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REPORT TO THE CONGRESS

Examination Of Financial
Statements Of The
Federal Home Loan Bank Board
For The Year Ended
December 31, 1969

B-114827

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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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 for the year ended December 31, 1969, pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

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

A handwritten signature in cursive script, appearing to read "A. H. Kellner".

Acting Comptroller General
of the United States

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D I G E S T

WHY THE EXAMINATION WAS MADE

The examination was made because of the interrelationship of the Federal Home Loan Bank Board's activities with those of the Federal home loan banks and the Federal Savings and Loan Insurance Corporation. These agencies are supervised by the Board, and the Comptroller General of the United States is required by the Government Corporation Control Act to make an annual audit of their activities and report the results to the Congress. Reports on the audits of each of these agencies for calendar year 1969 will be submitted to the Congress.

The basic functions of the Board are to

- provide, through 12 Federal home loan banks, reserve banking facilities for member savings and home-financing institutions,
- direct the operations of the Federal Savings and Loan Insurance Corporation, and
- charter Federal savings and loan associations and regulate Federal and insured State-chartered savings and loan associations.

The Federal Home Loan Bank Act, as amended November 3, 1966, authorized the Board, through utilization of the services of the Administrator of General Services, to acquire real property in the District of Columbia and to construct and equip such buildings as needed for use by the Board and the agencies under its supervision.

In connection with its annual examination of the Board, the General Accounting Office (GAO) has made an audit, as required by the above-mentioned act, of the accounts relating to the acquisition of the land and the construction of buildings for calendar year 1969.

FINDINGS AND CONCLUSIONS

In the opinion of GAO, the financial statements of the Federal Home Loan Bank Board present fairly the financial position of the Board at December 31, 1969, and its income and expenses and the sources and application of its funds for the year then ended, in conformity with the

principles and standards of accounting prescribed by the Comptroller General, applied on a basis consistent with that of the preceding year.

By December 31, 1969, the Board had transferred \$6,025,200 to a fund account to be used by the General Services Administration for the acquisition of a site and preparation for construction of a new building for the Board and the agencies under its supervision. As of that date, \$5,548,066 had been deposited with the U.S. District Court for the District of Columbia for acquisition of land for a new building and the General Services Administration had incurred costs of \$417,898 for site studies, appraisals, and building design. Title to this land was acquired in the name of the United States on January 17, 1968, by institution of condemnation proceedings by the Attorney General. (See p. 9.)

RECOMMENDATIONS OR SUGGESTIONS

None.

AGENCY ACTIONS AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report contains no recommendations or suggestions requiring action by the Congress. It is submitted to the Congress to apprise it of the results of GAO's examination of the financial statements of the Board and of GAO's audit of the accounts relating to the acquisition of the land and the construction and equipping of the new building.

CHAPTER 1

INTRODUCTION

The General Accounting Office has examined the financial statements of the Federal Home Loan Bank Board, an independent supervisory and regulatory agency, for the year ended December 31, 1969. The scope of our examination is described on page 10 of this report.

The Federal Home Loan Bank Board is directed by a three-man board. The three members are appointed by the President of the United States by and with the advice and consent of the Senate.

During calendar year 1969, the following individuals served on the Board:

	<u>Term of office</u>			
	<u>From</u>		<u>To</u>	
Preston Martin, Chairman	Mar.	1969	June	1974
Carl O. Kamp, Jr.	May	1969	June	1971
Thomas Hal Clarke	July	1969	June	1973
Robert L. Rand, Acting Chairman	Oct.	1966	Mar.	1969
Michael Greenebaum	Apr.	1965	June	1969

The Board does not receive appropriated funds to carry out its activities; its expenses are financed by (1) charges to savings and loan institutions to cover most of the cost of examinations and (2) assessments against the Federal home loan banks and the Federal Savings and Loan Insurance Corporation to cover administrative expenses and expenses incurred in supervising savings and loan institutions. Limitations are placed by the Congress on the amount that may be expended by the Board each fiscal year for (1) administrative expenses and (2) nonadministrative expenses incurred in making regular examinations and in supervising savings and loan institutions. The expenses of the Board for the fiscal year ended June 30, 1969, were within the prescribed limitations.

CHAPTER 2

OPERATIONS

The activities of the Board consist principally of (1) regulating and supervising the operations of Federal home loan banks which provide banking facilities to their member institutions, (2) directing the operations of the Federal Savings and Loan Insurance Corporation, which insures deposits up to the statutory amount of \$20,000 for each insured member, (3) chartering Federal savings and loan associations, and (4) regulating and examining Federal and insured State-chartered savings and loan associations.

The number and total assets of the organizations supervised by the Board at December 31, 1969, were as follows:

<u>Number</u>	<u>Organization</u>	<u>Total assets (billions)</u>
12	Federal home loan banks	\$11.4
1	Federal Savings and Loan Insurance Corporation	2.8
2,071	Federal savings and loan associations	87.3
2,367	Insured State-chartered savings and loan associations	69.5

Under a contract with the Board, the University of Pennsylvania submitted, in July 1969, the results of its comprehensive study of the savings and loan industry, the supervisory functions of the Board, and the operations of the Federal home loan banks. Although not endorsing the findings of the study, the Chairman of the Board stated that the study was being constantly used in reviews of major policies and procedures of the Federal Home Loan Bank System.

FEDERAL SAVINGS AND LOAN ASSOCIATIONS

Under the Home Owners' Loan Act of 1933 (12 U.S.C. 1464), the Board charters Federal savings and loan associations in which people may invest their savings and obtain home financing. The Board makes no charges for considering applications for charters or for granting charters. The

2,071 Federal savings and loan associations supervised by the Board at December 31, 1969, represented a net increase of eight during the year then ended and constituted about 35 percent of all savings and loan institutions (including 1,460 uninsured and nonmember institutions). The combined assets of the 2,071 Federal associations constituted about 52 percent of the total assets of all savings and loan institutions.

The Board has prescribed regulations governing the organization of Federal savings and loan associations, the form of charter to be issued to associations, and the bylaws under which chartered associations shall operate. The uniform Federal charters set forth the general objectives and powers of Federal associations and include provisions relating to voting rights of members, election of directors, appointment of officers, ownership rights of shareholders, distribution of net earnings, and distribution of net assets in the event of liquidation of an association. The bylaws provide for meetings of the members and of the boards of directors and specify the powers of the boards of directors.

Other regulations prescribed by the Board pertain to the making of loans, establishment of branch offices, accounting practices to be followed, submission of financial reports, and examinations and audits. Also, the regulations state the conditions under which mergers or dissolutions of associations may be effected, with approval of the Board, and specify procedures for the administration of conservatorships and receiverships.

The Board has the authority also to prescribe rules governing all member associations' advertisement and payment, including limitations thereon, of interest or dividends on deposits, shares, or withdrawable accounts. Before exercising this authority, the Board must consult with the Board of Governors of the Federal Reserve System and the Board of Directors of the Federal Deposit Insurance Corporation. This authority is effective until March 22, 1971.

SUPERVISION AND EXAMINATION OF SAVINGS AND LOAN ASSOCIATIONS

The supervision of Federal and insured State-chartered savings and loan associations 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. For insured State-chartered associations, the Board coordinates its supervisory activities with those of the State supervisory authorities.

The supervisory objectives of the Board are to obtain member associations' compliance with applicable laws and regulations and to avoid the development or continuance of unsafe or unsound financial practices by the associations. The Board, if it is unable to achieve these objectives by informal means, is empowered to issue cease and desist orders and, under certain conditions, to suspend and remove officers and directors of insured associations. The Board, acting in behalf of the Federal Savings and Loan Insurance Corporation, is further empowered to terminate the insurance of any association that (1) is in an unsafe or unsound condition to continue operations, (2) violates its duties as an insured association, (3) engages in unsafe or unsound practices, or (4) violates an applicable law, rule, regulation, or order or any condition imposed by the Corporation.

Information upon which supervision is based is obtained primarily through examinations of the insured associations and savings and loan holding companies conducted by the Board's Office of Examinations and Supervision, either unilaterally or jointly with State examiners, and audits conducted by independent accountants retained by the insured associations.

Examination and audit reports are transmitted to the district supervisory agents for their review and such supervisory action as may be necessary. In addition, the Office of Examinations and Supervision reviews, on a test basis, both the examination and audit reports and the actions taken by the district supervisory agents. The Office of Examinations and Supervision and the district supervisory agents also review monthly and semiannual financial statements submitted by the insured associations.

Examinations of Federal and insured State-chartered savings and loan associations by the Board include a review of the associations' financial condition, compliance with applicable laws and regulations, and operating practices. The examinations also cover other matters of supervisory interest, such as reserve policies, adequacy of reserves, potential losses, lending policies, character of mortgage loans, earnings and expenses, loan collection policies, consistency of competitive practices with general standards of the savings and loan business, and possible improper use of position by any official or employee. The Board has authority to examine affiliates of insured associations and to examine, and to take testimony under oath as to, the affairs or ownership of any such association or affiliate.

During the period January 1 to December 31, 1969, the Board's Office of Examinations and Supervision made 2,135 examinations of Federal savings and loan associations and 2,375 examinations of insured State-chartered associations-- of which 2,249 were conducted jointly with State examiners. In accordance with the Board's policy, the examinations at each of the associations were made at intervals of approximately 12 months.

In addition, the Office of Examinations and Supervision made 14 eligibility examinations of State-chartered associations applying for insurance of accounts by the Federal Savings and Loan Insurance Corporation and membership in the Federal Home Loan Bank System and 250 miscellaneous examinations.

RESULTS OF OPERATIONS

The Board's comparative statement of revenue, expense, and retained earnings for the years ended December 31, 1968, and December 31, 1969, is presented in schedule 2. The following summary shows the Board's assessments and examination fees, the expenses allocated to examination and supervision of the savings and loan institutions, and the administrative expenses, for the year ended December 31, 1969. The summary shows also revenue and expenses for services performed for other Federal agencies, such as printing and reproduction, and revenue from leases related to the site acquired for the construction of a new building.

	<u>Total</u>	<u>Supervised organizations</u>			<u>Services provided for other Federal agencies</u>	<u>Land and building</u>
		<u>Savings and loan institutions</u>	<u>Federal home loan banks</u>	<u>Federal Savings and Loan Insurance Corporation</u>		
Revenue						
Assessments and examining fees	\$19,559,152	\$9,060,285	\$3,145,829	\$7,353,038	\$ -	\$ -
Reimbursements for services performed for other Federal agencies	144,363	-	-	117,132	27,231	-
Leases--Federal Home Loan Bank Board property	183,944	-	73,037	-	-	110,907
Miscellaneous	<u>6,303</u>	<u>1,489</u>	<u>4,814</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>19,893,762</u>	<u>9,061,774</u>	<u>3,223,680</u>	<u>7,470,170</u>	<u>27,231</u>	<u>110,907</u>
Expenses						
Examination of savings and loan institutions						
Regular	11,966,378	8,531,762	-	3,434,616	-	-
Special	896,381	271,986	443,545	180,850	-	-
Supervision of savings and loan institutions	1,230,339	-	639,776	590,563	-	-
Services performed for other Federal agencies	144,363	-	-	117,132	27,231	-
Administrative	5,159,032	-	2,012,023	3,147,009	-	-
Land and buildings	<u>-103</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-103</u>
	<u>19,396,390</u>	<u>8,803,748</u>	<u>3,095,344</u>	<u>7,470,170</u>	<u>27,231</u>	<u>-103</u>
Revenue in excess of expenses	\$ <u>497,372</u>	\$ <u>258,026</u>	\$ <u>128,336</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>111,010</u>

The Board's statement of sources and application of funds for the year ended December 31, 1969, is presented in schedule 3.

CONSTRUCTION OF NEW BUILDING

Section 18 of the Federal Home Loan Bank Act, as amended (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 such buildings as the Board may deem advisable for use by the Board and the agencies under its supervision.

The act provides that (1) no obligations shall be incurred in excess of \$21.6 million to acquire the land and to construct and equip such buildings, (2) the Board may finance such acquisition of land and buildings from assessments against, or from advances of, funds from the Federal home loan banks, and (3) the advances shall be apportioned by the Board among the banks in proportion to the total assets of the respective banks and that repayment to the banks will be made by the Board over a period of not more than 25 years at 4-1/2-percent interest per annum.

The act provides also that an annual audit shall be made by the General Accounting Office of the accounts relating to acquisition of land and construction and equipping of buildings. Therefore, we audited these accounts for calendar year 1969.

At December 31, 1969, the Board had a liability of \$5,633,680 for advances obtained from the Federal home loan banks for the acquisition of a site and preparation for construction of a new building. The Board transferred \$6,025,200 to a fund account to be used by the General Services Administration for these purposes. As of December 31, 1969, the General Services Administration had deposited \$5,548,066 with the U.S. District Court for the District of Columbia for acquisition of land for the new building and had incurred costs of \$417,898 for site studies, appraisals, and building design. Title to this land was acquired in the name of the United States on January 17, 1968, by institution of condemnation proceedings by the Attorney General.

CHAPTER 3

SCOPE OF EXAMINATION

Our examination of the Federal Home Loan Bank Board for the year ended December 31, 1969, 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 Office of Audits, to determine the adequacy of the prescribed procedures, (3) reports on examinations and audits, to the extent deemed appropriate, and (4) the Board's financial statements in accordance with generally accepted auditing standards, including an examination of selected financial transactions and such tests of the accounting records as we considered necessary in the circumstances.

CHAPTER 4

OPINION OF FINANCIAL STATEMENTS

The financial statements--schedules 1, 2, and 3--were prepared by the Federal Home Loan Bank Board.

In our opinion these financial statements present fairly the financial position of the Federal Home Loan Bank Board at December 31, 1969, and its income and expenses and the sources and application of its funds for the year then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General of the United States, applied on a basis consistent with that of the preceding year.

The Board advised us that it had changed its target date from calendar year 1969 to calendar year 1970 for formal submission of its accounting principles and standards and its accounting system to the Comptroller General for approval.

FINANCIAL STATEMENTS

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 FINANCIAL CONDITION

AS OF

DECEMBER 31, 1969, AND DECEMBER 31, 1968

	December 31, <u>1969</u>	December 31, <u>1968</u>	Increase or <u>decrease(-)</u>
ASSETS			
CASH WITH THE U.S. TREASURY	\$ <u>1,112,915</u>	\$ <u>1,150,936</u>	\$ <u>-38,021</u>
ACCOUNTS RECEIVABLE.			
Examination fees from savings and loan institutions	929,214	966,779	-37,565
Assessments against Federal home loan banks	313,134	348,508	-35,374
Assessments against the Federal Savings and Loan Insurance Corporation	1,445,404	902,291	543,113
Advances to employees	258,399	275,863	-17,464
Other	<u>12,082</u>	<u>13,565</u>	<u>-1,483</u>
Total accounts receivable	<u>2,958,233</u>	<u>2,507,006</u>	<u>451,227</u>
INVENTORY--supplies	<u>17,722</u>	<u>19,667</u>	<u>-1,945</u>
FIXED ASSETS			
Land and building	5,965,964	5,481,722	484,242
Furniture, fixtures, and equip- ment--net	<u>630,894</u>	<u>653,728</u>	<u>-22,834</u>
Total fixed assets	<u>6,596,858</u>	<u>6,135,450</u>	<u>461,408</u>
Total assets	<u>\$10,685,728</u>	<u>\$9,813,059</u>	<u>\$872,669</u>
LIABILITIES AND CAPITAL			
ACCOUNTS PAYABLE AND ACCRUED LIA- BILITIES	\$ 1,866,509	\$1,932,232	\$-65,723
LIABILITY FOR EMPLOYEES' ACCRUED ANNUAL LEAVE	1,265,523	1,199,183	66,340
LOANS PAYABLE TO FEDERAL HOME LOAN BANKS	<u>5,633,680</u>	<u>5,259,000</u>	<u>374,680</u>
Total liabilities	<u>8,765,712</u>	<u>8,390,415</u>	<u>375,297</u>
CAPITAL, RETAINED EARNINGS (schedule 2)	<u>1,920,016</u>	<u>1,422,644</u>	<u>497,372</u>
Total liabilities and capital	<u>\$10,685,728</u>	<u>\$9,813,059</u>	<u>\$872,669</u>

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, 1969, AND DECEMBER 31, 1968

	<u>Calendar year 1969</u>	<u>Calendar year 1968</u>	<u>Increase or decrease(→)</u>
REVENUE:			
Examination fees--examination of savings and loan institutions	\$ 9,060,285	\$ 9,821,792	\$ -761,507
Assessments against			
Federal home loan banks	3,145,829	2,818,323	327,506
" Savings and Loan Insur- ance Corporation	7,353,038	5,870,779	1,482,259
Reimbursements for services per- formed for other agencies	144,363	223,945	-79,582
Leases--Federal Home Loan Bank Board property	183,944	106,931	77,013
Conservatorship	-	36,013	-36,013
Miscellaneous	<u>6,303</u>	<u>3,902</u>	<u>2,401</u>
Total income	<u>19,893,762</u>	<u>18,881,685</u>	<u>1,012,077</u>
EXPENSES:			
Personnel compensation	14,167,889	13,227,845	940,044
" benefits	1,076,465	1,030,099	46,366
Travel and transportation of persons	2,237,727	2,403,911	-166,184
Transportation of things	10,155	10,304	-149
Rent, communications, and utilities	970,907	918,216	52,691
Printing and reproduction	178,613	71,881	106,732
Other services	175,688	374,492	-198,804
Services of other agencies	57,788	43,606	14,182
Supplies and materials	156,320	136,971	19,349
Depreciation of furniture, fix- tures, and equipment and acquisi- tion of expendable property items	112,578	121,606	9,028
Interest on Federal home loan bank loans	<u>252,260</u>	<u>236,377</u>	<u>15,883</u>
Total expenses	<u>19,396,390</u>	<u>18,575,308</u>	<u>821,082</u>
REVENUE IN EXCESS OF EXPENSES	497,372	306,377	190,995
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>1,422,644</u>	<u>1,116,267</u>	<u>306,377</u>
RETAINED EARNINGS AT END OF YEAR (schedule 1)	<u>\$ 1,920,016</u>	<u>\$ 1,422,644</u>	<u>\$ 497,372</u>

FEDERAL HOME LOAN BANK BOARD

STATEMENT OF SOURCES AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1969

FUNDS PROVIDED BY:

Examination fees and charges	\$ 9,060,285
Assessments against Federal home loan banks	3,145,829
Assessments against the Federal Savings and Loan Insurance Corporation	7,353,038
Loans from the Federal home loan banks	592,000
Reimbursements from other agencies	144,363
Leases--Federal Home Loan Bank Board property	183,944
Miscellaneous	6,303
Decrease in cash balance	<u>38,021</u>
	<u>\$20,523,783</u>

FUNDS APPLIED TO:

Administrative expenses	\$ 5,111,942
Nonadministrative expenses	14,175,405
Purchase of building site	484,242
Repayment of loans to Federal home loan banks	217,320
Purchase of furniture, fixtures, and equipment	86,209
Net increase in other assets and liabilities	<u>448,665</u>
	<u>\$20,523,783</u>