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REPORT TO THE CONGRESS

Examination Of Financial Statements Of The Federal Home Loan Bank Board, Federal Home Loan Banks, And Federal Savings And Loan Insurance Corporation For The Year Ended December 31, 1970

B-114827

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BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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OCT. 20, 1971

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

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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, 1970. In prior years our examinations were reported on separately.

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

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Chairman of the Federal Home Loan Bank Board.

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

EXAMINATION OF FINANCIAL STATEMENTS OF THE FEDERAL HOME LOAN BANK BOARD, FEDERAL HOME LOAN BANKS, AND FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION FOR THE YEAR ENDED DECEMBER 31, 1970 B-114827

DIGEST

WHY THE EXAMINATION WAS MADE

The Comptroller General is required by law to examine and report annually on the activities of the Federal home loan banks and the Federal Savings and Loan Insurance Corporation and to report the results to the Congress. The Federal Home Loan Bank Board supervises the activities of the banks and the Corporation. Therefore the General Accounting Office (GAO) included the Board's financial statements in its examination.

As required by the Federal Home Loan Bank Act, as amended, GAO examined the accounts for calendar year 1970 that related to the acquisition of land in the District of Columbia and to the construction and equipping of buildings on this land as needed for use by the Board and the agencies under its supervision.

FINDINGS AND CONCLUSIONS

Federal Home Loan Bank Board

In GAO's opinion, the Federal Home Loan Bank Board's financial statements present fairly the financial position of the Board at December 31, 1970, and its revenue and expenses and the sources and application of its funds for the year then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General of the United States, applied on a basis consistent with that of the preceding year.

Acquisition of site for building

As of December 31, 1970, the Board had transferred $6,085,200 to an account to be used by the General Services Administration (GSA) for site acquisition and construction of a new building for the Board and the agencies under its supervision. As of that date GSA had spent $5,548,066 for land and $524,306 for site studies, appraisals, and building design. Plans for use of this site, however, were changed, and in December 1970 the Board requested GSA to locate a new site for the building. (See p. 10.)

OCT. 20, 1971

Federal home loan banks

GAO is of the opinion that the financial statements of the 12 Federal home loan banks present fairly the financial position of the banks at December 31, 1970, and the results of their operations and the sources and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws, except for a change in the accounting for items of a fixed or permanent nature in 1970 with which GAO agrees.

In July 1970 the Federal home loan banks began to capitalize items of a fixed or permanent nature, such as bank premises, furniture, and equipment. The net amount shown on the comparative consolidated statement of financial condition at December 31, 1970, for bank premises and furnishings represents the cost of land and the cost of office buildings, furniture, and equipment, less accumulated depreciation. In previous years the cost of furniture and equipment was charged directly to an expense account.

Federal Savings and Loan Insurance Corporation

GAO is of the opinion that the financial statements of the Federal Savings and Loan Insurance Corporation present fairly the financial position of the Corporation at December 31, 1970, 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 in 1969 with which GAO agrees.

Prior to December 1969 insurance premiums assessed were amortized and taken into income by the Corporation in equal monthly installments. 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 institutions are assessed. The Corporation's 1970 income from insurance premiums and admission fees is not comparable with the 1969 income because about $52 million in additional insurance premiums were taken into income in 1969.

RECOMMENDATIONS OR SUGGESTIONS

None.

AGENCY ACTIONS AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

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

Contents

ABBREVIATIONS

GAO General Accounting Office

GSA General Services Administration

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

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RECOMMENDATIONS OR SUGGESTIONS

None.

AGENCY ACTIONS AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

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

CHAPTER 1

INTRODUCTION

Because of the interrelationship of the activities of the Federal Home Loan Bank Board, the Federal home loan banks, and the Federal Savings and Loan Insurance Corporation, we have combined our reports on the examination of the financial statements of these entities for the year ended December 31, 1970.

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

FEDERAL HOME LOAN BANK BOARD

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

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

The Board is directed by a three-man board appointed by the President of the United States by and with the advice and consent of the Senate. During calendar year 1970 the following persons served on the Board.

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

FEDERAL HOME LOAN BANKS

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

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

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

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

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

The National Housing Act (12 U.S.C. 1725) created the Federal Savings and Loan Insurance Corporation in 1934.

The Corporation, a wholly owned Government corporation, insures withdrawable share and deposit accounts up to $20,000 for each insured member in all federally chartered savings and loan associations and qualified State-chartered savings and loan associations and similar institutions upon their request and approval by the Federal Home Loan Bank Board. Certain functions of the Corporation, such as processing applications for insurance and examining insured institutions, are carried out by the Federal Home Loan Bank Board. Other operating responsibilities, such as receivership activities and liquidation of assets, are vested in a director who is appointed by the Board. During calendar year 1970 the Director of the Corporation was Robert B. O'Brien, Jr.

CHAPTER 2

FEDERAL HOME LOAN BANK BOARD

OPERATIONS

The Board establishes policies and supervises the operation of various organizations. The type, number, and total assets of the organizations supervised at December 31, 1970, were as follows:

Type of organization	Number	Total assets (billions)
Federal home loan banks	12	$ 14.7
Federal Savings and Loan Insurance Corporation	1	3.0
Federal savings and loan associations	2,067	96.3
Insured State-chartered savings and loan institutions	2,298	74.4
Total	4,378	$188.4

The Board's expenses are financed by charges to savings and loan institutions to cover most of the cost of examinations and by assessments against the Federal home loan banks and the Federal Savings and Loan Insurance Corporation to cover administration expenses and expenses incurred in supervising savings and loan institutions. The Congress placed limitations on the amounts that could be expended by the Board in fiscal year 1970--$5,716,082 for administrative expenses and $14,125,000 for nonadministrative expenses incurred in making regular examinations and in supervising insured institutions. The Board's expenses were within the prescribed limitations.

The following summary shows the Board's revenue from assessments and examination fees, expenses for examination and supervision, and administrative expenses for the year ended December 31, 1970. The summary shows also revenue and expenses for services performed for other Federal agencies, such as printing and reproduction, and revenue and expenses relating to leases of Board property acquired for construction of a new building.

Supervised Organizations

	Total	Savings and loan institutions	Federal home loan banks	Federal Savings and Loan Insurance Corporation	Services provided for other Federal agencies	Land and buildings
Revenue:						
Assessments and examination fees	$21,286,526	$8,056,996	$3,782,957	$9,446,573	$ -	$ -
Reimbursements for services performed for other Federal agencies	138,174	-	-	106,739	31,435	-
Leases--Federal Home Loan Bank Board property	39,012	-	-	-	-	39,012
Miscellaneous	4,801	1,505	3,296	-	-	-
	21,468,513	8,058,501	3,786,253	9,553,312	31,435	39,012
Expenses:						
Examination of savings and loan institutions:						
Regular	13,009,930	8,296,744	-	4,713,186	-	-
Special	1,001,149	312,858	479,599	208,692	-	-
Supervision of savings and loan institutions	1,412,766	-	734,777	677,989	-	-
Services performed for other Federal agencies	138,174	-	-	106,739	31,435	-
Administrative	6,306,075	-	2,459,369	3,846,706	-	-
Land and buildings	25,477	-	-	-	-	25,477
	21,893,571	8,609,602	3,673,745	9,553,312	31,435	25,477
Expenses in excess of revenue	$ 425,058	$ 551,101	$ -112,508	$ -	$ -	-$13,535

SUPERVISION AND EXAMINATION OF INSURED INSTITUTIONS

The supervision of insured institutions is carried out through the Board's Office of Examinations and Supervision and the Board's field supervisory agents who are officers of the 12 Federal home loan banks. Insured institutions are Federal savings and loan associations; building and loan, savings and loan, or homestead associations; or co-operative banks whose accounts are insured by the Federal Savings and Loan Insurance Corporation. For State-chartered institutions the Board coordinates its supervisory activities with those of the State supervisory authorities.

The supervisory objectives of the Board are to obtain compliance of insured institutions 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 insured institutions and through audits conducted by independent accountants.

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

During calendar year 1970 the Office of Examinations and Supervision made 1,891 examinations of Federal savings and loan associations and 2,199 examinations of State-chartered institutions--of which 2,074 were conducted jointly with State examiners. In accordance with the Board's policy, the examinations at each of the insured institutions were made at intervals of approximately 12 months. Information obtained during these examinations has been used by the Board to identify problem institutions which are discussed on pages 18 and 19.

In addition, the Office of Examinations and Supervision made 21 eligibility examinations of State-chartered institutions applying for insurance of accounts by the Federal Savings and Loan Insurance Corporation and for membership in the Federal Home Loan Bank System and 302 miscellaneous examinations.

CONSTRUCTION OF NEW BUILDING

The Federal Home Loan Bank Act, as amended on November 3, 1966, by Public Law 89-754 (12 U.S.C. 1438(c)), authorizes the Board to utilize the services of the Administrator of General Services in acquiring real property in the District of Columbia and in constructing and equipping buildings for use by the Board and the agencies under its supervision.

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

On January 17, 1968, the Attorney General acquired, by condemnation, title to square 532 which consisted of about 76,000 square feet of land between Third and Fourth Streets and D and E Streets, Northwest, Washington, D.C., and title to square 570 which consisted of about 48,000 square feet of land on Third Street between D and E Streets, across Third Street from square 532. The Board intended that its building would be located on square 532 and that square 570 would be open space on the surface with provision for underground parking.

As of December 31, 1970, the Board had transferred $6,085,200 to a fund account to be used by GSA for the acquisition of those sites and the preparation for construction of a new building. Of this amount, $6,025,000 was advanced to the Board from the 12 Federal home loan banks, which the Board must repay over a period of not more than 25 years. As of December 31, 1970, GSA had disbursed $5,548,066 for acquisition of land and $524,306 for site studies, appraisals, and building design.

We were advised by an official of the Department of Justice that the price of all the land acquired by condemnation proceedings had been settled with the former owners, either out of court or by their acceptance of a court award, except for two parcels owned by the same person. We were advised that this owner had indicated his intention to appeal the court award and to ask for about $261,000 more than the amount of the award which was for the Government's appraised value of the properties at the time of condemnation.

As of July 9, 1971, all buildings on square 532 had been razed except for some condemned buildings on Third Street, a building on the corner of Third and D Streets which was being rented, and a building on the corner of Fourth and D Streets which the Board intended to use as a training facility. Square 570 has been paved and is being rented to the Board's Welfare Association for employee parking.

In June 1970, shortly before GSA was going to issue an invitation to bid for a contract for the construction of the building on square 532, the Board instructed GSA to defer issuing the invitation until further notice by the Board. In December 1970 the Board requested GSA to proceed with a feasibility study for acquiring another site in northwest Washington, D.C., for the building. The Board requested a new site because it wanted its building located closer to the financial district and because it believed the acquired site to be too small to provide for the construction of a building that would contain sufficient office space to meet the increased needs resulting from the creation of the Federal Home Loan Mortgage Corporation.

On July 9, 1971, we discussed with the Associate Director, Office of Management Systems and Administration, Federal Home Loan Bank Board, the current status of the Board's building plans. He advised us that:

1. No final decision had been made on disposing of the acquired land.

2. GSA had advised the Board of two sites, each having an estimated acquisition cost of about $11 million, which met the Board's requirements as to location near the financial district.

3. No final decision had been made as to whether the Board would acquire either of the suggested sites.

4. New design plans would have to be developed for the construction of a building at either of the two sites.

5. Consideration might be given to having a building constructed by a private developer and leased by the Board.

NEW LEGISLATION

Section 101 of the Emergency Home Finance Act of 1970 (Pub. L. 91-351; 84 Stat. 450), approved July 24, 1970, authorized $250 million to be appropriated for use by the Federal Home Loan Bank Board for disbursement to Federal home loan banks for the purpose of adjusting the effective interest rates charged by the banks on short- and long-term borrowing to promote an orderly flow of funds into residential construction. Public Law 91-556 (84 Stat. 1461), approved December 17, 1970, appropriated $85 million for such purpose.

Pursuant to this legislation the Board and the banks established the Housing Opportunity Allowance Program to help the moderate-income family attain home ownership. Under the program an eligible prospective home buyer is provided with a direct monthly allowance of $20 for a maximum period of 60 months of the term of his mortgage loan. The allowance is a monthly credit passing directly to the home buyer's mortgage account maintained by the eligible participating lender. The participating lender is reimbursed for such credit by the Federal home loan bank of which it is a member, which bank, in turn, is reimbursed by the Board out of the appropriated funds.

Also the Emergency Home Finance Act of 1970 established the Federal Home Loan Mortgage Corporation on July 24, 1970, to provide a secondary market for residential mortgages. Under the act the three members of the Federal Home Loan Bank Board serve as directors of the Corporation. Also the act provides that the financial transactions of the Corporation be subject to audit by GAO and that a report on each such audit be made by the Comptroller General to the Congress.

The Corporation has adopted for accounting purposes a fiscal year ending on June 30. Financial statements for the first fiscal year of operation ended on June 30, 1971, had not been prepared at the time of our audit and therefore were not included in our audit for this year. We plan to include a review of the financial transactions of the Corporation in our future audits.

SCOPE OF EXAMINATION

Our examination of the Federal Home Loan Bank Board for the year ended December 31, 1970, consisted of a review of:

1. The basic laws authorizing the Board's activities and the rules and regulations of the Board to ascertain the extent of its authority and responsibilities.

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

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

4. The Board's financial statements in accordance with generally accepted auditing standards, including an examination of selected financial transactions and such tests of accounting records as we considered necessary in the circumstances.

CHAPTER 3

FEDERAL HOME LOAN BANKS

OPERATIONS

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

The banks obtain funds for their lending activities from earnings, deposits by member institutions, subscriptions to capital stock, and the issuance of consolidated obligations. The Federal home loan banks' consolidated obligations are the joint and several liabilities of all the banks and are not guaranteed by the U.S. Government. Also the banks can obtain funds through the Secretary of the Treasury who has authority to purchase Federal home loan bank obligations up to $4 billion; however, this authority had not been exercised by the Secretary of the Treasury through calendar year 1970.

To help maintain a reasonable flow of funds into the home mortgage market, the Federal home loan banks advanced $3.3 billion to member institutions in 1970, compared with $5.5 billion in 1969. Advances repaid totaled $1.9 billion in 1970 compared with $1.5 billion in 1969. The net increase in the balance of bank advances outstanding was $1.3 billion in 1970, which increased the total advances outstanding to $10.6 billion at the end of the year.

During 1970 consolidated obligations of $8.1 billion were sold and maturing obligations of $6.3 billion were retired by the Federal home loan banks, which increased the balance of outstanding obligations to $10.2 billion at the end of the year.

The Federal home loan banks' interest on advances increased from \$449 million in 1969 to \$760 million in 1970, an increase of 69 percent. The interest and concessions (marketing) expense on the banks' consolidated obligations increased from \$406 million in 1969 to \$780 million in 1970, an increase of 92 percent.

NEW LEGISLATION

The Emergency Home Finance Act of 1970 (Pub. L. 91-351; 84 Stat. 452), which established the Federal Home Loan Mortgage Corporation, requires that Federal home loan banks subscribe to the Corporation's common stock in an amount not to exceed a cumulative total of \$100 million. At December 31, 1970, the Federal home loan banks had subscribed to the maximum amount of stock.

SCOPE OF EXAMINATION

Our examination of the Federal home loan banks included a review of the Federal Home Loan Bank Act, as amended, and the Federal Home Loan Bank Board's rules and regulations issued pursuant to the act, to ascertain the policies and restrictions within which the banks are required to operate. It included also a review of the banks' lending and investment policies, an examination of their financial reports and statements, and direct confirmations with the custodians of securities held at December 31, 1970.

We relied to the fullest extent practicable on examinations made by the Board's Office of Audits. Our review of the work of the Office of Audits was accomplished by (1) reviewing audit programs to determine the adequacy of prescribed audit procedures, (2) observing its examination of the Federal Home Loan Bank of Seattle, and (3) reviewing reports and working papers pertaining to the examinations to the extent we deemed appropriate.

CHAPTER 4

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

OPERATIONS

The Federal Savings and Loan Insurance Corporation insures withdrawable share and deposit accounts in all insured institutions, assesses and collects insurance premiums, and invests surplus funds. In addition, the Corporation 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 limitation of $384,000 on the amount that the Corporation could expend in fiscal year 1970 for administrative expenses other than for supervisory and various other administrative services provided by the Federal Home Loan Bank Board. The Corporation's administrative expenses for fiscal year 1970 were within the prescribed limitation.

During calendar year 1970 the Corporation disbursed about $42.8 million in connection with 35 insured institutions that were financially unable to remain in operation or that required financial assistance to continue in operation. Of the $42.8 million, about $21.9 represented additional disbursements in connection with 31 insured institutions that required financial assistance prior to January 1, 1970. In contrast to the $42.8 million disbursed in 1970, $28.7 million was disbursed in 1969 and $172.2 million was disbursed in 1968.

The disbursement of $42.8 million was offset by receipts of about $47.1 million realized from the sale of some of the assets acquired from insured institutions, from repayments of principal on some of the loans, and from liquidation distributions on subrogated accounts.

The records of the Corporation show that financial difficulties of institutions requiring Corporation assistance during the year ended December 31, 1970, were caused by unsafe and unsound operating practices, such as:

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

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

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

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

5. Concentrating loans to a few speculative borrowers.

6. Paying dividends in violation of existing laws.

PROBLEM INSTITUTIONS

To ensure that appropriate supervisory attention is given to insured institutions when needed, the Federal Home Loan Bank 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--hard-core institutions--and the next most serious cases are classified as category II--possible hard-core institutions. Cases classified in lower categories are not considered by the Board to represent a threat to the Corporation.

The number of problem institutions classified as categories I and II, which the Board follows closely, are as follows:

Category	December 31, 1970	December 31, 1969
I	14	16
II	8	10
Total	22	26

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

The Board and the Corporation seek to preserve the Corporation's liquidity by (1) encouraging insured institutions to correct unsound operating practices and (2) providing aid to institutions requiring financial assistance through techniques designed to reduce cash outlays. As of December 31, 1970, the Corporation had liquid assets of about $2.5 billion, an increase of $107 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 ALLOWANCE FOR LOSSES

At December 31, 1970, the Corporation held assets which were acquired in discharging its insurance indemnity liability to insured institutions and established an allowance for losses on these assets, as follows:

Type of asset	Book value	Allowance for losses	Net value
Assets acquired from insured institutions	$216,630,387	$46,007,498	$170,622,889
Loans to insured institutions and accrued interest	100,649,718	-	100,649,718
Subrogated accounts in insured institutions in liquidation	143,335,819	-	143,335,819
Insured accounts in institutions in liquidation (pending and unclaimed accounts)	364,369	-	364,369
Total	$460,980,293	$46,007,498	$414,972,795

The allowance for losses is based on the evaluations and judgments of Corporation officials who consider such data as actual losses experienced by the Corporation, latest financial data available on insured institutions in liquidation, and results of independent appraisals made by contract appraisers. As of December 31, 1970, the Corporation did not anticipate that any losses would be incurred on the loans, subrogated accounts, or insured accounts. Any losses which might occur would be recognized when and if the accounts become deficient.

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, plus 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, 1970, was $170.6 million, a net increase of about $69 million over the balance at December 31, 1969, due principally to the Corporation's acquisition of the assets of one association.

The loans to insured institutions and accrued interest of $100.6 million consisted of interest-bearing loans of $88.8 million to associations that required financial assistance and accrued interest thereon of $11.8 million. Of the loans of $88.8 million, $6.9 million were for loans made in 1970. Included in the $11.8 million accrued interest is $10.7 million interest on a loan made in 1966 to an association experiencing serious financial problems. The association is deferring payment of the interest until 1971 under the terms of the loan. Therefore the Corporation has not included the $10.7 million accrued interest as income in its financial statements but has included it in the statement of condition as an asset under loans to insured institutions and accrued interest and as a deferred credit in the liabilities and reserves section.

Subrogated accounts of $143.3 million represent the rights of depositors acquired by the Corporation through payment to the depositors of their insured accounts. Thus the Corporation, in place of the original depositors, has acquired claims against the assets of the associations. During 1970 the subrogated accounts decreased by $87.8 million due to receipt of liquidation distributions of $3.8 million from two associations and release of claims of $84 million in return for the assets of one association.

At December 31, 1970, insured accounts--$364,369--in four institutions in liquidation (pending and unclaimed) had not been subrogated. This amount is shown on the Corporation's statement of financial condition at December 31, 1970, as both an asset and a liability.

RESERVES AND BORROWING AUTHORITY

The Corporation estimated that, at December 31, 1970, savings insured by the Corporation in 4,365 insured institutions totaled about $141.7 billion. The resources available to the Corporation at December 31, 1970, to meet demands which may be made upon it for discharge of its insurance liability are described below.

Cumulative net income of $1.4 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 $151 million for the year ended December 31, 1970. The secondary reserve amounting to $1.5 billion at December 31, 1970, consisted of cumulative insurance premium prepayments of $1.2 billion assessed against insured institutions since fiscal year 1962 and interest of $342 million, which represented a return on the outstanding balance of the secondary reserve in accordance with sections 404(d) and 404(e) of the act.

The Corporation's primary and secondary reserves are available to meet future losses. These reserves, which have been established pursuant to law and administrative action, do not represent a measure of the insurance risk which is imposed upon the Corporation by pertinent legislation. In our opinion, the reserves were adequate to meet potential losses that might result from problem conditions known to exist in specific insured institutions at December 31, 1970, under existing economic conditions. The adequacy of the reserves, however, is directly affected by economic conditions. Whether these reserves would be adequate during periods of severely adverse economic conditions is currently not determinable.

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

1. Require insured institutions to deposit with the Corporation up to 1 percent of their withdrawable deposits. The exercise of this authority as of December 31, 1970, would have provided funds of about $1.4 billion to the Corporation.

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

3. Borrow up to $750 million from the United States Treasury.

The Corporation had not drawn on any of these sources of funds through calendar year 1970.

The insured institutions have their own reserves and surplus available to meet losses. As of December 31, 1970, they had, in the aggregate, about $11.5 billion in reserves and surplus available to meet losses.

SCOPE OF EXAMINATION

Our examination of the Federal Savings and Loan Insurance Corporation consisted principally of a review of its statement of financial condition at December 31, 1970, and the related statements of income, expense, and primary reserve and of sources and application of funds for calendar year 1970. Also we reviewed the basic laws, rules, and regulations applicable to the Corporation to ascertain the policies and restrictions under which it is required to operate. The examination was conducted at the Federal Savings and Loan Insurance Corporation, Washington, D.C., and at its Midwest Office in Westchester, Illinois.

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

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

CHAPTER 5

OPINION OF FINANCIAL STATEMENTS

The financial statements, schedules 1 through 10, were prepared by the Federal Home Loan Bank Board.

In our opinion, the financial statements (schedules 1, 2, and 3) present fairly the financial position of the Federal Home Loan Bank Board at December 31, 1970, and its revenue and expenses and the sources and application of its funds for the year then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General of the United States, applied on a basis consistent with that of the preceding year.

Also, in our opinion, the financial statements (schedules 4 through 7) present fairly the financial position of the 12 Federal home loan banks at December 31, 1970, and the results of their operations and the sources and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws, except for a change in the accounting for items of a fixed or permanent nature in 1970 with which we agreed.

In July 1970 the Federal home loan banks began to capitalize expenditures for items of a fixed or permanent nature, such as bank premises, furniture and equipment, and computer equipment. The net amount shown on the comparative consolidated statement of financial condition at December 31, 1970, for bank premises and furnishings represents the cost of land and the cost of office buildings, furniture, and equipment, less accumulated depreciation. In previous years the cost of furniture and equipment was charged directly to an expense account.

Furthermore the financial statements (schedules 8, 9, and 10) present fairly the financial position of the Federal Savings and Loan Insurance Corporation at December 31, 1970, 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 in 1969 with which we agreed.

Prior to December 1969 insurance premiums assessed were amortized and taken into income by the Corporation in equal monthly installments. 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 institutions are assessed. The 1970 income from insurance premiums and admission fees is not comparable with the 1969 income because about $52 million in additional insurance premiums were taken into income in 1969.

FINANCIAL STATEMENTS

OF

FEDERAL HOME LOAN BANK BOARD

FEDERAL HOME LOAN BANK BOARD

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1970, AND DECEMBER 31, 1969

	December 31, 1970	December 31, 1969	Increase or decrease(–)
ASSETS			
CASH WITH THE U.S. TREASURY (note 1)	$ 1,391,808	$ 1,112,915	$ 278,893
ACCOUNTS RECEIVABLE	2,237,503	2,958,233	–720,730
INVENTORY--supplies	17,120	17,722	–602
LAND AND BUILDING (note 2)	6,072,372	5,965,964	106,408
FURNITURE, FIXTURES, AND EQUIPMENT--net	649,183	630,894	18,289
DEFERRED CHARGES	24,553	-	24,553
Total assets	$10,392,539	$10,685,728	$–293,189
LIABILITIES AND CAPITAL			
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 2,167,028	$ 1,866,509	$ 300,519
LIABILITY FOR EMPLOYEES' ACCRUED ANNUAL LEAVE	1,337,873	1,265,523	72,350
LOANS PAYABLE TO FEDERAL HOME LOAN BANKS	5,392,680	5,633,680	–241,000
Total liabilities	8,897,581	8,765,712	131,869
CAPITAL, RETAINED EARNINGS (schedule 2)	1,494,958	1,920,016	–425,058
Total liabilities and capital	$10,392,539	$10,685,728	$–293,189

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

SCHEDULE 2

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

COMPARATIVE STATEMENT OF REVENUE, EXPENSE, AND RETAINED EARNINGS

FOR THE YEARS ENDED

DECEMBER 31, 1970, AND DECEMBER 31, 1969

	December 31, 1970	December 31, 1969	Increase or decrease(-)
REVENUE:			
Examination fees--examinations of savings and loan institutions	$ 8,056,996	$ 9,060,285	$-1,003,289
Assessments against:			
Federal home loan banks	3,782,957	3,145,829	637,128
Federal Savings and Loan Insurance Corporation	9,446,573	7,353,038	2,093,535
Reimbursements for services performed for other agencies	138,174	144,363	-6,189
Leases--Federal Home Loan Bank Board property	39,012	183,944	-144,932
Miscellaneous	4,801	6,303	-1,502
Total revenue	21,468,513	19,893,762	1,574,751
EXPENSES:			
Personnel compensation	15,687,438	14,167,889	1,519,549
Personnel benefits	1,289,015	1,076,465	212,550
Travel and transportation of persons	2,427,439	2,237,727	189,712
Transportation of things	18,775	10,155	8,620
Rent, communications, and utilities	1,187,899	970,907	216,992
Printing and reproduction	97,261	178,613	-81,352
Other services	465,118	175,688	289,430
Services of other agencies	135,464	57,788	77,676
Supplies and materials	191,564	156,320	35,244
Depreciation of furniture, fixtures, and equipment and acquisition of expendable property items	140,082	112,578	27,504
Interest on Federal home loan bank loans	253,516	252,260	1,256
Total expenses	21,893,571	19,396,390	2,497,181
REVENUE IN EXCESS OF EXPENSES	-425,058	497,372	-922,430
RETAINED EARNINGS AT BEGINNING OF YEAR	1,920,016	1,422,644	497,372
RETAINED EARNINGS AT END OF YEAR (schedule 1)	$ 1,494,958	$ 1,920,016	$ -425,058

FEDERAL HOME LOAN BANK BOARD

STATEMENT OF SOURCES AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1970

FUNDS PROVIDED BY:	
Examination fees and charges	$ 8,056,996
Assessments against:	
Federal home loan banks	3,782,957
Federal Savings and Loan Insurance Corporation	9,446,573
Reimbursements from other agencies	138,174
Leases--Federal Home Loan Bank Board property	39,012
Miscellaneous	4,801
Net decrease in other assets and liabilities	1,069,648
	$22,538,161
FUNDS APPLIED TO:	
Administrative expenses	$ 6,258,953
Nonadministrative expenses	15,483,449
Purchase of building site	106,408
Repayment of loans to Federal home loan banks	241,000
Purchase of furniture, fixtures, and equipment	143,981
Leasehold improvement expenses	25,477
Increase in cash balance	278,893
	$22,538,161

NOTES TO THE FINANCIAL STATEMENTS

1. An additional $85 million is available in a separate fund provided by appropriation pursuant to the provisions of the Emergency Home Finance Act of 1970. Use of such funds is for the purpose of adjusting the effective interest charged by the Federal home loan banks on short-term and long-term borrowings to promote an orderly flow of funds into residential construction.

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

FINANCIAL STATEMENTS

OF

FEDERAL HOME LOAN BANKS

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

COMPARATIVE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1970, AND DECEMBER 31, 1969

A S S E T S

	December 31, 1970 (note a)	December 31, 1969 (note a)	Increase or decrease(-)
CASH:			
On hand and in commercial banks	$ 69,813,055	$ 81,406,309	$ -11,593,254
Treasurer of the United States	35,394,403	42,095,870	-6,701,467
Total cash	105,207,458	123,502,179	-18,294,721
INVESTMENTS:			
Securities (note 1)	3,731,922,627[b]	1,862,422,698	1,869,499,929
Mortgage loans	32,076,081	-	32,076,081
Stock in Federal Home Loan Mortgage Corporation	100,000,000	-	100,000,000
Total investments	3,863,998,708	1,862,422,698	2,001,576,010
ADVANCES TO MEMBERS:			
Secured (note 2)	10,419,148,258	8,681,607,571	1,737,540,687
Unsecured	195,383,507	607,359,521	-411,976,014
Total advances outstanding	10,614,531,765	9,288,967,092	1,325,564,673
OTHER LOANS	13,885,509	5,724,005	8,161,504
ACCRUED INTEREST RECEIVABLE	105,275,053	82,716,093	22,558,960
DEFERRED CHARGES	12,344,448	7,189,010	5,155,438
BANK PREMISES AND FURNISHINGS (net) (note 3)	7,285,233	1,780,009	5,505,224
OTHER ASSETS	215,265	321,678	-106,413
Total assets	$14,722,743,439	$11,372,622,764	$3,350,120,675

[a]In 1970 the Federal Home Loan Bank Board revised its statement presentation by adding some accounts and combining some items which were shown separately in 1969. The amounts at December 31, 1969, have been reclassified to make them comparable with the amounts at December 31, 1970.

[b]The market value of securities at December 31, 1970, was $3,633,333,335.

The notes following schedule 7 are an integral part of this statement.

L I A B I L I T I E S   A N D   C A P I T A L

	December 31, 1970	December 31, 1969	Increase or decrease(-)
DEPOSITS:			
Members:			
Time	$ 1,998,832,914	$ 710,325,137	$1,288,507,777
Demand	332,007,386	330,327,093	1,680,293
Government instrumentalities--demand	1,125,648	494,490	631,158
Applicants for membership	171,350	292,800	-121,450
Total deposits	2,332,137,298	1,041,439,520	1,290,697,778
ACCRUED INTEREST PAYABLE	219,130,336	173,719,110	45,411,226
ACCOUNTS PAYABLE	102,288,716	331,074	101,957,642
DIVIDENDS PAYABLE	10,323,063	16,341,098	-6,018,035
UNAMORTIZED BOND PREMIUM	-	74,666	-74,666
OTHER DEFERRED CREDITS	3,894,919	440,389	3,454,530
OTHER LIABILITIES	4,563,628	-	4,563,628
CONSOLIDATED OBLIGATIONS (note 4)	10,183,020,000	8,422,000,000	1,761,020,000
Total liabilities	12,855,357,960	9,654,345,857	3,201,012,103
CAPITAL STOCK $100 PAR VALUE:			
Total paid in on subscriptions	1,607,228,300	1,478,226,925	129,001,375
RETAINED EARNINGS (schedule 6):			
Legal reserve (note 5)	181,763,887	165,526,977	16,236,910
Unreserved earnings	78,393,292	74,523,005	3,870,287
Total retained earnings	260,157,179	240,049,982	20,107,197
Total capital	1,867,385,479	1,718,276,907	149,108,572
Total liabilities and capital	$14,722,743,439	$11,372,622,764	$3,350,120,675

SCHEDULE 5

FEDERAL HOME LOAN BANKS

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME AND EXPENSE

FOR THE YEARS ENDED

DECEMBER 31, 1970, AND DECEMBER 31, 1969

	December 31, 1970	December 31, 1969	Increase or decrease(-)
EARNED INCOME:			
Interest on advances	$760,139,441	$449,234,132	$310,905,309
Interest on other loans	276,374	253,640	22,734
Interest on securities	177,787,133	111,918,748	65,868,385
Interest on mortgage loans	4,120,840	-	4,120,840
Income from other services	156,408	-	156,408
Miscellaneous	1,310,737	23,912	1,286,825
Total income	943,790,933	561,430,432	382,360,501
COSTS AND EXPENSES:			
Interest and other financing costs:			
Interest and concessions for marketing consolidated obligations	779,830,487	406,260,357	373,570,130
Expenses of fiscal agent	954,129	453,005	501,124
Interest on members' deposits	68,131,072	49,345,846	18,785,226
Gain (-) or loss on sale of securities	-2,470,860	1,622,888	-4,093,748
Fees for servicing mortgage loans	160,668	-	160,668
Total interest and other financing costs	846,605,496	457,682,096	388,923,400
Other costs and expenses:			
Employee compensation and benefit costs	7,446,277	5,317,187	2,129,090
Travel	562,768	423,809	138,959
Other administrative expenses	8,437,931	6,472,247	1,965,684
Total other costs and expenses	16,446,976	12,213,243	4,233,733
Income (-) and expense adjustments--prior years	-2,617	-	-2,617
Total costs and expenses	863,049,855	469,895,339	393,154,516
Net income	$ 80,741,078	$ 91,535,093	$-10,794,015

GAO note: In 1970 the Federal Home Loan Bank Board revised its statement presentation by adding some accounts and combining some items which were shown separately in 1969. The amounts at December 31, 1969, have been reclassified to make them comparable with the amounts at December 31, 1970.

FEDERAL HOME LOAN BANKS

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1970

	Legal reserve (note 5)	Unreserved earnings
BALANCE, DECEMBER 31, 1969	$165,526,977	$ 74,523,005
Add:		
Net income for year ended December 31, 1970 (schedule 5)	-	80,741,078
Adjustment for capitalization of furniture and equipment	-	443,471
TRANSFERS TO LEGAL RESERVE FROM UNRESERVED EARNINGS	16,236,910	-16,236,910
	181,763,887	139,470,644
Less dividends declared	-	61,077,352
BALANCE, DECEMBER 31, 1970 (schedule 4)	$181,763,887	$ 78,393,292

The notes following schedule 7 are an integral part of this statement.

SCHEDULE 7

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF SOURCES AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1970

FUNDS PROVIDED:		
Repayment of advances made to members		$ 1,929,813,667
Investments redeemed or sold (at amortized cost)		11,775,185,434
Sale of consolidated obligations		8,115,000,000
Capital paid in by members		153,972,875
Repayment on loan for office building--Federal Home Loan Bank Board		241,000
Net changes in other assets and liabilities		1,432,178,833
Total funds provided		$23,406,391,809
FUNDS APPLIED:		
Net decrease in funds resulting from operations:		
Amortization of net discount on investments	$86,012,911	
Less net income for the period ($80,741,078) and depreciation of bank premises and furnishings ($880,516)	81,621,594	
Net decrease		$ 4,391,317
Advances made to members		3,255,378,340
Advances to Federal Home Mortgage Corporation		2,120,000
Loans guaranteed by Agency for International Development		6,310,885
Purchases of investments		13,696,794,689
Redemption of consolidated obligations		6,347,950,000
Repurchase of capital stock		24,971,500
Dividends declared on capital stock		61,077,352
Purchase of furniture and equipment		5,644,845
Construction of bank premises		1,752,881
Total funds applied		$23,406,391,809

NOTES TO THE FINANCIAL STATEMENTS

1. Securities consist of U.S. Treasury special issues, bills, notes, and bonds, and various securities under resale agreements.

2. Of advances to members, $10,419,148,258 was secured by pledges of collateral consisting of home mortgages, capital stock of the Federal home loan banks, obligations of the United States, and other authorized collateral having a total face value of $21,826,082,023.

3. In July 1970 the Federal home loan banks began to capitalize expenditures for items of a fixed or permanent nature such as bank premises, furniture and equipment, and computer equipment. The net amount shown for bank premises and furnishings represents the cost of land, and the cost of office buildings, furniture and equipment less accumulated depreciation.

4. Consolidated obligations are the joint and several liabilities of all Federal home loan banks and are not guaranteed by the U.S. Government. The amount shown at December 31, 1970, represents the total unmatured obligations of $10.189 billion less $6 million held for retirement by four Federal home loan banks. Of the $10.183 billion outstanding, $5.994 billion represents the current portion of the liability.

5. The Federal Home Loan Bank Act, as amended, requires each Federal home loan bank to transfer semiannually to a reserve account 20 percent of its net earnings until the reserve account equals 100 percent of its paid-in capital; thereafter each bank must add 5 percent of its net earnings semiannually. At December 31, 1970, the legal reserve of $181,763,887 was 11.3 percent of the total paid-in capital of $1,607,228,300.

FINANCIAL STATEMENTS

OF

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

SCHEDULE 8

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1970, AND DECEMBER 31, 1969

ASSETS	December 31, 1970	December 31, 1969	Increase or decrease (-)
CASH (principally with the U.S. Treasury)	$ 2,333,841	$ 5,977,073	$ -3,643,232
ACCOUNTS RECEIVABLE	747,581	5,463,114	-4,715,533
INVESTMENTS AT AMORTIZED COST (note 1)	2,505,261,923	2,387,898,260	117,363,663
ACCRUED INTEREST ON INVESTMENTS	34,078,084	27,913,255	6,164,829
ASSETS ACQUIRED FROM INSURED INSTITUTIONS (after allowance for losses)	170,622,889	101,312,515	69,310,374
LOANS TO INSURED INSTITUTIONS AND ACCRUED INTEREST	100,649,718	96,433,530	4,216,188
SUBROGATED ACCOUNTS IN INSURED INSTITUTIONS IN LIQUIDATION (after allowance for losses)	143,335,819	203,523,377	-60,187,558
INSURED ACCOUNTS IN INSURED INSTITUTIONS IN LIQUIDATION (pending and unclaimed accounts)	364,369	459,273	-94,904
DEFERRED CHARGES AND OTHER ASSETS	77,838	32,945	44,893
Total assets	$2,957,472,062	$2,829,013,342	$128,458,720
LIABILITIES AND RESERVES			
MISCELLANEOUS ACCRUED AND OTHER LIABILITIES (note 2)	$ 5,345,112	$ 7,473,033	$ -2,127,921
PENDING AND UNCLAIMED ACCOUNTS IN INSURED INSTITUTIONS	364,369	459,273	-94,904
ALLOWANCE FOR ESTIMATED LOSSES--CONTRIBUTION AGREEMENTS	28,107,418	10,101,648	18,005,770
DEFERRED CREDITS	20,813,650	9,651,439	11,162,211
PRIMARY RESERVE (schedule 9) (note 3)	1,394,111,242	1,243,107,277	151,003,965
SECONDARY RESERVE (premium prepayments) (notes 3 and 4)	1,508,730,271	1,558,220,672	-49,490,401
Total liabilities and reserves	$2,957,472,062	$2,829,013,342	$128,458,720

The notes following schedule 10 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, 1970, AND DECEMBER 31, 1969

	December 31, 1970	December 31, 1969	Increase or decrease(-)
INCOME:			
Insurance premiums and admission fees (note 5)	$ 111,170,310	$ 161,771,457	$-50,601,147
Interest on U.S. and Federal agency securities	138,765,795	114,330,342	24,435,453
Interest on loans to insured institutions	3,764,443	2,831,803	932,640
Income on assets acquired from insured institutions	10,713,409	7,793,314	2,920,095
Miscellaneous	121,099	56,293	64,806
Total income	264,535,056	286,783,209	-22,248,153
EXPENSES:			
Administrative expenses	381,230	322,995	58,235
Services rendered by Federal Home Loan Bank Board	9,382,681[a]	7,425,712[a]	1,956,969
Insurance settlement and other expenses	5,978,243	5,580,642	397,601
Net provision for losses	14,900,274	-4,512,616	19,412,890
Interest applicable to premium prepayments credited to members' equity in secondary reserves	82,888,663	71,916,270	10,972,393
Total expenses	113,531,091	80,733,003	32,798,088
Net income transferred to primary reserve	151,003,965	206,050,206	-55,046,241
BALANCE, PRIMARY RESERVE, AT THE BEGINNING OF THE YEAR	1,243,107,277	1,037,057,071	206,050,206
BALANCE, PRIMARY RESERVE, AT END OF YEAR	$1,394,111,242	$1,243,107,277	$151,003,965

GAO note:

[a]This amount differs from the amount shown in schedule 2 by $63,892 in 1970 and $72,674 in 1969 due to corrections in the billings after the books were closed. The Corporation and the Board made the appropriate adjustments in the following year.

The notes following schedule 10 are an integral part of this statement.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

STATEMENT OF SOURCES AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1970

FUNDS PROVIDED BY:	
Repayment of loans	$ 14,237,491
Sale of acquired security or collateral	116,928,100
Income on assets acquired from insured institutions	10,713,409
Gain on assets acquired from insured institutions	52,886
Interest on investments and loans	142,530,238
Insurance premiums and admission fees	111,170,310
Retention of return on insurance premium prepayments	84,610,406
Miscellaneous income	121,099
Proceeds from sales and redemptions of securities	1,959,480,000
Decrease in cash balance	3,644,447
Decrease in selected working capital	24,598,150
	$2,468,086,536
FUNDS APPLIED TO:	
Loans made to and mortgages acquired from insured institutions	$ 84,489,055
Cost of security or collateral acquired	30,572,509
Purchase of fixed assets	7,937
Other expenses applied to costs	42,165,413
Administrative espenses	381,230
Other operating expenses	15,356,923
Refund and transfer of premium prepayments	134,100,806
Return on additional premiums--prepayment	82,888,663
Purchase of securities	2,078,124,000
	$2,468,086,536

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

NOTES TO FINANCIAL STATEMENTS

1. The 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, 1970 Amortized cost	December 31, 1970 Market value	December 31, 1969 Amortized cost	December 31, 1969 Market value
	(millions)			
U.S. Treasury securities	$2,344	$2,311	$2,228	$2,043
Federal National Mortgage Association obligations	161	152	160	136
	$2,505	$2,463	$2,388	$2,179

2. Miscellaneous accrued and other liabilities includes the Corporation's estimate of losses of $502,237 as of December 31, 1970, and $567,928 as of December 31, 1969, 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. On the basis of reports from purchasers of the loans and contracts, the unpaid principal balance of the loans and contracts sold was about $10 million at December 31, 1970, and about $11 million at December 31, 1969.

3. 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 institutions currently in financial difficulty.

4. During 1970 each insured institution's pro rata share in the secondary reserve was applied toward payment of its regular annual insurance premium in accordance with section 404(g) of the National Housing Act, as amended in December 1969 (83 Stat. 375). This practice will continue until the combined amount of primary and secondary reserves falls below 1.75 percent of the total amount of all accounts of all insured institutions.

5. Prior to December 1969 insurance premiums assessed were amortized and taken into income in equal monthly installments. Since the Corporation considers that no portion of the insurance premiums is refundable, the Corporation revised its accounting for insurance premiums earned to show all premiums earned when the institutions are assessed. As a result, about $52 million in additional insurance premiums were taken into income in 1969.

6. At December 31, 1970, there were 25 legal actions pending final adjudication or appeal wherein the Corporation was named defendant or codefendant involving claims that had an estimated maximum liability of about $16 million. An Associate General Counsel of the Board is of the opinion that the Corporation's actual liability as a result of these 25 pending legal actions will be substantially less than $16 million. The Corporation's contingent liability on these claims has not been recognized in the accounts.

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