	15,906	14,331
Other assets:		
Investment in FHLMC (note 6)	100,000	100,000
Discount on consolidated obligations - bonds	144	272
Concessions on consolidated obligations - bonds	21,862	14,559
Prepaid expense - FHLBB cost of quarters (note 12)	10,190	-
Other prepaid expenses	1,260	1,593
Total other assets	133,456	116,424
Total assets	$25,498,750	$19,066,054

The notes following schedule 6 are an integral part of these statements.

SCHEDULE 4

SCHEDULE 4

LIABILITIES AND CAPITAL	1974	1973
Deposits and borrowings:		
Members - time	$ 1,820,241	$ 1,215,095
Members - demand	573,291	528,637
Other FHL Banks	20,000	57,000
Other FHL Banks - special series	70,750	15,200
Total deposits and borrowings	2,484,282	1,815,932
Accrued interest payable	361,541	272,218
Consolidated obligations: (note 7)		
Bonds	21,299,350	15,362,280
Discount notes	583,468	-
Less: Pass throughs to FHLMC	(2,437,600)	(913,000)
FHLB's participations	19,445,218	14,449,280
Other liabilities:		
Accounts payable	1,802	4,841
Accounts payable - FHLBB assessment	472	-
Other	42,097	27,479
Total other liabilities	44,371	32,320
Total liabilities	$22,335,412	$16,569,750
Contingencies and commitments (notes 8, 11, 12, 13, and 14)		
Capital stock outstanding (note 9)	2,624,306	2,122,334
Retained earnings:		
Legal reserve	304,619	244,071
Undivided profits	234,413	129,899
Total retained earnings	539,032	373,970
Total capital	3,163,338	2,496,304
Total liabilities and capital	$25,498,750	$19,066,054

SCHEDULE 5

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF INCOME AND EXPENSE

FOR THE YEARS ENDED DECEMBER 31, 1974 AND 1973

(In thousands)

	1974	1973
INCOME:		
Interest on advances to members	$1,456,871	$ 814,084
Income from investments	230,982	193,370
Interest on advances to other FHL Banks	9,482	5,643
Interest and fees on AID loans (note 5)	4,737	2,026
Interest on FHLBB office building loan	450	292
Earned commitment fees	16,429	-
Income from data processing services	6,946	-
Other income	2,610	8,143
Total Income	1,728,507	1,023,558
EXPENSES:		
Interest and other costs:		
Interest and concessions-consolidated obligations	1,222,984	741,479
Assessments - FHLB Board	6,609	6,441
Assessments - Office of Finance	1,949	1,482
Interest on member deposits	145,590	62,484
Interest on deposits from FHLMC	12	-
Interest on other FHL Banks deposits	9,513	5.712
Other Interest	3,556	-
Total Interest and Other Costs	1,390,213	817,598
Other operating expenses:		
Salaries and benefits (note 10)	17,266	13,872
Fees and professional services	1,255	543
Travel expense	1,218	953
Telephone and transmission costs	2,061	1,424
Stationery and supplies	2,792	1,943
Cost of quarters	3,292	2,819
Depreciation - furniture and equipment	1,341	1,324
Equipment rental and expense	3,106	1,837
Other	1,523	2,915
Total other operating expenses	33,654	27,630
Total Expenses	1,423,867	845,228
Net Income	$ 304,640	$ 178,330

The notes following schedule 6 are an integral part of these statements.

SCHEDULE 6

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1974

(In thousands)

	1974	1973
FINANCIAL RESOURCES WERE PROVIDED FROM:		
Operations:		
Net income	$ 304,640	$ 178,330
Add (deduct) - Noncash charges (credits) to income:		
Depreciation and amortization of fixed assets	1,764	2,679
Amortization of concessions on consolidated obligations-bonds	9,281	6,852
Other	2	(1,815)
Total funds provided from operations	315,687	186,046
Net proceeds from issuance of consolidated obligations	11,777,868	9,648,150
Proceeds from sale of capital stock	523,202	409,162
Increase in:		
Deposits	649,802	163,035
Accrued interest payable	93,822	157,128
Other liabilities	25,173	42,455
Total	$13,385,554	$10,605,976
FINANCIAL RESOURCES WERE USED FOR:		
Payments on maturing consolidated obligations	$ 6,796,747	$ 1,946,993
Redemption of capital stock	21,230	42,838
Dividends on capital stock	139,668	101,244
Net additions to bank premises and equipment	3,158	86
Increase (decrease) in investments	(310,079)	1,245,700
Increase in:		
Advances to members	6,657,320	7,184,167
Accrued interest receivable	61,632	40,420
Other assets	68,386	46,355
Decrease in cash	(12,269)	(1,829)
Total	$13,[illegible]5,554	$10,605,976

FEDERAL HOME LOAN BANKS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1974 AND 1973

1. Summary of significant accounting policies:

   a) Investments - Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts using the straight-line method over the lives of the related securities.

   b) Advances to Federal Home Loan Mortgage Corporation - Proceeds from certain consolidated obligations and the promissory note payable to the U.S. Treasury have been advanced to the Federal Home Loan Mortgage Corporation at the same interest rate as the related consolidated obligations and the promissory note. Since the Federal Home Loan Mortgage Corporation is effectively reimbursing the Bank for the interest, the interest expense and the related interest income of the advances have been netted and are not reflected in the statement of income.

   c) Concessions on Consolidated obligations - The amounts allowed dealers in connection with the sale of consolidated obligation bonds are deferred and amortized on the straight-line method to the maturity of the obligations. The amounts applicable to the sale of consolidated obligation discount notes are charged directly to expense as incurred.

   d) Unearned Commitment Fees - Non-refundable advance commitment fees are received at the time the agreement is made and are amortized to income over the period of the commitment on a straight-line basis. Refundable commitment fees are deferred until the commitment expires or the loan is funded.

   e) Furniture, Equipment, and Leasehold Improvements - These assets are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the property or the life of the lease.

   f) Reclassifications - Certain reclassifications have been made in 1973 [illegible] statements to conform to the classifications used in 1974.

2. Compensating Balances - The banks have agreed to maintain average collected cash balances with commercial banks in consideration for various services. These arrangements are informal and there are no legal restrictions as to the withdrawal of funds. The required compensating balances are approximately $2[illegible],4[illegible],[illegible] as of December 31, 1974.

3. *Investments* - The investments which approximate market value are comprised of the following as of December 31, 1974:

Participation in consolidated securities fund	$ 1,021,458,000
Federal funds sold	831,950,000
Bankers acceptances	567,588,000
Term funds sold	318,400,000
Other	298,019,000
	$ 3,037,415,000

The Federal Home Loan Banks Consolidated Securities Fund was established by the Federal Home Loan Bank Board to offer a centralized portfolio management system for securities of the Federal home loan banks. The Fund is managed by the Office of Finance of the Federal home loan banks. The Fund invests primarily in short-term money market instruments. As of December 31, 1974 five of the twelve banks were members of the Fund.

4. *Advances to Members* - As of December 31, 1974, the banks had advances outstanding to members with interest rates ranging from 5.75% to 12%, maturing at various dates, as summarized below:

Years of Maturity	Amount
1975	$ 6,055,554,000
1976	6,092,649,000
1977-1979	7,696,159,000
1980 or after	1,960,100,000
	$21,804,462,000

Outstanding advances aggregating $21,031,346,000 are collateralized by pledged investment securities and first mortgage loans of the members having a loan value assigned by the banks of about $24,565,596,000.

The banks are participating in a below-market interest rate program initiated in May 1974, to support the housing industry. Advances of about $3,084,018,000 have been made under this program for a period of five years at rates ranging from .5% to .73% below the Federal Home Loan Bank System's cost of related five-year consolidated obligations. The advances may be prepaid without penalty, but only by tendering the related consolidated obligations sold to support this program. The subsidized cost of this program amounted to approximately $5,246,290 for 1974.

5. *Loans Guaranteed by the Agency for International Development* - The Agency for International Development (A.I.D.) was established by the Foreign Assistance Act of 1961, as amended. Under sections 221 and 222 of the Act, A.I.D. issues guarantees backed by the full faith and credit of the Federal government to eligible U.S. investors insuring against loss of investments, including unpaid accrued interest, in self-liquidating housing projects. The banks qualify as an eligible investor.

Under contracts of guaranty, the banks may, without the approval of A.I.D., sell participating interest to members of any Federal home loan bank. The outstanding loan balances are reported net of participations totaling $137,883,000 and $112,718,000 as of December 31, 1974 and 1973, respectively.

The outstanding loan balances bear interest at rates ranging from 7.25% to 8.875%, and mature between 20 and 30 years.

The banks receive service fees for these loans against which direct expenses associated with the financing arrangements are netted. The balance is deferred and amortized into income at 1% per month.

6. Investment in the Federal Home Loan Mortgage Corporation - The investment in the Federal Home Loan Mortgage Corporation, which is wholly-owned by the Federal home loan banks, is stated at cost and consists of 100,000 shares on non-voting capital stock, all of which is outstanding. These shares had an underlying book value of about $126,307,000 and $121,315,000 as of December 31, 1974 and 1973, respectively.

7. Consolidated Obligations - Consolidated Federal home loan bank obligations are the joint and several obligations of all Federal home loan banks. The outstanding obligations of the Federal home loan banks, including the pass through of the Federal Home Loan Mortgage Corporation, as of December 31, 1974 and 1973 was $21,890,350,000 and $15,362,280,000, respectively.

Regulations require the banks to maintain unpledged qualifying assets in an amount equal to the consolidated obligations outstanding. "Qualifying assets," are defined as cash, obligations of or fully guaranteed by the United States, secured advances, and federally insured or guaranteed mortgages.

The following is a summary of the banks' participation in consolidated obligations as of December 31, 1974 (in thousands):

	Bonds		Discount notes	
Years of maturity	Range of coupon rates	Outstanding	Book value	Par value
1975	5.875 - 10.60	$ 5,265,000	$435,868	$443,400
1976	7.20 - 9.55	4,510,000	--	--
1977 - 1979	6.75 - 9.50	8,000,000	--	--
1980 or after	6.60 - 8.75	1,234,350	--	--
		$19,009,350	$435,868	$443,400

The banks' participation, as shown above, is reported net of advances to the Federal Home Loan Mortgage Corporation in the form of pass through of the proceeds of certain consolidated obligations. The following is a summary of the pass through as of December 31, 1974 (in thousands):

Years of maturity	Bonds: Range of coupon rates	Bonds: Outstanding	Discount notes: Book value	Discount notes: Par value
1975	- -	---	$145,819	$147,600
1976	8.75 - 9.55	290,000	--	--
1977 - 1979	6.95 - 9.45	900,000	--	--
1980 or after	7.375 - 8.75	1,100,000	--	--
		$ 2,290,000	$145,819	$147,600

Promissory Note Payable to U.S. Treasury - On August 16, 1974, the Federal Home Loan Bank of San Francisco and the U.S. Treasury entered into an agreement whereby funds in an aggregate amount not to exceed $3,000,000,000 may be advanced to the San Francisco Bank under Section 11 (i) of the Federal Home Loan Bank Act. The San Francisco Bank has agreed to re-lend these funds to the Federal Home Loan Mortgage Corporation as secured advances to finance a Special Commitment Program for the purchase of certain home mortgages. The FHLMC's note to the San Francisco Bank has been assigned to the Secretary of the Treasury as collateral for the Bank's note.

Semi-annual principal repayments together with interest at a rate of 7.875% on the unpaid principal balance, begins January 1, 1975 and continues each subsequent July 1 and January 1 with the final payment due on January 1, 2006.

The promissory note to the U.S. Treasury is the joint and several obligation of all Federal home loan banks. As of December 31, 1974, $695,000,000 has been advanced by the U.S. Treasury. Proceeds from the note have been advanced to the Federal Home Loan Mortgage Corporation at the same interest rate as the note payable to the U.S. Treasury.

Capital - The capital stock of each Federal Home Loan Bank has a par value of $100 per share and may not be issued at a price less than par value. The stock is non-negotiable and can only be redeemed at the banks, within legal limits.

Dividends are paid to members annually on the capital stock issued and outstanding as of December 31, based on the average shares owned during the year.

Retained earnings of the banks consists of undivided profits and a legal reserve. The banks must transfer 20% of their net income to the legal reserve semi-annually until the reserve equals the capital stock amount. Thereafter, 5% of the banks' net income must be allocated for this purpose.

Employees Retirement Plan - The banks are participants in the Savings Association Retirement Fund and substantially all of its officers and employees are covered by the Plan. The banks' contributions are determined by the Fund and represent the normal cost and prior service cost. Pension costs charged to operating expenses were $1,775,000 in 1974 and $1,522,000 in 1973, which includes amortization over a ten-year period of funded past service costs.

11. *Lease Expense* - Rental expense of about $2,241,000 (1974) and $1,671,000 (1973) for premises and equipment has been charged to expense. The total unfunded lease obligations as of December 31, 1974, were approximately $13,471,300 payable as follows:

1975	$ 1,843,600
1976	1,825,700
1977	1,633,100
1978	1,228,600
1979	1,091,700
1980 - 1984	2,178,600
1985 - 1994	3,670,000
	$13,471,300

The bank premises lease agreements provide for increase in basic rentals resulting from increased property taxes and maintenance expense.

12. *Prepaid Expense, Federal Home Loan Bank Board Cost of Quarters* - The banks made advances to the Federal Home Loan Bank Board (Board) under authority of Section 18 of the Act for the purpose of constructing an office building in Washington, D.C. The advances represented an unsecured obligation which were being repaid in annual installments over a 25-year period with interest at 4-1/2%.

On December 19, 1974, the Board assessed the banks $40,010,000, the total estimated cost of constructing the building. The outstanding advances of $10,199,680 has been credited against the assessment and is shown as "Prepaid Expense - FHLBB Cost of Quarters." The Board will request payment of the remaining $29,810,320 at such times and in such amounts as deemed necessary to meet anticipated construction expenditures.

When the Board takes occupancy of the new building, this prepaid expense will be systematically amortized over 25 years.

13. *Commitments* - Commitments for advances to members and to foreign borrowers under guaranteed loans totaled $448,918,000 as of December 31, 1974.

14. *Contingency* - Five banks are a party to a lawsuit which challenges the authority of the Federal Home Loan Bank System to provide on-line data processing services to members. The ultimate outcome of this litigation is not determinable. Management is vigorously contesting this matter and legal counsel is of the opinion that the banks have meritorious defense in this litigation.

SCHEDULE 7

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1974 AND 1973

	1974	1973
ASSETS		
CASH ON HAND AND WITH THE U.S. TREASURY	$ 4,103,181	$ 250,628
ACCOUNTS RECEIVABLE	9,715,306	9,027,891
INVESTMENTS AT AMORTIZED COST (note 2)	3,587,350,116	3,229,625,339
ACCRUED INTEREST ON INVESTMENTS	59,810,023	55,460,415
ASSETS ACQUIRED FROM INSURED INSTITUTIONS, NET (note 3)	52,429,564	51,887,091
LOANS TO INSURED INSTITUTIONS AND ACCRUED INTEREST, NET (note 3)	57,048,803	69,372,337
SUBROGATED ACCOUNTS IN INSURED INSTITUTIONS IN LIQUIDATION AND RELATED INTEREST,NET(NOTE 3)	55,441,742	64,606,454
DEFERRED CHARGES AND OTHER ASSETS	34,797	47,358
Total assets	$3,825,933,532	$3,480,277,503
LIABILITIES AND RESERVES		
MISCELLANEOUS ACCRUED AND OTHER LIABILITIES	$ 6,135,203	$ 4,019,881
ALLOWANCE FOR ESTIMATED LOSSES--CONTRIBUTION AGREEMENTS (note 3 and 4)	25,859,169	22,143,469
DEFERRED CREDITS	2,513,580	609,631
PRIMARY RESERVE (cumulative net income) (note 8)	2,381,873,540	2,076,342,741
SECONDARY RESERVE (premium prepayments)	1,409,552,040	1,377,161,781
Total liabilities and reserves	$3,825,933,532	$3,480,277,503

Notes following schedule 9 are an integral part of these statements.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

COMPARATIVE STATEMENT OF INCOME, EXPENSE, AND PRIMARY RESERVE

FOR THE YEARS ENDED DECEMBER 31, 1974 and 1973

	1974	1973
INCOME:		
Insurance premiums and admission fees	$ 190,033,548	$ 176,12[illegible],[illegible]43
Interest on U.S. and Federal agency securities	225,837,856	189,342,556
Interest on loans to insured institutions	4,010,605	17,576,736
Interest on subrogated accounts	6,500,000	--
Income on assets acquired from insured institutions	3,533,128	6,022,410
Interest income on advance contributions	--	322,875
Miscellaneous income	216,182	90,9[illegible]5
Nonoperating income	427,369	998,[illegible]26
Total income	430,558,688	385,477,101
EXPENSES:		
Administrative expenses	667,194	538,264
Services rendered by Federal Home Loan Bank Board	15,041,256	10,503,058
Insurance settlement and other expenses	2,198,806	2,877,361
Unallocated nonadministrative expenses	1,433,353	1,829,796
Net provision for losses (note 3)	16,528,318	1,410,230
Interest applicable to premium prepayments credited to members' equity in secondary reserve	89,158,962	81,786,504
Total expenses	125,027,889	98,94[illegible],313
Income before extraordinary item	305,530,799	286,[illegible]31,788
Extraordinary item-Write off of allowance for losses on assets acquired	--	3[illegible],366,126
Net income transferred to primary reserve	305,530,799	317,897,914
BALANCE, PRIMARY RESERVE, AT THE BEGINNING OF THE YEAR	2,076,342,741	1,75[illegible],444,827
BALANCE, PRIMARY RESERVE, AT THE END OF THE YEAR (sch. 7)	$2,381,873,540	$2,076,342,741

The notes following schedule 9 are an integral part of these statements.

SCHEDULE 9

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1974

FINANCIAL RESOURCES WERE PROVIDED FROM:	
Operations-	
Insurance premiums and admission fees (other than transfer from Secondary Reserve to pay insurance premiums of $56,409,652)	*$133,623,806*
Interest on investment securities	*225,837,856*
Interest on loans to insured institutions	*4,010,605*
Interest on subrogated accounts	*6,500,000*
Income on assets acquired from insured institutions	*3,533,128*
Other income	*643,641*
	374,149,036
Less: Administrative expenses	*667,194*
Services rendered by the FHLBB	*15,041,256*
Insurance settlement and other expenses	*2,198,806*
Unallocated nonadministrative expenses	*1,433,353*
	19,340,609
Total resources provided by operations	*354,808,427*
Decrease in:	
Assets acquired from insured institutions	*4,411,100*
Loans to insured institutions and accrued interest	*7,323,534*
Subrogated accounts in insured institutions in liquidation and related interest	*9,164,712*
Deferred charges and other assets	*12,551*
Increase in:	
Miscellaneous accrued and other liabilities	*2,115,322*
Deferred credits	*1,903,949*
Total	*$379,739,595*
FINANCIAL RESOURCES WERE APPLIED TO:	
Net additions to investment securities	*$357,724,777*
Increase in:	
Accounts receivable	*687,415*
Accrued interest on investment	*4,349,608*
Refund of Secondary Reserve	*359,051*
Contributions to insured institutions	*6,105,822*
Losses on assets acquired	*6,660,369*
	375,887,042
Increase in cash	*3,852,553*
Total	*$379,739,595*

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1974 AND 1973

1. Summary of significant accounting policies

   a) Investments - Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion are computed on the "constant yield" method at rates based upon the lives of the related securities and are recognized as an adjustment of interest on investment securities.

   b) Furniture, Equipment, and Leasehold Improvements - These assets are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the property or life of the lease. The net balance of these accounts is insignificant and is included in other assets.

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

2. Investments - The investments at December 31, 1974, are as follows (in millions):

	Book Value	Market Value
U.S. Treasury Obligations	$3,447.0	$3,342.3
Federal Agency Securities	140.3	125.9
	$3,587.3	$3,468.2

3. Allowances for possible losses - An analysis of the changes in the allowances for possible losses on the accounts described below for years ended December 31, 1974 and 1973 follows:

Assets Acquired from Insured Institutions	1974	1973
Balance, beginning of period	$13,912,649	$57,141,190
Add: Provision charged to expense	1,706,796	-
Less: Losses on assets acquired	6,660,369	11,862,416
Prior period adjustment	-	31,366,125
Balance, end of period	$ 8,959,076	$13,912,649

	1974	1973
Loans to Insured Institutions		
Balance, beginning of period	$ -	$ -
Add: Provision charged to expense	5,000,000	-
Balance, end of period	$ 5,000,000	$ -
Subrogated Accounts in Insured Institutions in Liquidation		
Balance, end of period	$ 1,500,000	$ 1,500,000
Contribution Agreements		
Balance, Beginning of period	$22,143,469	$25,802,507
Add: Provision charged to expense	9,821,522	3,392,403
Less: Contributions paid out	6,105,822	7,051,441
Balance, end of period	$25,859,169	$22,143,469
Loans Sold Under the Guaranty Plan		
Balance, beginning of period	$ -	$ 1,993,923
Less: Losses on loans sold under guaranty plan	-	11,750
Write off of allowance by crediting the provision	-	1,982,173
Balance, end of period	$ -	$ -

4. *Allowance for Estimated Losses - Contribution Agreements* - The Corporation enters into contribution agreements to restore an insured institution to normal operations and, under these arrangements, agrees to make, or commits itself to make, a cash contribution. These agreements totaled $84,247,368 and $196,497,000 at December 31, 1974 and 1973, respectively.

APPENDIX

BLANK

PRINCIPAL OFFICIALS OF THE FEDERAL HOME LOAN BANK BOARD AND THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION RESPONSIBLE FOR THE ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office From	To
FEDERAL HOME LOAN BANK BOARD		
BOARD OF DIRECTORS:		
Garth Marston, Acting Chairman	Apr. 1974	June 1979
Grady Perry, Jr.	June 1973	June 1977
Thomas R. Bomar (note a)	June 1973	June 1975
THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION		
DIRECTOR:		
Richard Platt, Jr.	Sept. 1973	Present

a/ Mr. Bomar resigned as Chairman and Member of the Federal Home Loan Bank Board, effective June 20, 1975.