
GAO

United States General Accounting Office

**Briefing Report to the Honorable
Doug Barnard, Jr., Chairman,
Subcommittee on Commerce, Consumer,
and Monetary Affairs, House Committee
on Government Operations**

March 1988

THRIFT INDUSTRY

Federal Home Loan Bank Board Advances Program





General Government Division

B-226353

March 9, 1988

The Honorable Doug Barnard, Jr.
Chairman, Subcommittee on Commerce,
Consumer, and Monetary Affairs
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

You asked that we provide descriptive statistical information on the Federal Home Loan Banks' (FHLBank) advances program and the thrift institutions which participate in it. As you know, the 12 district FHLBanks make loans (commonly referred to as advances) to member thrift institutions for a variety of purposes.

In this briefing report we use current and historical data to present information on (1) the growth in advances from year-end 1977 through 1986 and (2) differences in the levels of lending activity and selected program features among the district FHLBanks. In addition, we describe certain characteristics of borrowing thrifts and differences between thrifts which participate in the program and those which do not. We are unable, however, to respond to your request to determine if thrifts use advances to fund specific assets. Since money is fungible, it is not possible to identify the specific assets funded by advances using statistical methods and available data.

In general, the information presented in appendix I reveals the following trends in the FHLBank advances program:

- Total outstanding FHLBank System advances have increased fivefold over the last 10 years from \$20.2 billion at year-end 1977 to \$108.6 billion at year-end 1986.
- The range of lending activity varies by district FHLBank, with outstanding advances comprising 90.1 percent of total assets at the San Francisco FHLBank and 58.2 percent of assets at the Chicago FHLBank at year-end 1986.
- The level of thrift borrowing varies by district, with thrifts in the Seattle FHLBank district holding advances amounting to 15.2 percent of total thrift assets at year-end 1986, while thrifts in the Chicago FHLBank district held advances equal to 4.0 percent of assets.

- A larger percentage of low net worth and insolvent thrifts hold advances than do more healthy thrifts, with 70.4 percent of insolvents holding advances at year-end 1986 compared to 45.3 percent of thrifts with net worth as a percent of assets in excess of 3 percent.
- The asset composition of advances holders differs from that of nonholders; the portfolio of nonholders contains more liquid assets and mortgage-backed securities, while holders have more construction loans, acquisition and development loans, commercial and consumer loans, direct investments, and mortgages on five or more dwelling units. Although the asset composition of advances holders differs from that of nonholders, this does not necessarily imply that advances are being used to fund a given type of asset.

The information presented in this report was obtained through (1) discussions with officials at the Federal Home Loan Bank Board (FHLBB) located in Washington, D.C., and the San Francisco district FHLBank in San Francisco, California; (2) a review of pertinent regulations, policies, and procedures; (3) an analysis of published annual reports of FHLBB and selected FHLBanks; and (4) the financial statements that all thrifts insured by the Federal Savings and Loan Insurance Corporation (FSLIC) are required to file with FHLBB. We have not, however, independently verified the accuracy of these financial statements. In all other respects, our work was performed in accordance with generally accepted government auditing standards.

AGENCY COMMENTS

We submitted copies of a draft of this report to FHLBB for its review and comment. FHLBB responded with two comments. The first concerned our statement that a larger percentage of low net worth and insolvent thrifts hold advances than do more healthy thrifts. FHLBB pointed out that FHLBanks have never suffered a loss on advances since advances are made on a secured basis. Also, according to FHLBB, as advances provide a lower cost source of funds than may be available elsewhere to troubled thrifts, they may prevent these thrifts from bidding up rates on other sources of funds and raising costs for other thrifts in the region.

FHLBB's second comment expressed concern that our comparison of the asset portfolio of advances holders and nonholders gave the impression that most advances are going to thrifts engaging in "less traditional" activities. FHLBB expressed the opinion that although there are differences between the

B-226353

two groups in the amounts invested in various assets, the differences are so small that they are not economically significant. In addition, they believe a more diversified asset portfolio may actually result in lower overall portfolio risk.

Our report does not discuss the advisability of making advances to low net worth and insolvent thrifts, or come to any conclusions on the differing asset portfolio of advances holders and nonholders. Our purpose was limited to providing factual information on the FHLBank advances program and the thrifts that participate in it. We did not intend to make or imply any conclusions on the advisability of making advances to low net worth and insolvent thrifts. FHLBB's comments are contained in appendix II.

As arranged with the Subcommittee, we are sending copies of this report to FHLBB and interested congressional committees. Copies will also be made available to others upon request. If you have any questions concerning this matter, please call me at (202) 275-8678.

Sincerely yours,



Craig A. Simmons
Senior Associate Director

Contents

	<u>Page</u>
LETTER	1
APPENDIX	
I	6
II	38
GLOSSARY	40
TABLES	
I.1	9
I.2	11
I.3	15
I.4	17
I.5	19
I.6	21
I.7	23
I.8	25
I.9	27
I.10	29

I.11	Amount and Number of Thrifts With a FSLIC-Guaranteed Advance	31
I.12	Number of Thrifts Holding Advances as a Percentage of Total Thrifts in the District, by Asset Size, Year-End 1986	33
I.13	Advances as a Percentage of Assets of FSLIC- Insured Institutions by Asset Size Groupings, Year-End 1986	35
I.14	Asset Composition of Advances-Holding and Non-Advances-Holding Thrifts, FSLIC Insured Institutions	37

FIGURES

I.1	Advances by District, Year-End 1986	7
I.2	Annual Total Amount of Advances, Year-End 1977 Through 1986	13

LIST OF ABBREVIATIONS

FHLBank	Federal Home Loan Bank
FHLBB	Federal Home Loan Bank Board
FHLBS	FHLBank System
FSLIC	Federal Savings and Loan Insurance Corporation
GAO	General Accounting Office
GAAP	Generally Accepted Accounting Principles
ROA	Return on Assets

THE FEDERAL HOME LOAN BANK ADVANCES PROGRAMFEDERAL HOME LOAN
BANK ADVANCES

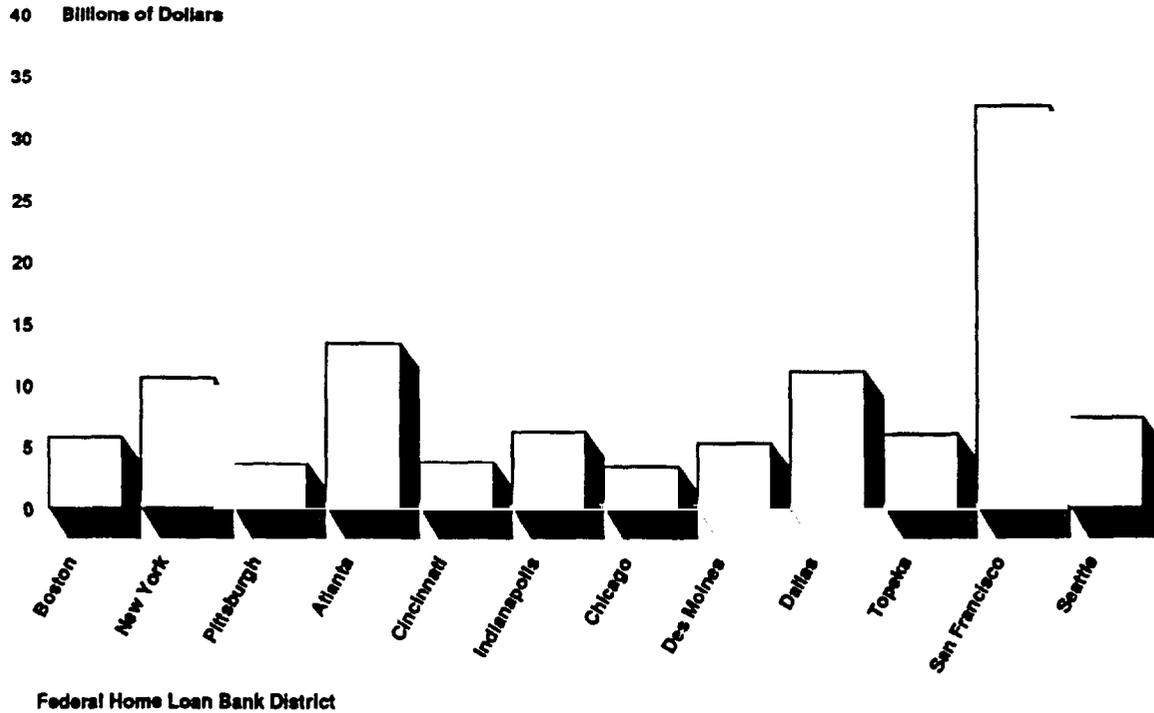
Under the Federal Home Loan Bank Act of 1932, the Federal Home Loan Bank System (FHLBS) was created to promote home ownership through the extension of credit to thrift institutions. A part of the FHLBS is comprised of 12 district Federal Home Loan Banks (FHLBanks) which are instrumentalities of the federal government. The FHLBanks are owned by, and serve as central credit banks for, their member institutions.¹

Providing funds (advances) to member institutions is a principal function of the FHLBanks, and is in line with their statutory authority to assist members in meeting the demand for residential mortgage credit. The need for such funds is influenced by various factors but is generally dependent on the volume of savings flowing to member institutions, the general availability of alternative sources of credit for members, and/or the level of housing activity.

Generally, advances are collateralized up to or beyond the amount of the advance and are typically secured with mortgage loans. Minimum collateral requirements are specified in the Federal Home Loan Bank Act of 1932 and FHLBB regulations. The FHLBanks are permitted to set their own requirements as long as they meet the minimum FHLBB requirements. Therefore, the amount and type of required collateral differs among FHLBanks and for the different types of advances.

¹Besides the 12 district FHLBS, other parts of the FHLBS consist of the Federal Home Loan Bank Board, member institutions, the Federal Savings and Loan Insurance Corporation, the Federal Home Loan Mortgage Corporation, and the Neighborhood Reinvestment Corporation.

Figure I.1:
Advances by District, Year-End 1986



Note 1: Year-end 1986 advances equaled \$108.6 for all districts.

Note 2: Amounts shown include advances to non-FSLIC insured institutions.

Source: Federal Home Loan Bank Board Annual Reports.

AMOUNT OF ADVANCES
OUTSTANDING BY DISTRICT

In 1986, the value of outstanding advances differed among the 12 FHLBanks from a low of \$3.3 billion at the Chicago FHLBank to a high of \$32.6 billion at the San Francisco FHLBank.

Outstanding balances of advances experienced a twelvefold increase over the 10-year period from year-end 1977 through 1986 at the Boston FHLBank and elevenfold at the Indianapolis FHLBank, compared to only a twofold increase for the Chicago and Cincinnati FHLBanks.

TABLE I.1:
Amount of Advances Outstanding by District
Year-End 1977 Through 1986 ^a
 (dollars in billions)

<u>District</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	1986 Increase over 1977 (Xs)
Boston	\$0.5	\$0.8	\$1.1	\$1.2	\$1.2	\$1.5	\$1.4	\$2.3	\$3.6	\$5.7	12
New York	1.5	2.6	3.7	4.5	6.0	5.8	5.6	5.9	7.1	10.5	7
Pittsburgh	0.9	1.3	1.7	1.7	2.0	1.7	1.4	2.0	2.5	3.5	4
Atlanta	2.5	4.2	5.5	6.5	9.5	8.7	7.3	9.9	11.6	13.3	5
Cincinnati	1.6	2.6	3.2	3.4	4.0	3.8	3.3	3.2	3.2	3.7	2
Indianapolis	0.6	1.1	1.4	1.5	1.8	2.8	3.8	4.4	5.0	6.2	11
Chicago	1.8	2.8	3.4	3.2	3.8	3.5	2.8	2.9	2.8	3.3	2
Des Moines	1.5	2.5	3.2	3.4	3.8	4.2	3.1	4.2	4.2	5.3	4
Dallas	1.5	2.3	3.0	3.3	4.4	4.0	3.8	5.9	8.8	11.1	8
Topeka	1.5	2.1	2.6	2.9	3.5	3.6	3.6	4.0	4.5	6.0	4
San Francisco	4.9	8.0	10.1	14.1	20.6	20.6	17.6	23.9	28.9	32.6	7
Seattle	1.4	2.3	2.9	3.3	4.7	5.9	5.5	6.0	6.7	7.3	5
Total	\$20.2	\$32.7	\$41.8	\$49.0	\$65.2	\$66.0	\$59.0	\$74.6	\$88.8	\$108.6	5
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	

^aAmounts shown include advances to non-FSLIC insured institutions. Due to rounding, columns may not add and increases from 1977 to 1986 may not calculate as shown.

Source: Federal Home Loan Bank Board Annual Reports.

ADVANCES AS A PERCENTAGE OF
DISTRICT FHLBANK ASSETS

Outstanding advances as a percentage of FHLBank assets averaged 83.1 percent at year-end 1986, up from an average of 79.2 percent at year-end 1985.

Outstanding advances as a percentage of assets for individual FHLBanks ranged from a low of 58.2 percent at the Chicago FHLBank at year-end 1986 to a high of 90.1 percent at the San Francisco FHLBank.

TABLE I.2:
Advances as a Percentage of District FHLBank Assets
Year-End 1985 and 1986
 (dollars in millions)^a

<u>District</u>	<u>1985</u>		<u>1986</u>	
	<u>Outstanding balance of advances</u>	<u>Advances as percentage of assets</u>	<u>Outstanding balance of advances</u>	<u>Advances as percentage of assets</u>
Boston	\$ 3,561	86.8%	\$ 5,728	86.1%
New York	7,096	78.6	10,547	82.4
Pittsburgh	2,515	71.0	3,544	76.7
Atlanta	11,621	78.7	13,310	80.9
Cincinnati	3,215	59.5	3,659	60.2
Indianapolis	5,022	82.8	6,220	87.0
Chicago	2,781	52.6	3,350	58.2
Des Moines	4,201	81.6	5,288	84.6
Dallas	8,789	73.4	11,111	77.8
Topeka	4,480	87.7	6,044	89.5
San Francisco	28,861	86.4	32,583	90.1
Seattle	6,694	80.2	7,259	84.9
Total	<u>\$88,835</u>	<u>79.2%</u>	<u>\$108,645</u>	<u>83.1%</u>
	=====		=====	

^aThe amounts of cited advances include advances held by non-FSLIC insured institutions. Columns may not add due to rounding.

Source: Federal Home Loan Bank Board Annual Reports.

AVERAGE PRICE OF ADVANCES
FOR SELECTED MATURITIES

The 12 district FHLBanks borrow money in the capital markets by jointly issuing consolidated debt obligations, the income from which is tax exempt at the state and local level. These funds are then passed on to member thrifts as advances. The debt issues are the exclusive liabilities of the FHLBanks and do not carry governmental guarantees.

According to FHLBB policy, the interest rate charged on advances is to be set by each district FHLBank as a mark-up over the estimated cost of issuing new consolidated debt obligations. The interest rate on advances, the terms of maturity of advances, and the type of advances offered vary among the district FHLBanks. In general, maturities vary from overnight to 10 years, but may extend to 20 years. The interest rates charged by the FHLBanks on the various maturities of advances have fallen from 1984 to 1986 with the general decline in interest rates.

TABLE I.4:
Average Price of Advances for Selected Maturities
(in percentage points)

District	Calendar Year 1986			
	Variable rate	Fixed rate		
	1 year	1 year	5 years	10 years
Boston	7.42	7.20	8.32	8.90
New York	8.08	7.20	8.13	8.65
Pittsburgh	7.76	7.19	8.20	8.88
Atlanta	7.67	7.20	8.16	8.71
Cincinnati	7.49	7.14	8.19	8.82
Indianapolis	7.28	6.94	8.22	8.79
Chicago	7.11	7.32	8.29	8.84
Des Moines	7.56	7.16	8.20	8.74
Dallas	7.83	7.21	8.23	8.75
Topeka	7.56	7.06	8.10	8.66
San Francisco	7.40	7.21	8.15	8.67
Seattle	7.94	7.07	8.12	8.66

District	Calendar Year 1985			
	Variable rate	Fixed rate		
	1 year	1 year	5 years	10 years
Boston	8.71	9.15	10.93	11.45
New York	9.44	9.09	10.82	11.27
Pittsburgh	9.55	9.10	10.86	11.36
Atlanta	9.09	9.02	10.81	11.28
Cincinnati	9.36	9.17	10.87	11.39
Indianapolis	8.57	9.01	11.00	11.52
Chicago	9.09	9.17	10.92	11.43
Des Moines	8.86	9.07	10.86	11.38
Dallas	9.13	9.10	10.88	11.33
Topeka	9.68	9.18	10.84	11.31
San Francisco	8.91	8.93	10.73	11.23
Seattle	9.67	9.00	10.83	11.31

District	Calendar Year 1984			
	Variable rate	Fixed rate		
	1 year	1 year	5 years	10 years
Boston	10.85	11.57	12.95	13.12
New York	11.66	11.60	12.90	13.09
Pittsburgh	11.80	11.59	12.93	13.18
Atlanta	11.29	11.51	12.79	13.03
Cincinnati	11.47	11.65	12.84	13.09
Indianapolis	10.88	11.41	13.10	13.31
Chicago	11.52	11.56	12.93	13.17
Des Moines	11.32	11.53	12.92	13.17
Dallas	11.32	11.63	12.90	13.16
Topeka	12.50	11.95	12.93	13.11
San Francisco	10.87	11.43	12.85	13.10
Seattle	11.63	11.43	12.79	13.02

Note: Average cited prices represent an unweighted simple average calculated by using rates posted each Wednesday. Prices do not necessarily reflect actual borrowing costs since fees, surcharges, and terms may vary among districts.

Source: Federal Home Loan Bank Board

HIGHEST AND LOWEST AVERAGE PRICE OF
ADVANCES FOR SELECTED MATURITIES

During 1986, the average price⁴ of a 1-year variable rate advance varied from a low of 7.11 percent at the Chicago FHLBank to a high of 8.08 percent at the New York FHLBank. The rate on a 1-year fixed rate advance varied from a low of 6.94 percent at the Indianapolis FHLBank to a high of 7.32 percent at the Chicago FHLBank.

⁴In analyzing pricing, we used rates published by the Office of District Banks of the FHLBB. These rates do not necessarily reflect the total cost of advances which would be affected by other factors such as commitment fees and surcharges, how interest is computed, and whether the advance is amortized. A more preferable measurement is the annual effective yield. This information, however, is not available.

TABLE I.5:

Highest and Lowest Average Price of Advances
by FHLB District
for Selected Maturities
Year-End 1986
(in percentage points)

<u>Type of Advances</u>	<u>Highest</u>	<u>Lowest</u>
Variable rate 1 year	8.08 (New York)	7.11 (Chicago)
Fixed rate 1 year	7.32 (Chicago)	6.94 (Indianapolis)
Fixed rate 5 year	8.32 (Boston)	8.10 (Topeka)
Fixed rate 10 year	8.90 (Boston)	8.65 (New York)

AVERAGE MATURITY OF
OUTSTANDING ADVANCES

The average maturity of outstanding advances varies quite widely among the district FHLBanks. For example, at the Dallas FHLBank, outstanding advances at year-end 1986 had an average maturity of about 22 months, compared to about 58 months at the Indianapolis FHLBank.

Except for the Seattle FHLBank, the maturity of advances lengthened in 1986. In some instances, there were large increases in the maturity of advances, such as at the Atlanta FHLBank which experienced a 59-percent increase over the average maturity in 1985.⁵

⁵Comparing maturities of outstanding advances at a point in time only provides a general indication as to whether maturities were changing over time. A more preferable measurement would have been comparing maturities of advances issued each year. However, such information was not readily available at the time of our review.

TABLE I.6:
Average Maturity of Outstanding Advances
Year-End
(in months)

<u>District</u>	<u>Weighted average maturity^a</u>		
	<u>1984</u>	<u>1985</u>	<u>1986</u>
Boston	27.7	23.1	28.8
New York	28.4	30.2	47.8
Pittsburgh	24.7	23.7	24.3
Atlanta	18.3	19.7	31.3
Cincinnati	32.8	40.9	43.9
Indianapolis	44.2	51.4	58.4
Chicago	30.1	25.8	36.8
Des Moines	21.0	24.5	28.8
Dallas	21.7	19.5	22.3
Topeka	35.1	33.2	37.0
San Francisco	22.2	26.2	41.1
Seattle	34.2	28.6	28.3
Overall Average	26.0	27.2	36.7

^aMaturity is the time remaining until the advance is due.

Source: Federal Home Loan Bank Board.

NUMBER OF THRIFTS HOLDING
ADVANCES AS A PERCENTAGE
OF TOTAL DISTRICT THRIFTS

The percentage of thrifts which hold advances within a given FHLBank district varied from a low of 37.7 percent of all thrifts located in the Cincinnati district, to a high of 78.3 percent for thrifts in the Seattle district at year-end 1986. Overall, participation has generally remained stable over the 3-year period ending in 1986 with slightly more than 50 percent of the nation's thrifts borrowing advances.

TABLE I.7:
Number of Thrifts Holding Advances
as a Percentage of Total District Thrifts
Year-End

<u>District</u>	<u>1984</u>		<u>1985</u>		<u>1986</u>	
	<u>Number</u>	<u>Percentage</u>	<u>Number</u>	<u>Percentage</u>	<u>Number</u>	<u>Percentage</u>
Boston	80	80.8	75	75.8	71	72.4
New York	107	44.8	110	46.0	104	44.6
Pittsburgh	92	45.8	78	39.4	82	42.9
Atlanta	291	56.5	297	49.7	329	53.9
Cincinnati	164	46.3	140	37.1	137	37.7
Indianapolis	76	44.7	71	42.3	78	47.0
Chicago	151	42.4	127	36.5	141	40.8
Des Moines	123	62.8	110	56.7	109	56.8
Dallas	264	54.4	286	58.6	288	58.5
Topeka	138	78.0	134	77.5	133	77.3
San Francisco	130	60.2	131	54.8	135	57.0
Seattle	<u>103</u>	81.1	<u>97</u>	78.2	<u>94</u>	78.3
Totals	<u>1,719</u>	54.8	<u>1,656</u>	51.0	<u>1,701</u>	52.8

Note: Cited percentages equal the total number of thrifts with advances divided by the total number of thrifts within the district.

Source: Federal Home Loan Bank Thrift Quarterly Financial Reports.

ADVANCES AS A PERCENTAGE OF
ASSETS OF FSLIC-INSURED
THRIFTS BY DISTRICT

Thriffs in the Seattle district held the largest percentage of advances to total assets at year-end 1986, with advances amounting to 15.2 percent of thrift assets compared to the low of 4.0 percent for thriffs in the Chicago district.

TABLE I.8:
Advances as a Percentage of Assets
of FSLIC-Insured Institutions by District
Year-End 1986
(dollars in billions)

<u>District</u>	<u>Total thrift assets^a</u>	<u>Total thrift advances</u>	<u>Advances as a percentage of thrift assets</u>
Boston	\$ 25.3	\$ 2.4	9.4%
New York	96.3	6.4	6.7
Pittsburgh	40.6	3.4	8.3
Atlanta	185.8	12.8	6.9
Cincinnati	69.6	3.6	5.2
Indianapolis	53.2	6.5	12.1
Chicago	81.1	3.3	4.0
Des Moines	52.4	5.3	10.0
Dallas	131.8	10.7	8.1
Topeka	52.0	6.0	11.6
San Francisco	336.2	33.5	10.0
Seattle	<u>41.0</u>	<u>6.2</u>	15.2
Total	\$1,165.3 =====	\$100.0 =====	8.6%

^aThrift assets and advances equal the sum of assets and advances for all FSLIC-insured thrifts in the district.

Notes: The amount of advances actually issued by a district FHLBank may differ from amount listed because some thrifts hold advances from more than one district. Columns may not add due to rounding.

Source: Federal Home Loan Bank Board Thrift Quarterly Financial Reports.

NET WORTH AS A PERCENTAGE OF
THRIFT ASSETS, HOLDERS VERSUS
NON-HOLDERS OF ADVANCES

Overall net worth (an indication of financial condition) of advance holders is generally lower than that for thrifts without advances. At year-end 1986, the average net worth of advances holders was 3.4 percent, compared to 4.8 percent for thrifts without advances.

TABLE I.9:
Net Worth as a Percentage of Thrift Assets,
Holder Versus Non-Holders of Advances
Year-End 1986^a

	<u>Thrifts with advances</u>		<u>Thrifts without advances</u>	
	<u>Number of</u> <u>thrifts</u>	<u>Net worth as</u> <u>a percentage</u> <u>of assets^b</u>	<u>Number of</u> <u>thrifts</u>	<u>Net worth as</u> <u>a percentage</u> <u>of assets</u>
Boston	71	7.1	27	7.1
New York	104	3.4	129	5.2
Pittsburgh	82	3.9	109	6.5
Atlanta	329	4.3	281	5.0
Cincinnati	137	3.6	226	5.7
Indianapolis	78	3.1	88	5.0
Chicago	141	5.5	205	4.9
Des Moines	109	2.0	83	4.0
Dallas	288	-0.1	204	3.2
Topeka	133	3.1	39	4.6
San Francisco	135	3.7	102	3.3
Seattle	94	2.6	26	6.1
Total	1,701	3.4	1,519	4.8
	=====		=====	

^aNet worth is the sum of preferred stock; permanent, reserve, or guaranty stock; paid-in surplus; income capital certificates; reserves; retained earnings; net undistributed income; and less deferred net losses (gains) on loans and other assets sold. These items are recognized under the Generally Accepted Accounting Principles defined by the Financial Accounting Standards Board.

^bCited percentages equal the total net worth divided by the total assets of all FSLIC-insured institutions within the district.

Source: Federal Home Loan Bank Thrift Quarterly Financial Reports.

NUMBER OF THRIFTS HOLDING
ADVANCES AS A PERCENTAGE OF
ALL THRIFTS BY NET WORTH CATEGORY

While 70.4 percent of insolvent thrifts held advances at year-end 1986, only 45.3 percent of thrifts with net worth as a percent of assets in excess of 3 percent held advances. This overall relationship between low net worth and insolvent thrifts, and higher percentage with advances exists within each district as well.

TABLE I.10:
Number of Thrifts Holding Advances as a
Percentage of All Thrifts by Net Worth Category
Year-End 1986

District	Net worth categories (as a percentage of assets)					
	Less than zero		Zero to 3 percent		Over 3 percent	
	Number of thrifts with advances	Percentage of thrifts ^a	Number of thrifts with advances	Percentage of thrifts ^a	Number of thrifts with advances	Percentage of thrifts ^a
Boston	2	100.0	6	100.0	63	70.0
New York	16	59.3	29	56.9	59	38.1
Pittsburgh	4	66.7	14	82.4	64	38.1
Atlanta	45	73.8	63	75.9	221	47.4
Cincinnati	20	62.5	28	51.9	89	32.1
Indianapolis	13	65.0	11	57.9	54	42.5
Chicago	27	47.4	34	56.7	80	34.9
Des Moines	25	83.3	40	70.2	44	41.9
Dallas	94	71.8	78	70.9	116	46.2
Topeka	34	91.9	32	88.9	67	67.7
San Francisco	21	63.6	22	73.3	92	52.9
Seattle	23	95.8	16	84.2	55	71.4
Total	324	70.4	373	68.8	1,004	45.3
	===		===		=====	

^aCited percentages equal the total number of thrifts holding advances divided by the total number of thrifts in the applicable net worth category.

Note: Net worth is the sum of preferred stock; permanent, reserve, or guaranty stock; paid-in surplus; income capital certificates; reserves; retained earnings; and net undistributed income; less deferred net losses (gains) on loans and other assets sold. These items are recognized under Generally Accepted Accounting Principles defined by the Financial Accounting Standards Board.

Source: Federal Home Loan Bank Thrift Quarterly Financial Reports.

AMOUNT AND NUMBER OF THRIFTS
WITH A FSLIC-GUARANTEED ADVANCE

Low net worth or insolvent thrifts without the collateral required to obtain an advance may rely on FSLIC for assistance. Under this arrangement (known as a FSLIC-guaranteed advance), FSLIC guarantees repayment of an advance to the district FHLBank. At year-end 1986, FSLIC had guaranteed about \$3.6 billion in advances. Over 80 percent (\$2.9 billion) of these guaranteed advances were held by thrifts located in the Dallas and San Francisco districts. The amount of FSLIC-guaranteed advances increased from 1984 to 1986, but then sharply declined in March 1987 when FSLIC paid over \$1 billion to the Dallas FHLBank to back up guaranteed advances made to troubled thrifts in the Dallas district. Only one-half (\$1.8 billion) of the FSLIC-guaranteed advances outstanding at the end of 1986 remained outstanding in August 1987.

TABLE I.11:
Amount and Number of Thrifts With a FSLIC-Guaranteed Advance
 (dollars in millions)

District	Dec. 1984		Dec. 1985		Dec. 1986		June 1987	
	Amount	Number of thrifts	Amount	Number of thrifts	Amount	Number of thrifts	Amount	Number of thrifts
Boston	\$ 0	0	\$ 0	0	\$ 0	0	\$ 0	0
New York	750.0	1	0	0	110.0	1	115.0	2
Pittsburgh	0	0	0	0	0	0	0	0
Atlanta	247.3	6	249.3	6	312.8	10	484.3	11
Cincinnati	8.3	2	13.8	2	5.8	1	5.4	1
Indianapolis	0	0	0	0	23.0	1	29.9	1
Chicago	0	0	0.5	1	3.5	2	5.5	3
Des Moines	0	0	0	0	25.4	2	48.4	2
Dallas	0	0	357.8	4	1,532.5	15	518.7 ^a	22
Topeka	0	0	0.6	1	15.2	4	21.1	4
San Francisco	677.3	6	1,295.7	13	1,448.9	17	740.9 ^b	19
Seattle	0	0	177.9	5	117.7	6	176.4	6
Total	\$1,682.9	15	\$2,095.4	32	\$3,594.8	59	\$2,145.6	71

^aIn March 1987, FSLIC provided \$1 billion to the Dallas district bank to back up guarantees on advances to troubled institutions.

^bThe sharp decline reflects a repayment of advances. According to San Francisco FHLBank officials, most of this decline could be attributed to two borrowing institutions.

Notes: Columns may not add due to rounding. By August 7, 1987, the number of institutions with a FSLIC guaranteed advance had dropped to 53 amounting to \$1.8 billion.

Source: Financial Assistance Division, FSLIC

NUMBER OF THRIFTS HOLDING ADVANCES
AS A PERCENTAGE OF TOTAL THRIFTS IN
THE DISTRICT, BY ASSET SIZE

As a group, more large thrifts hold advances than do smaller-sized thrifts--a situation which exists within all districts. Only 35 percent of thrifts with assets less than \$100 million held advances at year-end 1986, while 95 percent of thrifts with assets in excess of \$1 billion held advances.

TABLE I.12:
Number of Thrifts Holding Advances as a Percentage
of Total Thrifts in the District, by Asset Size
Year-End 1986^a

District	Asset size groupings									
	Over \$1 billion		\$500 million to \$1 billion		\$100 million to \$499 million		Under \$100 million		Total	
	Number of thrifts	%	Number of thrifts	%	Number of thrifts	%	Number of thrifts	%	Number of thrifts	%
Boston	5	100	4	100	29	85	33	60	71	72
New York	19	86	12	80	47	42	26	31	104	45
Pittsburgh	6	100	8	100	38	51	30	29	82	43
Atlanta	42	93	39	91	143	68	105	34	329	54
Cincinnati	16	89	8	62	52	54	61	26	137	38
Indianapolis	7	100	5	71	37	62	29	32	78	47
Chicago	15	94	13	65	69	57	44	23	141	41
Des Moines	10	100	7	100	53	76	39	37	109	57
Dallas	23	92	29	78	118	70	118	45	288	59
Topeka	12	100	12	100	60	92	49	59	133	77
San Francisco	46	98	14	88	50	61	25	27	135	57
Seattle	6	100	12	100	52	85	24	59	94	78
Total	207	95	163	84	748	65	583	35	1,701	53
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^aCited percentages equal the total number of FSLIC-insured thrifts holding advances divided by the total number of FSLIC-insured thrifts in that district and size category.

Source: Federal Home Loan Bank Thrift Quarterly Financial Reports.

ADVANCES AS A PERCENTAGE OF
ASSETS OF FSLIC-INSURED INSTITUTIONS
BY ASSET SIZE GROUPINGS

Thrifts in the largest asset size category at year-end 1986 held advances equal to 10.4 percent of assets while the smallest thrifts held advances equal to 2.9 percent of assets.

TABLE I.13:
Advances as a Percentage of
Assets of FSLIC-Insured Institutions by Asset
Size Groupings, Year-End 1986
(dollars in billions)

District	Asset size groupings									
	Over \$1 billion		\$500 million to \$1 billion		\$100 million to \$499 million		Under \$100 million		Total	
	Assets	% ^a	Assets	%	Assets	%	Assets	%	Assets	%
Boston	\$ 13.5	9.9	\$ 2.3	12.7	\$ 6.8	9.2	\$2.7	4.9	\$ 25.3	9.4
New York	56.7	8.5	10.0	8.5	25.6	2.6	4.0	3.2	96.3	6.7
Pittsburgh	15.8	15.7	5.4	4.1	14.7	4.0	4.6	1.8	40.6	8.3
Atlanta	92.9	8.4	31.6	7.9	46.9	4.6	14.4	2.1	185.8	6.9
Cincinnati	31.2	8.1	8.9	3.0	19.7	3.5	9.8	1.5	69.6	5.2
Indianapolis	31.9	17.3	4.9	8.1	12.2	3.8	4.2	2.1	53.2	12.1
Chicago	32.3	4.6	14.2	4.0	25.6	4.0	8.9	1.8	81.1	4.0
Des Moines	26.8	11.8	5.5	14.5	14.9	7.5	5.2	3.5	52.0	10.0
Dallas	59.4	8.8	25.6	9.9	34.4	6.8	12.4	4.4	131.8	8.1
Topeka	27.1	12.8	8.6	12.8	12.3	9.9	4.0	5.7	52.0	11.6
San Francisco	301.4	10.6	11.3	8.6	18.8	3.5	4.6	2.3	336.2	10.0
Seattle	16.6	20.7	8.2	12.5	14.0	11.7	2.3	6.2	41.0	15.2
Total	\$705.7	10.4	\$136.5	8.5	\$246.0	5.4	\$77.1	2.9	\$1165.3	8.6

^aCited percentages equal total advances divided by total assets for all FSLIC-insured thrifts in that district and size category.

Notes: Above figures exclude assets and advances of non-FSLIC insured institutions. The amount of advances actually issued by a district bank may differ from that reflected by the percentages because some thrifts hold advances from more than one district. Columns may not add due to rounding.

Source: Federal Home Loan Bank Thrift Quarterly Financial Reports.

ASSET COMPOSITION OF ADVANCES-
HOLDING AND NON-ADVANCES-HOLDING THRIFTS

The asset composition of thrifts which hold advances is somewhat different from thrifts which do not hold advances.⁶ Nonholders have more mortgage-backed securities and liquid assets in their portfolios. They also hold more mortgages on one to four family dwelling units but the difference is not statistically significant.⁷ Advances holders hold more of all other assets we considered including construction loans, acquisition and development loans, commercial loans, consumer loans, direct investments, and mortgages on five or more dwelling units.

These results do not allow us to draw conclusions on how advances are being used by thrift institutions nor do they imply that advances are being improperly used. According to current FHLBB policy, advances can generally be used for any sound business purpose in which thrifts are authorized to engage. As economic conditions changed over time, each FHLBank developed its own advances program to meet the particular needs of its members. Nonetheless, under the Competitive Equality Banking Act of 1987, thrifts' access to advances has been tied to their holdings of housing-related assets. FSLIC-insured institutions must maintain at least 60 percent of tangible assets in housing and housing-related investments and liquid assets in order to meet the "Qualified Thrift Lender" test. Failure to meet the test reduces permitted advances holdings to a level equal to thrift qualifying assets.

⁶Paired t-tests were performed to determine if there is a statistically significant difference between the mean value of each asset as a percent of total assets for the two groups. The two samples (holders and nonholders) were paired on the basis of asset size, net worth, and FHLBank district so that individual advances-holding thrifts could be compared to similar non-advances-holding thrifts.

⁷The FHLBB's category one to four dwelling units represents the thrifts' traditional asset--single family mortgages.

Table I.14:
Asset Composition of Advances-Holding
and Non-Advances-Holding Thrifts^a
FSLIC Insured Institutions
 (first quarter 1987)

	<u>Advances</u> <u>holders</u>	<u>Non-Advances</u> <u>holders</u>	<u>Difference^b</u>
Residential construction loans	3.86	2.27	1.59 ^c
Non-Residential construction loans	1.60	.82	.78 ^c
Mortgages on 1-4 dwelling units	47.40	48.22	-.82
Mortgages on 5 or more dwelling units	4.60	3.05	1.55 ^c
Mortgage-backed securities (pass through)	6.75	7.86	-1.11 ^c
Acquisition and development loans	1.95	1.54	.41 ^c
Commercial loans	1.20	.84	.36 ^c
Consumer loans	4.72	3.84	.88 ^c
Direct investments	1.21	.94	.27 ^c
Liquid assets ^d	14.90	20.80	-5.90 ^c

Notes: ^aAll items are a percentage of total assets.

^bEqual to the average holdings of each asset by advances holders minus those of nonholders.

^cDenotes that a statistically significant difference exists between advances holders and nonholders for that asset item. A paired t-test was performed on each asset item using samples paired on the basis of asset size, net worth, and FHLBank district. Significance is evaluated at the .05 level.

^dEqual to the sum of cash, demand deposits government securities, equity securities, and pay-through mortgage backed securities held by thrifts.

Source: Federal Home Loan Bank Thrift Quarterly Financial Reports.

AGENCY COMMENTS FROM THE FEDERAL HOME LOAN BANK BOARD

Federal Home Loan Bank Board
OFFICE OF THE CHAIRMAN

M. DANNY WALL, Chairman



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

January 15, 1988

Mr. Craig A. Simmons
Senior Associate Director
General Accounting Office
441 G Street, N.W.
Washington, D. C.

Dear Craig:

Thank you for forwarding a copy of your draft report on Federal Home Loan Banks (FHLBank) advances program. I wish to respond to a couple of statements made on pages 2 and 3 of the report.

Comment: A larger percentage of low net worth and insolvent thrifts hold advances than do more healthy thrifts with 70.4 percent of insolvents holding advances at year-end 1986 compared to 45.3 percent of thrifts with net worth as a percent of assets in excess of 3 percent.

Response: While this statement is factually correct, I would point out that the FHLBanks have never suffered a loss as a result of extending credit to a member institution. The statutes, regulations and policies on advances require that all advances be made on a secured basis. Furthermore, when a member's net worth position falls below a three percent threshold the FHLBanks take additional steps to protect their interests. Specifically, borrowers are then required to identify specific collateral and in some instances to deliver the collateral to the FHLBank. The FHLBanks mark to market collateral listed or delivered at least monthly.

Discussed on pp. 2-3.

On the same point, an ancillary benefit accrues to FSLIC. The availability of lower cost advances to thrifts that are experiencing problems helps to reduce the overall cost of funds to that thrift as well as possibly lowering the cost to the other thrifts in the region or district. If advances were not available the thrift would have to pay higher rates for funds which drives up the rates for all thrifts in the area. Accordingly, advances to troubled thrifts should not be viewed in some pejorative way so long as they are made in the context of helping to manage liabilities within the system as a whole.

-2-

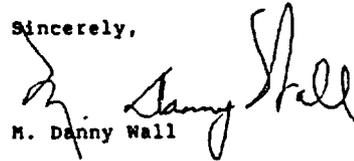
Comment: The asset composition of advances holders differs from that of non-holders with the portfolio of non-holders containing more liquid assets and mortgage-backed securities while holders have more construction loans, acquisition and development loans, commercial and consumer loans, direct investments and mortgages on the Federal Home Loan Bank Board's (FHLBB) category, 5 or more dwelling units.

Response: This comment gives the impression that most advances are going to thrifts engaging in "less traditional" activities. However, even though there are differences in the amount invested in different types of activities between advance holders and non-holders, the amounts are so small that they are not economically significant. More importantly, the differences that appear to be troublesome may actually result in lower overall portfolio risk for institutions because of diversification.

Discussed on pp. 2-3.

We appreciate the opportunity to comment on your report. If we may be of further assistance please let us know.

Sincerely,


M. Danny Wall

GLOSSARY

Acquisition and Development Loans	An asset of thrift institutions which includes loans made for developed building lots, the acquisition and development of land, and for unimproved land.
Assets	Total savings and loan assets consist of mortgage loans and contracts, nonmortgage loans, repossessed real estate investments, liquid assets, fixed assets, and "other" assets.
Direct Investments	An asset of thrift institutions which includes equity shares in service corporation subsidiaries and real estate held for investment and development.
FHLB Advances	Loans from District Federal Home Loan Banks to member institutions.
GAAP Net Worth	The sum of preferred stock; permanent, reserve, or guaranty stock; paid-in surplus; income capital certificates; reserves; retained earnings; net undistributed income; and less deferred net losses (gains) on loans and other assets sold. These items are recognized under Generally Accepted Accounting Principles (GAAP) defined by the Financial Accounting Standards Board.
Mortgage-Backed Security	A security issue which has mortgages as collateral for payment.
Regulatory Net Worth	The sum of preferred stock; permanent, reserve, or guaranty stock; paid-in surplus; qualifying mutual capital certificates; qualifying subordinated debentures; appraised equity capital; net worth certificates; accrued net worth certificates; income capital certificates; reserves; undivided profits (retained earnings); and net undistributed income.
Return on Assets	A measure of profitability equal to total net income divided by total assets.

Return on Equity

A measure of profitability equal to total net income divided by equity stock.

T-Test

A statistical test which allows for testing if the difference between two means is statistically significant.

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