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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D. C. 20548

CIVIL DIVISION

MAR 7 1969

Dear Mr. Rand:

During our audit of the financial statements of the Federal home loan banks for calendar year 1968, we have noted that the Federal Home Loan Bank Board may be able to reduce the cost of bank examinations by staffing the examination work with association examiners rather than with bank examiners without, in our opinion, impairing the quality of the bank examinations.

There are about eight bank examiners and one chief bank examiner, under the direction of the Board's Office of Audits, who conduct an annual examination of each of the 12 Federal home loan banks. Except for the chief bank examiner who spends a large part of his time in Washington, D. C., the bank examiners are in travel status for about 10 months of each year. For calendar year 1968, the total travel cost for the bank examiners was about \$35,000.

The Board has sizable staffs of association examiners, under the direction of the Board's Office of Examinations and Supervision, permanently stationed in each city where a Federal home loan bank is located. We believe that it may be feasible to utilize the association examiners stationed in the city in which the Federal home loan bank is located to perform the examination of that bank. Although the use of association examiners to examine a bank would not eliminate all travel because there would remain the need for supervision of the bank examination by an experienced bank examiner from the Washington office, it would eliminate a substantial amount of travel cost since the examination work would be performed by personnel who are permanently stationed in the city where the bank is located.

Based on our review of the examination program used by the bank examiners, it appears that the bank examination work could be performed by the association examiners who are experienced in the examination of financial transactions of the savings and loan associations. Further, we believe that the quality of a bank examination would not be impaired provided that the examination work is performed under the supervision of an experienced supervisory bank examiner.

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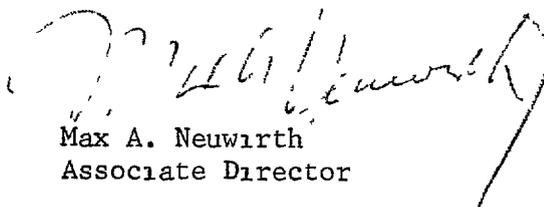
We believe also that the use of association examiners to perform bank examinations would help eliminate the problem of recruiting bank examiners. At the present time such examiners must be willing to travel about 10 months a year. If the association examiners were used, the difficult task of recruiting persons who are willing to travel so extensively would be reduced considerably.

In discussing this matter with the Director of the Office of Audits, he indicated that the above suggestion was feasible provided the association examiners were supervised by experienced bank examiners. The Director, Office of Examinations and Supervision, stated that, while his staff probably could perform the bank examinations, he was concerned that this could disturb the working relationships between the chief district examiners and the supervisory officials of the banks in connection with examination and supervision of savings and loan associations.

We do not believe that the performance of bank examinations by association examiners would seriously disturb their working relationship with the banks' supervisory officials since the bank examination consists primarily of verification of financial transactions and review of compliance with laws and regulations. Also, the association examiners engaged in the bank examination could be placed under the direction of the Office of Audits for the duration of the examination so as to free the chief district examiners of responsibility in that area.

We would appreciate your views on this matter within 30 days.

Sincerely yours,



Max A. Neuwirth
Associate Director

The Honorable Robert L. Rand
Acting Chairman
Federal Home Loan Bank Board

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