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REPORT TO THE CONGRESS

Audit Of Federal Savings And Loan Insurance Corporation Supervised By Federal Home Loan Bank Board For The Year Ended December 31, 1969 B-114893

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

NOV. 12, 1970

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B-114893

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

This is our report on audit of the Federal Savings and Loan Insurance Corporation for the year ended December 31, 1969, pursuant to the Government Corporation Control Act (31 U.S.C 841), as amended by the act of August 30, 1964 (31 U.S C 850)

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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COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

AUDIT OF FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION FOR THE YEAR ENDED DECEMBER 31, 1969 B-114893

D I G E S T

WHY THE AUDIT WAS MADE

The Government Corporation Control Act requires that the Comptroller General make an annual audit of the Federal Savings and Loan Insurance Corporation.

The Corporation, a wholly owned Government corporation, operated under the direction of the Federal Home Loan Bank Board, insures withdrawable share and deposit accounts up to a statutory maximum amount for each account in member savings and loan associations and similar institutions. Effective December 23, 1969, the statutory maximum was increased from $15,000 to $20,000

FINDINGS AND CONCLUSIONS

The report contains the opinion of the General Accounting Office (GAO) that the financial statements of the Corporation present fairly its financial position at December 31, 1969, 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, except for a change in the accounting for insurance premiums, with which GAO agrees.

Under this change, annual insurance premiums assessed against associations by the Corporation are taken into income immediately, because they are considered nonrefundable. Prior to the change, the insurance premiums were amortized and taken into income in equal monthly installments. Consequently, insurance premiums of about $52 million, which under the prior accounting treatment would have been included in the statement of financial condition as a deferred credit at December 31, 1969, were taken into income in 1969. (See p. 16.)

The Corporation has estimated that, at December 31, 1969, savings insured by the Corporation in 4,438 savings and loan associations totaled about $126.8 billion.

The Corporation had liquid assets of about $2.4 billion at December 31, 1969, to help meet any combination of events that might occur. Its reserves amounted to about $2.8 billion at December 31, 1969--an increase of about $392 million over its reserves at the end of the prior year.

In GAO's opinion, the reserves were adequate to meet potential losses that might result from problem conditions known to exist in specific savings and loan associations at December 31, 1969, under existing economic conditions.

In addition to the reserves, the Corporation may draw on three other sources for insurance purposes (see pp. 13 and 14):

1. Require insured associations to deposit with the Corporation up to 1 percent of their withdrawable deposits.

2. Assess additional premiums against insured associations equal to the accumulated losses and expenses of the Corporation. Such assessments against an association 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.

As of December 31, 1969, the insured associations had, in the aggregate, about $10.7 billion in reserves and surplus available to meet losses.

RECOMMENDATIONS OR SUGGESTIONS

None.

AGENCY ACTIONS AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report contains no recommendations requiring action by the Congress. It is submitted to the Congress as required by the Government Corporation Control Act to disclose the results of GAO's annual audit of the Federal Savings and Loan Insurance Corporation.

CHAPTER 1

INTRODUCTION

The General Accounting Office has made an audit of the Federal Savings and Loan Insurance Corporation for the year ended December 31, 1969. The scope of the audit is described on page 15 of this report.

The Corporation, a wholly owned Government corporation, insures withdrawable share and deposit accounts in all federally chartered savings and loan associations and qualified State-chartered savings and loan associations and similar institutions upon their request and approval by the Federal Home Loan Bank Board. Effective December 23, 1969, the statutory maximum amount of insurance for each withdrawable share and deposit account was increased from $15,000 to $20,000.

The Corporation is operated under the direction of the Federal Home Loan Bank Board. The operating responsibilities of the Corporation are vested in a director. The principal officials of the Board and the Corporation are listed in the appendix.

To promote sound financial practices, the Board prescribes regulations for insured institutions. The Board's Office of Examination and Supervision makes periodic and special examinations of insured institutions and directs the Board's supervisory functions over the insured institutions which are carried out under delegations of authority to officers of Federal home loan banks.

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. The Board, if it is unable to achieve these objectives by informal means, is empowered to issue cease and desist orders and, under certain conditions, to suspend and remove officers and directors of insured institutions. The Board, acting in behalf of the Corporation, is empowered further to terminate the insurance of any institution that (1) is in an unsafe or unsound condition to continue operations, (2) violates its duties as an insured institution, (3) engages in unsafe or unsound practices, or (4) violates an applicable law, rule, regulation, or order, or any condition imposed by the Corporation.

CHAPTER 2

FINANCIAL POSITION

INDEMNITY LIABILITY

Disbursements and recoveries relating to indemnity liability

During the year ended December 31, 1969, the Corporation disbursed about $28.7 million in connection with 33 savings and loan associations that were financially unable to remain in operation or that required financial assistance to continue in operation. Of the $28.7 million, about $1 million represented additional disbursements in connection with 32 savings and loan associations that required financial assistance prior to January 1, 1969. In contrast to the $28.7 million disbursed in 1969, $172.2 million was disbursed in 1968 and $10.9 million was disbursed in 1967.

The disbursements of $28.7 million were offset by receipts of about $30.5 million realized from the sale of some of the assets acquired from savings and loan associations, from repayments of principal on some of the loans made to savings and loan associations, from the receipt of initial liquidation distributions on subrogated accounts, and from a settlement under a fidelity bond.

A summary of the recoveries and disbursements follows.

Recoveries		
Disposition of assets previously acquired from associations financially unable to continue in operation or requiring financial assistance		$15,279,449
Repayments of principal on loans made to associations requiring financial assistance		7,524,784
Liquidation distributions received on subrogated accounts		7,162,093
Settlement under fidelity bond		545,000
Total recoveries		30,511,326
Disbursements		
Acquisitions of assets of associations financially unable to continue in operation or requiring financial assistance	$15,404,503	
Contributions to facilitate the merger of associations unable to continue in operation	8,067,527	
Loans to associations requiring financial assistance	4,500,000	
Acquisition of subrogated accounts in associations in liquidation	767,175	
Total disbursements		28,739,205
Net recoveries		$ 1,772,121

The records of the Corporation show that financial difficulties of associations requiring Corporation assistance during the year ended December 31, 1969, were caused by unsafe and unsound operating practices, such as (1) capital expansion through the extensive use of savings brokers, (2) loans granted in violation of existing laws and regulations, (3) concentration of loans to borrowers with little or no financial means or responsibility, (4) excessive loans made on the basis of inflated appraisals, (5) heavy concentration of loans to a few speculative borrowers, and (6) dividend payments in violation of existing laws.

Problem associations

To ensure that appropriate supervisory attention is given to insured associations when needed, the Board's Office of Examinations and Supervision has developed procedures for rating each insured association and identifying those showing signs of weakness and trends which could later involve the Corporation. The most serious cases are identified as category I--"hard-core" associations--and the next most serious cases are identified as category II--"possible hard-core" associations. Cases classified in lower categories are not considered by the Board to represent a threat to the Corporation.

The number of problem associations identified as categories I and II, which the Board members follow closely, are as follows for the dates shown:

Category	December 31, 1969	December 31, 1968
I	16	20
II	10	12
Total	26	32

Although the number of problem associations in category I declined from 20 to 16, the assets of the 16 associations were almost equal to the assets of the 20 associations.

The classification of problem associations and the related records provide a means of keeping the Board members informed of the status of the problem associations; the supervisory matters involved; and the timeliness, appropriateness, and persistence of supervision. The records also provide a supervisory tool and a chronology of supervisory action. Because problem associations are brought to the attention of the members of the Board, such associations generally receive more supervision than do associations not so classified.

The Board and the Corporation seek to preserve the Corporation's liquidity by (1) encouraging savings and loan associations to correct unsound operating practices and (2) providing aid to associations requiring financial assistance through techniques designed to reduce cash outlays. As of December 31, 1969, the Corporation had liquid assets of about $2.4 billion, an increase of $332 million during the year, to help meet any combination of events that might occur.

ASSETS ACQUIRED AS A RESULT OF THE CORPORATION'S INSURANCE ACTIVITIES AND RELATED ALLOWANCES FOR LOSSES

At December 31, 1969, the Corporation held assets with a book value of about $460.5 million, which were acquired in discharging its insurance indemnity liability to insured institutions, and established allowances for losses on these assets aggregating about $58.8 million. The assets and related allowances for losses at December 31, 1969, were as follows:

Type of assets	Book value of assets	Allowance for losses	Net value of assets
Loans to insured institutions and accrued interest	$ 96,433,530	$ -	$ 96,433,530
Assets acquired from insured institutions	132,522,658	31,210,143	101,312,515
Subrogated accounts in insured institutions in liquidation	231,133,377	27,610,000	203,523,377
Insured accounts in institutions in liquidation (pending and unclaimed accounts)	459,273	-	459,273
Total	$460,548,838	$58,820,143	$401,728,695

The allowances for losses are based upon the evaluations and judgments of Corporation officials considering such data as actual losses experienced by the Corporation, latest financial data available on insured institutions in liquidation, and the results of independent appraisals made by contract appraisers.

Loans to insured institutions
and accrued interest

The loans of $96.4 million to insured institutions consisted of interest-bearing loans of $87.1 million to five associations that required financial assistance and accrued interest thereon of $9.3 million. Of the loans of $87.1 million, $4.5 million were for loans made in 1969. The Corporation does not anticipate that any losses will be incurred on these loans.

Of the accrued interest of $9.3 million, $8.3 million are the accrued interest on a loan made in 1966 to an association experiencing serious financial problems. Under the terms of the loan, the association may, under certain circumstances, defer the payment of interest thereon until the fifth anniversary date of the loan. The association is deferring payment of the interest. The Corporation has not included the accrued interest as income in its financial statements because of its policy of deferring income on assets acquired from problem associations when the time or degree of realization of the income is in doubt. The accrued interest receivable of $8.3 million is included in the statement of financial condition as an asset under loans to insured institutions and accrued interest and as a deferred credit in the liabilities and reserves section.

Assets acquired from
insured institutions

Mortgage loans, real estate, and other assets acquired from insured institutions that were merged, closed, or experiencing serious financial difficulties are summarized in the following table:

Associations	Book value of mortgage loans, real estate, and other assets	Allowance for losses	Year acquired by Corporation
Long Beach Federal Savings and Loan Association, Long Beach, California	$ 16,394,354	$ -	1962-63
Hillside Savings and Loan Association, Hillside, Illinois	7,871,534	1,566,114	1963-66
Future Federal Savings and Loan Association, Memphis, Tennessee	34,151	4,169	1963
Tinley Park Savings and Loan Association, Tinley Park, Illinois	12,859,895	3,043,324	1963-64
Beverly Savings and Loan Association, Chicago, Illinois	16,556,396	4,323,135	1963
Property Federal Savings and Loan Association, Chicago, Illinois	7,726,360	2,416,826	1964
First Federal Savings and Loan Association of Morton Grove, Morton Grove, Illinois	777,357	130,967	1964-65
Success Savings and Loan Association, La Grange Highlands, Illinois	5,804,216	1,536,583	1965
Workmen Savings and Loan Association, Chicago, Illinois	642,476	124,387	1965-66
Service Savings and Loan Association, Summit, Illinois	16,778,748	4,134,303	1965-66
Leyden Savings and Loan Association, Franklin Park, Illinois	2,255,200	788,988	1964-67
Mont Clare Savings and Loan Association, Elmwood Park, Illinois	349,508	39,964	1967
Equitable Savings and Loan Association, Chicago, Illinois	319,423	-	1967-69
Trident Savings and Loan Association, Chicago, Illinois	266,268	-	1967-69
First Mutual Savings Association, Chicago, Illinois	6,959,360	3,568,219	1968
The Mutual Savings and Loan Company, Cincinnati, Ohio	6,191,306	3,042,335	1968
Republic Savings and Loan Association, Washington, D C	24,407,468	6,393,690	1968-69
An association whose name is omitted because the association was still in operation	4,317,126[a]	97,139	1966-67
Bethune Savings and Loan Association, Newark, New Jersey	10,000	-	1969
Investors Savings and Loan Association, Chicago, Illinois	1,334,494	-	1969
An association whose name is omitted because the association was still in operation	667,019	-	1969
Total	$132,522,658	$31,210,143	

[a]Payment for the acquisition was made by transferring to the association mortgage loans owned and guaranteed by the Corporation

The book values shown above for mortgage loans, real estate, and other assets acquired represent the unpaid balances of mortgage loans at the time of acquisition, the acquisition cost of real estate and other assets, plus capitalized expenditures such as taxes and insurance, less amounts received on the principal of the loans.

Subrogated accounts in insured institutions in liquidation

Subrogated accounts 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. The subrogated accounts are summarized in the following table:

Associations	Subrogated accounts	Allowance for losses	Year acquired by Corporation
Marshall Savings and Loan Association, Riverside, Illinois	$ 84,075,276	$17,815,000	1965-69
Gibraltar Savings and Loan Association, Phoenix, Arizona	21,569,312	-	1966-69
Old Reliable Savings and Loan Association, Berwyn, Illinois	5,309,296	1,605,000	1966-69
Lawn Savings and Loan Association, Evergreen Park, Illinois	65,938,691	6,890,000	1968-69
Apollo Savings, Chicago, Illinois	54,240,802	1,300,000	1968-69
Total	$231,133,377	$27,610,000	

Of the total amount of subrogated accounts, $767,175 was acquired in calendar year 1969 and the balance was acquired in prior years. During 1969, the Corporation received initial liquidation distributions of 20 percent from Gibraltar Savings and Loan Association amounting to $5,392,328 and of 25 percent from Old Reliable Savings and Loan Association amounting to $1,769,765.

Insured accounts in institutions in liquidation (pending and unclaimed accounts)

At December 31, 1969, there were pending and unclaimed accounts of the above five associations in the aggregate amount of $459,273 which had not been subrogated. This amount is shown on the Corporation's statement of financial condition at December 31, 1969, as both an asset and a liability.

RESERVES AND BORROWING AUTHORITY

The Corporation has estimated that at December 31, 1969, savings insured by the Corporation in 4,438 savings and loan associations totaled about $126.8 billion. The resources available to the Corporation at December 31, 1969, to meet demands which may be made upon it for discharge of its insurance liability are described below.

Cumulative net income of $1.2 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). This amount includes net income of $206 million for the year ended December 31, 1969. The secondary reserve amounting to $1.6 billion at December 31, 1969, consists of cumulative insurance premium prepayments of $1.3 billion assessed against insured institutions since fiscal year 1962 and interest of $261 million representing a return on the outstanding balances 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 savings and loan associations at December 31, 1969, under existing economic conditions. However, the adequacy of the reserves 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's secondary reserve represents, in effect, payments by associations of future regular insurance premiums. Section 404(g) of the National Housing Act, as amended, provides that, if, at December 31 of any year, the primary and secondary reserves combined equal or exceed 2 percent of the total amount of all accounts of all insured institutions but the primary reserve does not equal or exceed such 2 percent, (1) premium prepayments will not be required of the insured instituions, (2) payment of premiums will be made from each insured institution's pro rata share in the secondary reserve, and (3) if this ratio falls below 1.75 percent, premium prepayments shall be resumed.

Public Law 91-151 (83 Stat. 375), approved December 23, 1969, provides that the conditions for suspending premium prepayments shall be deemed to be met as of December 31, 1969. Accordingly, each insured institution's pro rata share in the secondary reserve will be applied toward payment of its regular annual insurance premiums until, as stated above, premium prepayments are required to be resumed.

In addition to its reserves, the Corporation may draw on three other sources for insurance purposes as follows:

1. Require insured associations to deposit with the Corporation up to 1 percent of their withdrawable deposits. The exercise of this authority as of December 31, 1969, would have provided funds of about $1.3 billion to the Corporation.

2. Assess additional premiums against insured associations equal to accumulated losses and expenses of the Corporation. Such assessments against an association 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 United States Treasury.

The Corporation had not drawn on any of these sources of funds as of June 30, 1970.

The insured associations have their own reserves and surplus available to meet losses. As of December 31, 1969, they had, in the aggregate, about $10.7 billion in reserves and surplus available to meet losses.

CHAPTER 3

SCOPE OF AUDIT

Our audit of the Federal Savings and Loan Insurance Corporation consisted principally of an examination of its statement of financial condition at December 31, 1969, and the related statements of income, expense, and primary reserve and of sources and application of funds for calendar year 1969. The audit was conducted at the Federal Savings and Loan Insurance Corporation, Washington, D.C.

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

Our audit 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 the circumstances and appropriate in view of the effectiveness of the system of internal control and the work performed by the Office of Audits of the Federal Home Loan Bank Board.

CHAPTER 4

OPINION ON FINANCIAL STATEMENTS

The financial statements in this report were prepared by the Federal Savings and Loan Insurance Corporation.

In our opinion, the accompanying financial statements present fairly the financial position of the Corporation at December 31, 1969, 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, except for a change in the accounting for insurance premiums with which we agree.

Prior to December 1969, insurance premiums assessed against associations by the Corporation were amortized and taken into income in equal monthly installments and the unamortized portion was shown in the statement of financial condition as a deferred credit. Since the Corporation considers that no portion of the insurance premiums is refundable, the Corporation revised its accounting for insurance premiums to show all premiums earned when the associations are assessed. As a result, insurance premiums of about $52 million, which under the prior accounting treatment would have been included in the statement of financial condition as a deferred credit at December 31, 1969, were taken into income in 1969.

FINANCIAL STATEMENTS

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

COMPARATIVE STATEMENT OF FINANCIAL CONDITION AT
DECEMBER 31, 1969, AND DECEMBER 31, 1968

ASSETS	December 31, 1969	December 31, 1968	Increase or decrease(-)
CASH (principally with the U S Treasury)	$ 5,977,073	$ 4,527,004	$ 1,450,069
ACCOUNTS RECEIVABLE (principally insurance premiums receivable)	5,463,114	3,596,467	1,866,647
ADVANCES FOR ASSETS TO BE PURCHASED	-	554,803	-554,803
INVESTMENTS AT AMORTIZED COST (note 1)	2,387,898,260	2,058,510,471	329,387,789
ACCRUED INTEREST ON INVESTMENTS	27,913,255	21,436,178	6,477,077
ASSETS ACQUIRED FROM INSURED INSTITUTIONS (after allowance for losses) (note 2)	101,312,515	103,589,049	-2,276,534
LOANS TO INSURED INSTITUTIONS AND ACCRUED INTEREST	96,433,530	96,822,170	-388,640
SUBROGATED ACCOUNTS IN INSURED INSTITUTIONS IN LIQUIDATION (after allowance for losses)	203,523,377	202,576,295	947,082
INSURED ACCOUNTS IN INSURED INSTITUTIONS IN LIQUIDATION (pending and unclaimed accounts)	459,273	1,422,295	-963,022
DEFERRED CHARGES AND OTHER ASSETS	32,945	29,765	3,180
Total assets	$2,829,013,342	$2,493,064,497	$335,948,845
LIABILITIES AND RESERVES			
MISCELLANEOUS ACCRUED AND OTHER LIABILITIES (notes 2 and 3)	$ 7,473,033	$ 6,949,835	$ 523,198
PENDING AND UNCLAIMED ACCOUNTS IN INSURED INSTITUTIONS	459,273	1,422,295	-963,022
ALLOWANCE FOR ESTIMATED LOSSES--CONTRIBUTION AGREEMENTS (note 4)	10,101,648	14,074,169	-3,972,521
DEFERRED CREDITS (notes 5 and 8)	9,651,439	61,177,807	-51,526,368
PRIMARY RESERVES (schedule 2) (note 6)	1,243,107,277	1,037,057,071	206,050,206
SECONDARY RESERVE (premium prepayments) (note 6)	1,558,220,672	1,372,383,320	185,837,352
Total liabilities and reserves (note 7)	$2,829,013,342	$2,493,064,497	$335,948,845

The notes on pages 22 through 24 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, 1969, AND DECEMBER 31, 1968

	December 31, 1969	December 31, 1968	Increase or decrease(–)
INCOME			
Insurance premiums and admission fees (note 5)	$ 161,771,457	$ 102,643,418	$ 59,128,039
Interest on investments	114,330,342	89,955,534	24,374,808
Interest earned on loans to insured institutions	2,831,803	1,877,462	954,341
Income on assets acquired from insured institutions	7,793,314	6,214,582	1,578,732
Miscellaneous	56,293	260,647	–204,354
Total income	286,783,209	200,951,643	85,831,566
EXPENSES			
Administrative expenses	322,995	292,161	30,834
Services rendered by Federal Home Loan Bank Board	7,425,712	5,878,758	1,546,954
Insurance settlement and other expenses	5,580,642	5,945,397	–364,755
Net provision for losses (note 8)	–4,512,616	17,735,963	–22,248,579
Total expenses	8,816,733	29,852,279	–21,035,546
Subtotal	277,966,476	171,099,364	106,867,112
Interest applicable to premium prepayments credited to members' equity in secondary reserves	71,916,270	55,711,688	16,204,582
Net income from operations transferred to primary reserve	206,050,206	115,387,676	90,662,530
BALANCE, PRIMARY RESERVE, AT THE BEGINNING OF THE YEAR	1,037,057,071	921,669,395	115,387,676
BALANCE, PRIMARY RESERVE, AT END OF YEAR	$1,243,107,277	$1,037,057,071	$206,050,206

The notes on pages 22 through 24 are an integral part of this statement

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

STATEMENT OF SOURCES AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1969

FUNDS PROVIDED BY:	
Insurance premiums and admission fees	$ 161,771,457
Insurance premium prepayments	116,225,443
Interest on investments (earned $114,330,342 less $14,074,017 amortized net discount)	100,256,325
Proceeds from sales, redemptions and exchanges of securities	1,339,445,000
Proceeds from disposition of assets purchased from insured institutions	15,279,449
Income from assets acquired from insured institutions	7,793,314
Interest on loans to insured institutions	2,831,803
Repayment of principal on loans to insured institutions	7,524,784
Other income	56,293
Settlement under fidelity bond	545,000
Liquidation distributions received on subrogated accounts	7,162,093
	$1,758,890,961
FUNDS APPLIED TO:	
Administrative expenses	$ 322,995
Services rendered by Federal Home Loan Bank Board	7,425,712
Liquidation and insurance settlement expenses	5,574,150
Purchase and exchange of securities	1,654,758,771
Assets acquired from insured institutions	15,404,503
Acquisition of subrogated accounts	767,175
Contributions to insured institutions	8,067,527
Purchases of furniture, fixtures, and equipment	4,562
Loans to insured institutions	4,500,000
Refund of additional premiums	2,304,361
Increase in cash balance	1,450,069
Net increase in other working capital	58,311,136
	$1,758,890,961

NOTES TO FINANCIAL STATEMENTS

1. The Corporation's investments are in U.S. Treasury securities and in Federal National Mortgage Association obligations. These investments are carried at cost after amortization of premiums and discounts and are compared below with market value.

Investments	December 31, 1969 Amortized cost	December 31, 1969 Market value	December 31, 1968 Amortized cost	December 31, 1968 Market value
	(millions)			
U.S. Treasury Securities	$2,228	$2,043	$1,947	$1,843
Federal National Mortgage Association obligations	160	136	111	106
	$2,388	$2,179	$2,058	$1,949

2. Certain savings and loan associations have a participating interest in some of the assets acquired by the Corporation. The treatment of the participating interest differs in the 1968 and 1969 statements. The assets acquired balance of $101,312,515 shown on the December 31, 1969, statement does not include associations' participating interest of $915,531. The December 31, 1968, assets acquired and the miscellaneous accrued and other liabilities balances included associations' participating interest amounting to $1,454,075.

3. Miscellaneous accrued and other liabilities includes the Corporation's estimate of losses of $567,928 as of December 31, 1969, and $757,868 as of December 31, 1968, which it may suffer as the result of loans and contracts sold to various insured institutions under a guaranty plan. Under the plan the Corporation guarantees 20 percent of the unpaid principal balance, unpaid interest and certain other expenses incurred in acquiring title. The obligation of the Corporation terminates when the principal balance is reduced to 80 percent of the balance at the time of purchase. Based upon reports from purchasers of the loans and contracts, the unpaid

principal balance of the loans and contracts sold totaled about $11 million at December 31, 1969, and about $13 million at December 31, 1968.

4. The 1968 title "Undisbursed Commitments for Contributions to Insured Institutions" used by the Corporation was changed in 1969 to "Allowance for Estimated Losses--Contributions Agreements." The change in account titles did not affect any of the accounting procedures related to this account. The December 31, 1969, balance of $10,101,648 represents the remaining amount the Corporation estimates it will have to pay to assuming associations under contribution agreements.

5. Prior to December 1969, insurance premiums assessed were amortized and taken into income in equal monthly installments and the unamortized portion was shown as deferred credit. Since the Corporation considers that no portion of the insurance premiums is refundable, the Corporation revised its accounting for insurance premiums to show all premiums earned when the associations are assessed. As a result, about $52 million in insurance premiums that would have been included under the accounting treatment as a deferred credit at December 31, 1969, were taken into income in 1969.

6. The primary and secondary reserves are considered by the Corporation 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 in connection with insured associations that are currently in financial difficulty.

7. At December 31, 1969, there were 24 legal actions pending final adjudication or appeal wherein the Corporation is named defendant or codefendant involving claims that have an estimated maximum liability of about $15 million. An Associate General Counsel of the Board has advised us that in his opinion the Corporation's liability as a result of these 24 pending legal actions will not be significant. The Corporation's contingent liability on these claims has not been recognized in the accounts.

8. The net provision for losses and the deferred credits were overstated by $1,535,200 at the end of 1968. Consequently, the net income from operations and the primary reserve at the end of 1968 were understated by the same amount. The Corporation made the appropriate adjustments in its accounts in 1969.

APPENDIX

PRINCIPAL OFFICIALS
OF THE
FEDERAL HOME LOAN BANK BOARD
AND OF THE
FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

	Tenure of office	
	From	To
FEDERAL HOME LOAN BANK BOARD		
BOARD MEMBERS:		
Preston Martin, Chairman	Mar. 1969	June 1974
Carl O. Kamp, Jr.	May 1969	June 1971
Thomas Hal Clarke	Aug. 1969	June 1973
Robert L. Rand (Acting Chairman from Nov. 1968 to Mar. 1969)	Oct. 1966	Mar. 1969
Michael Greenebaum	Apr. 1965	June 1969
FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION		
DIRECTOR:		
Robert B. O'Brien, Jr.	Jan. 1970	Present
John M. Broullire (acting)	June 1969	Jan. 1970
Allan D. Housley	June 1968	June 1969

U S. GAO, Wash., D C