REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Examination Of Financial Statements Of Federal Home Loan Bank Board And Related Agencies For The Year Ended December 31, 1975

Federal Home Loan Bank Board
Federal Home Loan Banks
Federal Savings and Loan Insurance Corporation
Federal Home Loan Mortgage Corporation

[redacted]

FOD-76-19 AUG. 16, 1976

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

B-114827

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

This report summarizes the results of our examination of the financial statements of the Federal Home Loan Bank Board, the Federal home loan banks, the Federal Savings and Loan Insurance Corporation, and the Federal Home Loan Mortgage Corporation for the year ended December 31, 1975.

We made our examination 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); the Federal Home Loan Bank Act, as amended (12 U.S.C. 1431(j)); and the Federal Home Loan Mortgage Corporation Act (12 U.S.C. 1456(b)).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; the Acting Chairman of the Federal Home Loan Bank Board; and the Acting Chairman of the Board of Directors of the Federal Home Loan Mortgage Corporation.

Elmer B. Staats

Comptroller General
of the United States

C o n t e n t s

ABBREVIATIONS

AID	Agency for International Development
FHA	Federal Housing Administration
FHLBB	Federal Home Loan Bank Board
FHLBs	Federal home loan banks
FHLMC	Federal Home Loan Mortgage Corporation
FSLIC	Federal Savings and Loan Insurance Corporation
GAO	General Accounting Office
GMC	Guaranteed Mortgage Certificate
GNMA	Government National Mortgage Association
VA	Veterans Administration

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

EXAMINATION OF FINANCIAL STATEMENTS OF FEDERAL HOME LOAN BANK BOARD AND RELATED AGENCIES FOR THE YEAR ENDED DECEMBER 31, 1975

Federal Home Loan Bank Board
Federal Home Loan Banks
Federal Savings and Loan Insurance Corporation
Federal Home Loan Mortgage Corporation

DIGEST

The Federal Home Loan Bank Act, 12 U.S.C. 1431(j)(1970), the Government Corporation Control Act, as amended, 31 U.S.C. 850 and 857 (Supp. IV, 1974), and the Federal Home Loan Mortgage Corporation Act, 12 U.S.C. 1456(b)(1970) require the Comptroller General to examine the financial transactions of the Federal home loan banks, the Federal Savings and Loan Insurance Corporation, and the Federal Home Loan Mortgage Corporation.

The Federal Home Loan Bank Board supervises the activities of the banks and both Corporations; therefore, GAO included the Board's financial statements in its examination.

In GAO's opinion, the financial statements included in this report present fairly the financial position of the Board, banks, and both Corporations at December 31, 1975 and 1974 and their income, expenses, and retained earnings or primary reserves and their changes in financial positions for the years then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General of the United States.

Public accounting firms audited the 12 banks and the Mortgage Corporation's financial statements for the years ended December 31, 1975 and 1974. (See p. 25.)

The Board, through its Office of Examinations and Supervision, supervises insured institutions--Federal savings and loan associations; building and loan, savings and loan, or homestead associations; and cooperative banks--whose accounts are insured by the Corporation. The Board's supervisory objectives are to obtain insured institutions' compliance 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 institutions and through independent audits. (See p. 5.)

During 1975 the Office of Examinations and Supervision examined 3,535 savings and loan institutions. The Board used the information to identify problem institutions. The most serious cases are classified as category I, financially critical, and the next most serious cases are classified as category II, not financially critical but requiring aggressive supervisory attention. (See p. 12.)

At December 31, 1975, there were 15 category I and 48 category II problem institutions with estimated insured deposits of $533 million and $3,924 million, respectively. (See p. 12.)

This report contains no recommendations to the Board.

CHAPTER 1

INTRODUCTION

In the early 1930s, the Congress established three
1 separate but interrelated organizations--the Federal Home 402
2 Loan Bank Board (FHLBB) 12 U.S.C. 1437 (1970), the Federal DLG 01199
home loan banks, (FHLBs) 12 U.S.C. 1423 (1970), and the Fed- AGC 01061
3 eral Savings and Loan Insurance Corporation (FSLIC), 12 U.S.C. 1725 (1970), as amended 12 U.S.C. 1725 (Supp. IV, 1974)--to provide economical home financing and to encourage thrift.
4 The Congress created the Federal Home Loan Mortgage Corpora- AGC 01062
tion (FHLMC) in 1970 to strengthen and further develop the secondary market in residential mortgages. 12 U.S.C. 1452 (1970) The chart on the following page depicts the relationship of major agencies and offices within the Federal Home Loan Bank System.

FEDERAL HOME LOAN BANK BOARD

The Board, an independent supervisory and regulatory agency, (1) regulates and supervises the operations of Federal home loan banks, (2) directs the operations of the Federal Savings and Loan Insurance Corporation and the Federal Home Loan Mortgage Corporation, (3) charters Federal savings and loan associations, and (4) regulates and examines institutions insured by the Federal Savings and Loan Insurance Corporation.

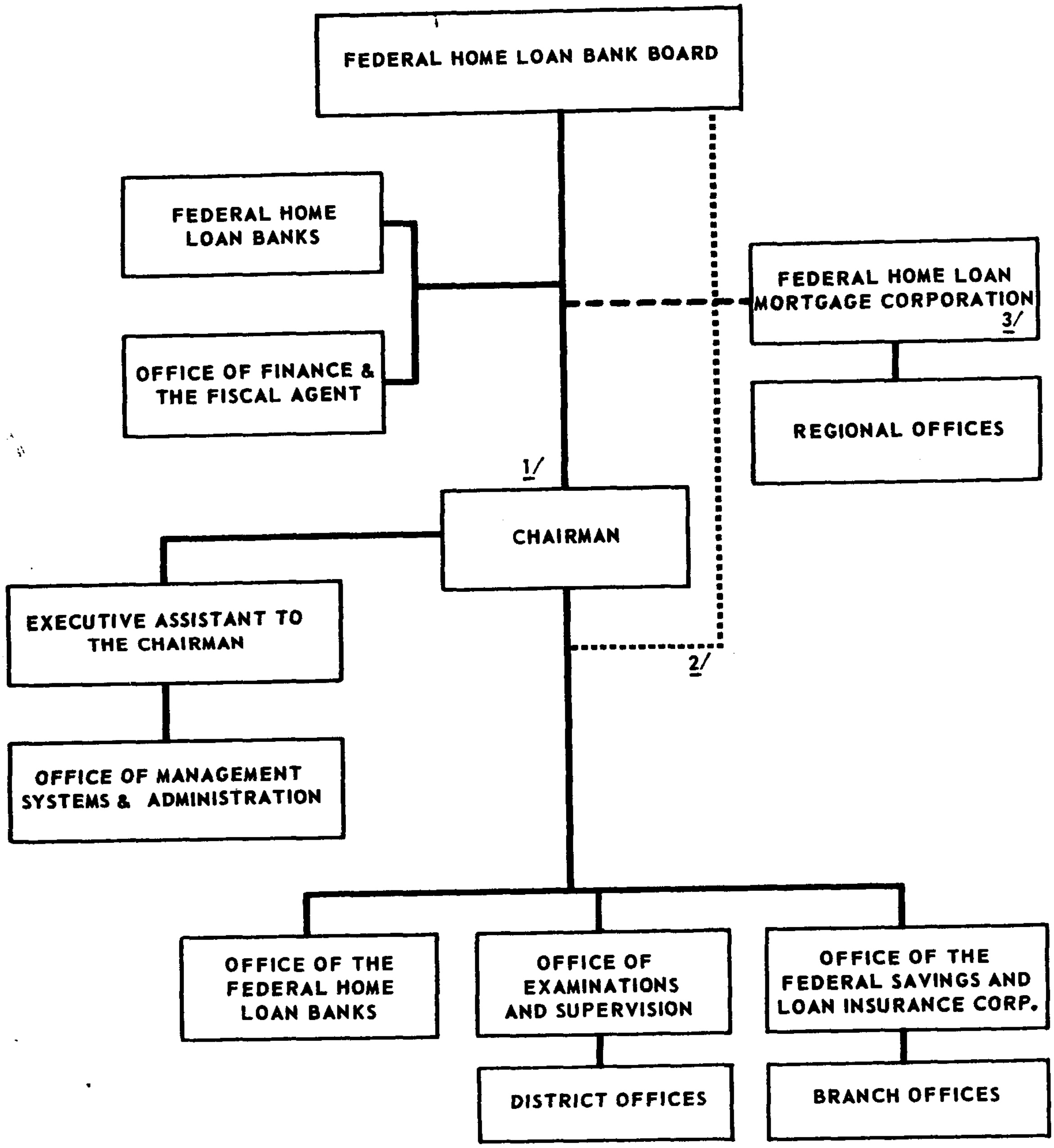
The Board is directed by a three-man board appointed for 4-year terms by the President of the United States with the advice and consent of the Senate. (See app. I.)

FEDERAL HOME LOAN BANKS

The 12 banks, corporations chartered under the Federal Home Loan Bank Act, 12 U.S.C. 1421, et seq. (1970), provide reserve banking facilities to their member institutions--which may include savings and loan associations, savings banks, insurance companies, and others--and to certain nonmember borrowers. Since inception, Federal home loan banks have provided many services to their member institutions, such as receiving deposits and providing checking accounts, investment and safekeeping services, and online computer services.

The Federal Home Loan Bank Board may create Federal home loan banks--not more than 12, nor less than 8--and may liquidate or reorganize any Federal home loan bank. The locations of the headquarters for the 12 bank districts are:

FEDERAL HOME LOAN BANK SYSTEM
ORGANIZATIONAL CHART



1/ ——— Administrative direction and coordination
2/ ••••••• Substantive responsibilities
3/ The board members of the FHLBB also serve on the Board of Directors of the Mortgage Corporation
NOTE: This chart only depicts offices with audit significance.

Boston, Massachusetts	Chicago, Illinois
New York, New York	Des Moines, Iowa
Pittsburgh, Pennsylvania	Little Rock, Arkansas
Atlanta, Georgia	Topeka, Kansas
Cincinnati, Ohio	San Francisco, California
Indianapolis, Indiana	Seattle, Washington

Each bank is operated under the direction of a Board of Directors, of which six members are appointed by the Board, and the remainder, ranging from eight to nine, 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 Insurance Corporation, a wholly owned Government corporation, insures accounts of savers up to $40,000 for each insured member in all federally chartered savings and loan associations and similar institutions upon their request and Federal Home Loan Bank Board approval.

The Board carries out certain functions of the Insurance Corporation, such as processing applications for insurance and examining insured institutions. Other operating responsibilities, such as receivership activities and liquidation of assets, are vested in a director who is appointed by the Board.

FEDERAL HOME LOAN MORTGAGE CORPORATION

The Mortgage Corporation was created by the Congress, under the Federal Home Loan Mortgage Corporation Act, 12 U.S.C. 1452 (1970). Its purpose is to increase housing availability by strengthening and further developing the secondary market in residential mortgages. The Mortgage Corporation fulfills its responsibilities by buying and selling mortgages and participations in mortgages. It purchases mortgages from members of the Federal Home Loan Bank System and from other insured financial institutions.

The Board of Directors of the Mortgage Corporation is composed of the members of the Federal Home Loan Bank Board who serve in this dual capacity without additional compensation.

BOARD, BANKS, AND CORPORATIONS ACCOUNTING SYSTEMS

The Accounting and Auditing Act of 1950, 31 U.S.C. 66(a) (1970), places responsibility for establishing and maintaining adequate systems of accounting and internal control with the head of each executive agency. These systems are required to meet the accounting principles, standards, and related requirements prescribed by the Comptroller General.

The act also requires that the Comptroller General approve accounting systems when they are deemed adequate and conform to prescribed principles, standards, and related requirements. This approval is not required of Government corporations subject to the Government Corporation Control Act, as amended, 31 U.S.C. 841 et seq. (Supp. IV, 1974) and certain quasi-governmental entities that, by law, are subject to that act. Accordingly, the accounting systems of the 12 Federal home loan banks, the Federal Savings and Loan Insurance Corporation, and the Federal Home Loan Mortgage Corporation do not require approval by the Comptroller General. The Federal Home Loan Bank Board's accounting system, however, must be approved by the Comptroller General.

The Comptroller General approved the Board's principles and standards for its accounting system on June 27, 1972. The Board's accounting system design was submitted for our evaluation on August 29, 1975. After a preliminary review we returned the design package on November 14, 1975, with recommendations for improvements. The Board estimates that the design package will be resubmitted for our evaluation in December 1976.

CHAPTER 2

FEDERAL HOME LOAN BANK BOARD

The Board establishes policies for, and supervises the operation of, the following organizations.

Organization	Number	Total assets as of December 31, 1975
		(billions)
Federal home loan banks	12	$ 22.7
Federal Savings and Loan Insurance Corporation	1	4.2
Federal savings and loan associations	2,048	195.4
Insured State-chartered savings and loan institutions	2,030	134.8
Federal Home Loan Mortgage Corporation	1	5.9
	4,092	$363.0

SUPERVISION AND EXAMINATION OF INSURED INSTITUTIONS

The Board's supervisory objectives for insured institutions are to obtain compliance with applicable laws and regulations and to avoid the development or continuance of unsafe or unsound financial practices. Supervision is based on information obtained primarily through the Board's examinations of insured institutions and companies which have a controlling interest in them and through audits by State examiners and independent public accountants.

Through its Office of Examinations and Supervision, the Board supervises and examines insured institutions which include Federal savings and loan associations; building and loan, savings and loan, or homestead associations; and cooperative banks whose accounts are insured. It also reviews 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. In supervising State-chartered institutions, the Board coordinates these activities with respective State authorities.

To carry out its responsibilities, the Office of Examinations and Supervision had 748 professionals as of December 31, 1975. This staff is assigned to 12 district offices throughout the country and to the Board's headquarters in Washington, D.C.

During 1975 the Office of Examinations and Supervision examined 3,535 savings and loan institutions. The Board used the examination data to identify problem institutions discussed on pages 12 through 13. The Office also made 1,441 other examinations for such purposes as approving mergers of associations, approving insurance eligibility requirements, and insuring compliance with applicable laws and regulations.

The examinations were made at intervals which averaged 14.1 months during 1975, a reduction from the previous year's average of 15 months. The Board's goal, however, is an examination interval of 12 months.

As part of our review of the Office of Examinations and Supervision, we analyzed and reviewed reports and related documents pertaining to associations the Board classified as problem and nonproblem associations and discussed the results with appropriate officials. On the basis of our review, we found that problem associations were being recognized, the classification of problem and nonproblem associations appeared reasonable, and additional supervisory attention was given those associations experiencing problems.

SOURCES, APPLICATIONS, AND SPENDING LIMITATIONS OF FINANCIAL RESOURCES

The Board's operations are financed through assessments from the Federal Savings and Loan Insurance Corporation and the Federal home loan banks and from examination fees charged to member associations.

The Board applies its financial resources to financing administrative operations, supervising insured institutions, and constructing the new FHLBB quarters. The Congress, however, places limits on the amount the Board can spend in a fiscal year for administrative and nonadministrative expenses. The Board's fiscal year 1975 administrative expenses of $10,609,562 and nonadministrative expenses of $20,277,487 were within the prescribed limits.

NEW FHLBB QUARTERS

The Board, pursuant to 12 U.S.C. 1438(c)(1) (1970), is authorized to use the services of the General Services

Administration to construct new quarters. Construction on the new building began in January 1975 and is expected to be completed by June 1977.

The building will have six floors and a ground-level plaza with retail shops and a recreation area. In addition, there will be 3 levels below grade containing approximately 250 parking spaces and the Board's computer, printing, and cafeteria facilities.

Currently, the building is estimated to cost around $45.7 million of which $7.7 million is for land. As of December 31, 1975, $22 million had been obligated for the project.

CHAPTER 3

FEDERAL HOME LOAN BANKS

The primary function of the 12 Federal home loan banks is to provide a credit reservoir for thrift and home-financing institutions. Any savings and loan association, savings bank, cooperative bank, homestead association, insurance company, or building and loan association is eligible to become a member of a Federal home loan bank if such institution makes long-term home mortgage loans and meets other requirements of the Board. All institutions whose accounts are insured by the Insurance Corporation are members of a Federal home loan bank.

SOURCE OF FUNDS

The Federal home loan banks obtain funds for their lending activities primarily from three sources.

1. Consolidated obligations--Bonds and discount notes, issued with the approval of the Federal Home Loan Bank Board, are the joint and several obligations of all 12 banks.

According to regulations, the Board may not issue consolidated obligations in excess of 12 times the total paid-in capital and reserves of all the banks. The banks must maintain a total amount of unpledged assets--consisting of cash; obligations of, or fully guaranteed by, the United States; Federal funds; secured advances; and federally insured or guaranteed mortgages--at least equal to the outstanding obligations.

2. Member deposits--The banks' members provide another source of funds through demand and time deposits. Members are not required to maintain cash balances with the banks; however, the time-deposit facilities of the banks enable members with excess funds to earn interest, hold liquid assets, and place funds in the system for redistribution through member advances. A portion of member deposits may be used by the banks for making advances. This means that remaining deposits must be held in a deposit liquidity reserve.

3. Capital stock--The banks' capital stock serves several purposes. It supplies funds for making advances to members or for obtaining other earning assets. To the extent that it is used for member advances, the capital stock outstanding redistributes funds within each bank district. Each member institution must purchase capital stock to bring

its holdings equal to 1 percent of their residential mortgage portfolio at the end of the preceding year. The act stipulates that indebtedness of a member to its bank cannot exceed 12 times the amount of stock held by the member.

Also the banks can obtain funds through the Secretary of the Treasury who has authority to purchase bank obligations up to $4 billion. Through calendar year 1975 the Secretary has exercised his authority in the amount of $1.6 billion.

USE OF FUNDS

The major uses of bank funds are advances to members and holdings of cash and investments.

1. Federal home loan bank advances--A major purpose of the bank system is to serve as an emergency source of liquidity for its members. The basic functions of member institutions are to receive deposits from various savers and to reinvest these funds in long-term mortgages. It is neither economically feasible nor desirable for these institutions to carry enough liquid assets to guard against contingencies, such as smoothing imbalances in savings receipts and mortgage loan disbursements. Thus, the banks provide the funds necessary to meet contingencies when liquid assets carried for this purpose are not sufficient. A basic premise of the bank system is that system credit should supplement, not supplant, the saver as the major source of funds for member institutions.

2. Cash and investments--The cash and deposit balances and security investments of the banks represent their operating funds and liquidity reserves. Reserves also are used to meet the members' demands for advances. The deposit liquidity reserves provide funds to members who withdraw their deposit balances at the banks. Only a small part of the banks' liquidity is maintained in the form of cash on deposit in commercial banks or with the Federal Reserve Bank of New York. The most important source of liquidity is the investments and marketable government obligations which also provide the banks with earning assets. Under the law the banks can only invest in obligations of the United States, the Federal National Mortgage Association, and the Government National Mortgage Association and other securities that are eligible for investment by fiduciary and trust funds under the laws of the State in which the banks are located. Since investments serve the purpose to provide liquidity, a vast amount of them have always been maintained in relatively short-term obligations.

EARNINGS AND DIVIDENDS

The banks' retained earnings are placed in two accounts: undivided profits and legal reserve. Each bank must transfer semiannually 20 percent of its net earnings to the legal reserve until the account equals 100 percent of paid-in capital. Thereafter, 5 percent of its net earnings must be allocated for this purpose semiannually. The capital stock of the banks has grown so rapidly that earnings are still being allocated at the 20-percent rate. The banks also pay dividends to their members out of earnings.

OPERATIONS

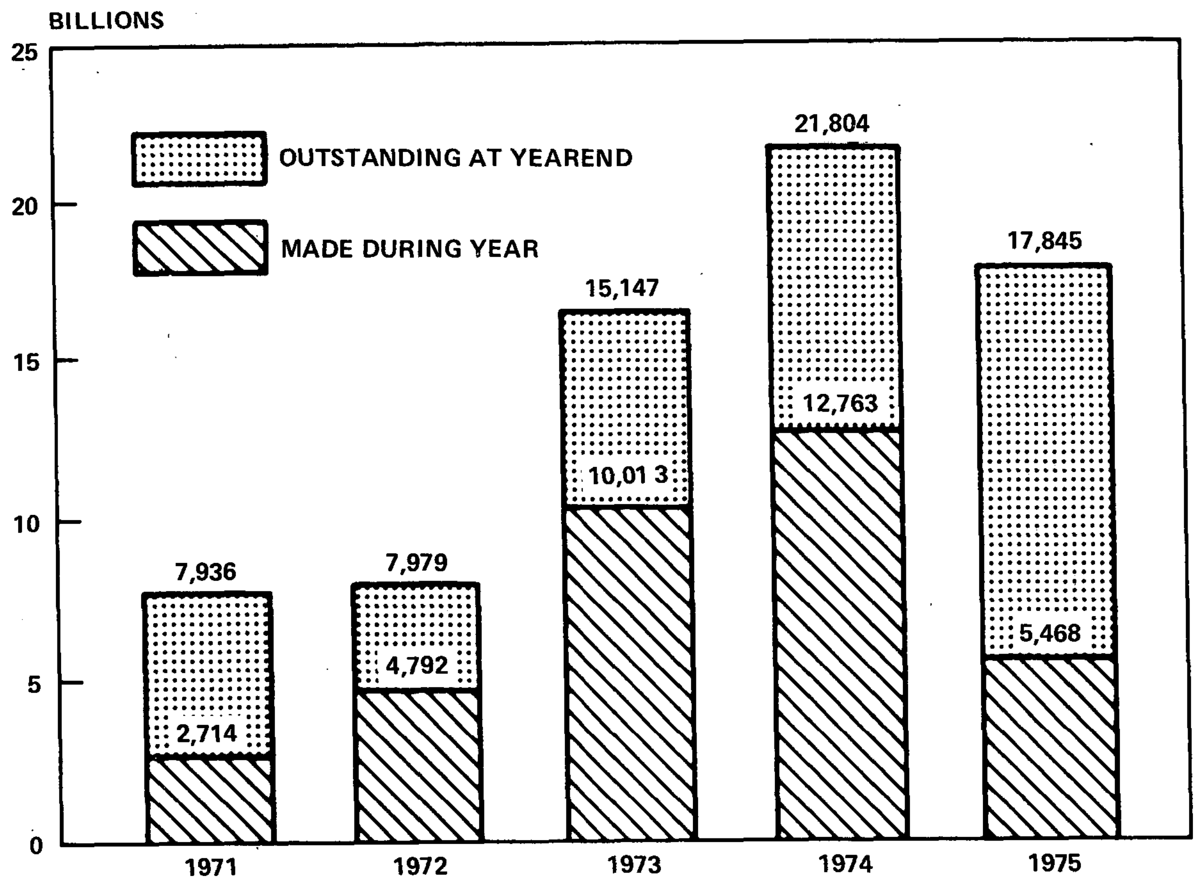
During 1975 bank advances decreased by $4 billion compared to the 1974 increase of $6.7 billion. The banks made advances of $5.5 billion and $12.8 billion and repayments of $9.4 billion and $6.1 billion during 1975 and 1974, respectively. Of the $17.8 billion in outstanding advances as of December 31, 1975, $17.1 billion was secured by pledges of collateral comprising home mortgages, U.S. obligations, and other authorized collateral and capital stock of the banks owned by borrowing members with a total face value of $23.5 billion. The following graph gives a 5-year presentation of bank advances made each year and the outstanding yearend advances.

The banks in 1975 issued $2.6 billion in consolidated bonds and retired maturing obligations of $5.3 billion for a net decrease in lendable funds of $2.7 billion.

The banks' participation in consolidated obligations stood at $16.4 billion on December 31, 1975, down $3 billion from the previous year's record high of $19.4 billion.

During 1975 the banks earned $189 million of which $138 million was returned to members as dividends. For the second successive year the 12 banks' net worth exceeded $3 billion.

ADVANCES TO FEDERAL HOME LOAN BANK MEMBERS



CHAPTER 4

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

The Insurance Corporation insures accounts of savers in federally insured institutions, assesses and collects insurance premiums, and invests surplus funds. In addition, it must be appointed receiver of defaulted Federal-insured institutions and it may be appointed for State-chartered institutions.

The Congress placed a limit of $772,000 on the amount the Insurance Corporation could spend in fiscal year 1975 for administrative expenses, excluding supervisory and other services provided by the Board. The Insurance Corporation's administrative expenses were within the limit.

PROBLEM INSTITUTIONS

To insure that institutions receive appropriate supervisory attention when needed, the 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 Insurance Corporation.

The most serious cases are classified as category I, financially critical, and the next most serious cases are classified as category II, not financially critical but requiring aggressive supervisory attention. The number of problem institutions classified as categories I and II and the related estimated insured deposits are as follows:

Category	Number of institutions		Estimated insured deposits	
	12/31/75	12/31/74	12/31/75	12/31/74
			(000 omitted)	
I	15	9	$ 532,943	$ 424,682
II	48	42	3,923,610	2,017,866
Total	63	51	$4,456,553	$2,442,548

The Insurance Corporation's records showed that financial difficulties of institutions requiring its assistance during the year ended December 31, 1975, had been caused by unsafe and unsound operating practices, such as:

--Unsound lending policies and practices.

--Inexperienced directors and management.

--Noncompliance with regulations.

--Poor investments and lack of liquidity.

During 1975 the Office of Examinations and Supervision took preventative actions for four associations which were in critical financial condition. The four associations were merged, and for two of the associations, the Insurance Corporation entered into financial assistance agreements.

At December 31, 1975, 74 insured associations were minority owned, managed, or controlled. This represented 1.8 percent of the total insured associations. Fifteen minority associations were problem institutions. Of these nine were classified financially critical and represented 60 percent of the total institutions in this category. The remaining six institutions were experiencing problems, but the problems were not severe enough to classify the associations as financially critical.

INSURANCE RESPONSIBILITY ACTIVITIES

The Board and the Insurance Corporation, through the examining and supervisory processes, encourage insured institutions to correct unsound operating practices before their continuance jeopardizes the financial stability of the association. If such practices continue, leading to a financially critical situation, default prevention activities are initiated to prevent receivership and consequent insurance payout.

Default prevention measures may take the form of contributions, loans, or purchase of assets to rehabilitate the association or facilitate its merger into a financially and managerially sound institution. In every case, a determination must be made that such financial assistance is less costly than liquidation.

At December 31, 1975 and 1974, the Insurance Corporation held assets in discharging its insurance responsibility to insured institutions and established an allowance for losses on these assets as follows:

Asset	Book value 12/31/75	Book value 12/31/74	Allowance for losses 12/31/75	Allowance for losses 12/31/74	Net value 12/31/75	Net value 12/31/74
	(000 omitted)					
Loans to insured institutions and accrued interest	$ 54,503	$ 62,049	$ 5,000	$ 5,000	$ 49,503	$ 57,049
Subrogated accounts and related interest	18,945	56,942	1,500	1,500	17,445	55,442
Assets acquired from insured institutions	75,332	59,457	6,755	8,959	68,577	50,498
Total	$148,780	$178,448	$13,255	$15,459	$135,525	$162,989

The allowance for losses is based on (1) the evaluations and judgments of Insurance Corporation officials who consider such data as actual losses experienced by the Insurance Corporation, (2) the latest financial data available on insured institutions in liquidation, and (3) results of independent appraisals made by contract appraisers.

Contribution agreements

One of the most frequently used default prevention methods is providing financial assistance through contribution agreements to facilitate mergers. This method indemnifies the resulting institution for certain losses arising from the assets and liabilities acquired from the problem institution.

The Insurance Corporation had 29 open contribution agreements at December 31, 1975. These agreements originally totaled $172.8 million with approximately $73 million having been disbursed. Of the remainder, $43.9 million has been expensed but not disbursed and the Insurance Corporation remains contingently liable for the additional $56 million.

Loans to insured institutions

The Insurance Corporation may make loans to financially troubled institutions to prevent their default. The loans to insured institutions and accrued interest, net of $5 million allowance for losses, totaled $49.5 million at December 31, 1975.

These loans consisted of $54.3 million of principal disbursements and $0.2 million in accured interest. During 1975 no new loans were made and six loans remained outstanding.

Assets acquired from insured institutions

As part of the default prevention program, the Insurance Corporation may acquire certain assets from problem institutions. Additionally, at the termination of the receiverships, the Insurance Corporation may acquire the remaining assets of the receivership as partial satisfaction for insurance payments. These assets are managed and disposed of as prudent business practices and applicable market conditions permit.

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, and capitalized expenditures--such as taxes and insurance--less amounts received on the principal of the loans.

Subrogated accounts

Occasionally, the circumstances of a problem association prove to be so severe that the only remedy is to declare the institution in default. This situation has occurred 13 times during the Insurance Corporation's 41 years of existence.

The institution in default is placed in the hands of a receiver and the insured account holders are paid immediately. The Insurance Corporation, as receiver, then proceeds to liquidate the remaining assets to recover its disbursements as well as the uninsured portions of savings accounts.

During 1975 no institutions were declared in default and placed in receivership. As of December 31, 1975, there were three active receivership cases as summarized in the following table.

Institution	Date FSLIC appointed receiver	Insured savings accounts paid by FSLIC	Liquidating dividends received by FSLIC	Balance of subrogated accounts due to FSLIC
Apollo Savings Assoc., Chicago, Illinois	Oct. 1968	$54,318,800	$40,467,146	$13,851,654
Old Reliable Savings and Loan Assoc., Berwyn, Illinois	Nov. 1968	7,079,061	6,406,550	672,511
Northwest Guaranty Savings and Loan Assoc., Seattle, Washington	Oct. 1971	7,755,411	3,334,827	4,420,584
		$69,153,272	$50,208,523	$18,944,749

The Insurance Corporation anticipates that Apollo and Old Reliable will be terminated in 1976, but the termination of Northwest Guaranty cannot be forseen. Management is unable to predict collectability of interest on subrogated accounts in any of the above cases, although the statutory rate is 5 percent.

In addition to the above, the Lawn Savings and Loan Association receivership was terminated during 1975. The Insurance Corporation fully recovered the principal paid out to Lawn insured account holders and $19.4 million in postdefault interest.

RESERVES AND BORROWING AUTHORITY

The Insurance Corporation's primary and secondary reserves are available to protect the savings of insured account holders in insured institutions. The primary reserve represents the retained net earnings of the Insurance Corporation and amounted to $2.7 billion at December 31, 1975. The secondary reserve which amounted to $1.4 billion at December 31, 1975, consists of cumulative insurance premium prepayments assessed against insured institutions and a return on the outstanding balances of the secondary reserve. The total reserves of about $4.1 billion were available to protect insured savings of about $278.8 billion in 4,078 institutions at December 31, 1975.

Recent legislation discontinued all payments to the secondary reserve and provided for a 10-year phaseout of the reserve through partial premium charges and actual cash refunds to the industry. 12 U.S.C. 1727a (Supp. IV, 1974). The cash disbursements began in May 1975 and may be of particular significance because the Board anticipates that a substantial amount of these funds will be funneled into the housing market over the next few years to the benefit of the consumer and the savings and loan industry as well.

The Insurance Corporation's primary and secondary reserves are available to meet future losses. These reserves, established pursuant to 12 U.S.C. 1727 and to administrative action, do not necessarily represent a measure of the insurance risk which is imposed on the Insurance 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, 1975, under existing economic conditions. Whether these reserves would be adequate during periods of severely adverse economic conditions is currently not determinable.

The Insurance Corporation may draw on three other sources, in addition to its reserves, for insurance purposes. The Board may require insured institutions to deposit with the Insurance Corporation up to 1 percent of their withdrawable deposits. 12 U.S.C. 1727(h). The exercise of this au-authority as of December 31, 1975, would have provided funds of about $2.8 billion to the Insurance Corporation. The Insurance Corporation also may:

--Assess additional premiums against insured institutions equal to accumulated losses and expenses of the Insurance 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. (12 U.S.C. 1727(c))

--Borrow up to $750 million from the Department of the Treasury. (12 U.S.C. 1725(i))

The Insurance Corporation had not drawn on any of these sources through calendar year 1975.

CHAPTER 5

FEDERAL HOME LOAN MORTGAGE CORPORATION

The Mortgage Corporation's principal activities consist of purchasing, and subsequently reselling, residential mortgages or interests in such mortgages in the secondary mortgage market. The secondary mortgage market is the process by which one group of persons or companies buys mortgages from another after the mortgage has been originated.

The principal office of the Mortgage Corporation is in Washington, D.C., with five regional offices located throughout the country. The Washington office is responsible for overall management of mortgage operations, research and development, and accounting policies and procedures. A reorganization was initiated in 1975 which reduced the 13 previous regional offices to 5. The regional offices are responsible for a full range of mortgage market activities including buying and selling mortgages and participating in groups of mortgages.

The capital stock of the Mortgage Corporation consists solely of nonvoting common stock held by the 12 Federal home loan banks as prescribed by the Federal Home Loan Mortgage Corporation Act, 12 U.S.C. 1453 (1970). One hundred thousand shares have been issued for a total purchase price of $100 million.

PURCHASING ACTIVITIES

The Mortgage Corporation carries out its secondary market operations by purchasing home mortgages and selling interests in them. Mortgages are purchased from the Federal home loan banks, the Federal Savings and Loan Insurance Corporation, member institutions of Federal home loan banks, and certain other financial institutions whose deposits or accounts are insured by an agency of the United States, or are insured under State law. Presently it offers on a continuous basis five conventional purchase programs and a Federal Housing Administration (FHA) and Veterans Administration (VA) program. The conventional programs are for mortgages that are not insured by an agency of the U.S. Government, while the FHA and VA mortgages are guaranteed or insured by their respective agencies.

Conventional programs

During 1975 conventional mortgages accounted for 90 percent of the Corporation's mortgage investment activity. Two conventional programs provide for purchasing single-family mortgages, one on a whole-loan basis and the other on a participation basis. The other three conventional programs provide for purchasing multifamily mortgages, one on a whole-loan basis and two on a participation basis. One multifamily participation program is for loans over $500,000 and the other for loans of $500,000 and less.

Under its whole-loan programs, the Mortgage Corporation purchases, for delivery within 60 days, both single-family and multifamily conventional whole loans. The whole-loan conventional mortgages amounted to $714 million at December 31, 1975--an increase of about $17 million over the previous year's balance.

Under the participation programs the Mortgage Corporation purchases an interest in mortgages or purchases whole conventional mortgages and simultaneously resells up to 85 percent participation or ownership to the seller.

The seller retains a percentage ownership of the participation loans and is responsible for collecting the monthly payments and remitting to the Mortgage Corporation its share. The seller profits from the difference between the interest rate on the face of the mortgages and the rate at which he sells the participation. In addition, the seller receives the full amount of interest on the unsold percentage.

The balance of participations owned by the Mortgage Corporation, net of participation sales, at December 31, 1975, was about $844 million, which represented a decrease of $363 million over the December 31, 1974, balance.

FHA and VA program

The Mortgage Corporation purchases and enters into commitments to purchase FHA and VA mortgages. The majority of these mortgages are pledged to a trust serving as collateral for Government National Mortgage Association (GNMA)-guaranteed bonds issued by the Mortgage Corporation. The principal balances of the pledged mortgages and other trust assets are restricted to the payment of principal and interest on the Mortgage Corporation-backed bonds.

As of December 31, 1975, the balance of FHA and VA mortgage holdings, net of participation sales, was about $1.877 billion which represented a decrease of $79 million over the previous yearend balance.

Commitments

The Mortgage Corporation enters into contractual agreements (commitments) to purchase mortgages from financial institutions to be delivered at an agreed-upon time. The commitments provide insurance to the mortgage lenders and home builders that, regardless of changes in the market, mortgage credit will be available at the interest rate and in the amount committed. It had outstanding commitments of $110 million at December 31, 1975, compared with $2.4 billion 1 year earlier. This decrease resulted from the expiration of the special U.S. Treasury-funded program in which it was committed to acquire up to $3 billion of conventional loans. (See p. 22.)

The currently outstanding commitments require the seller to deliver the mortgages in 60 days. These mortgages have to meet the same basic requirements as established for the purchase programs. The requirements specify quality standards and certain legal restrictions, such as the loan amount, term of the mortgage, and standardized documentation.

Applications of capital

The following table shows the funds used to purchase mortgages over the years:

Yearend	Mortgages acquired
	(000 omitted)
1971	$ 757,174
1972	1,262,286
1973	1,314,160
1974	2,165,766
1975	1,704,480

Additionally, resources are used to finance administrative operations, supervise mortgage servicers and regional offices, and invest in a portfolio of temporary cash investments.

SERVICING MORTGAGES

When the Mortgage Corporation acquires mortgages or interests in mortgages from sellers, the seller is required, for a fee, to continue servicing the mortgages--collecting and remitting funds from the borrower. The servicer's responsibility is to act in a timely, efficient, and responsible manner to protect the interests of the Mortgage

Corporation as mortgagee and to afford proper service and fair treatment to the borrower. It is expected that the facilities and practices of the servicer will be sufficient to safeguard the assets, to provide proper accounting, and to respond promptly to the needs of the Mortgage Corporation and the borrower.

In 1975 the Mortgage Corporation entered into a program with GNMA, whereby the Corporation acts as a purchasing agent for GNMA and receives a management and processing fee for servicing a number of these loans.

MARKETING ACTIVITIES

Another function of the Mortgage Corporation is to sell or otherwise finance the mortgages acquired. To date, five different methods have been used for this purpose, including:

1. Borrowings from
   a. the Federal home loan banks,

   b. the U.S. Treasury (under the special funded program), and

   c. a commercial bank.

2. The issuance of GNMA-guaranteed mortgaged-backed bonds.

3. The sale of mortgage participation certificates.

4. The direct sale of mortgage holdings.

5. The sale of guaranteed mortgage certificates.

During 1975 about 74 percent of the financial resources came from sales of mortgage participation certificates, guaranteed mortgage certificates, and the special U.S. Treasury-funded program. Additionally funds came from the net income provided by investments and the return on the mortgage portfolio.

Mortgage participation certificates

The Mortgage Corporation sells mortgage participation certificates (formerly participation sales certificates) in its conventional participation and whole-loan programs. The first sale of mortgage participation certificates occurred in 1971. The certificates are sold to investors in multiples of $100,000 and certificates totaling approximately $454 million were sold during calendar year 1975. The Mortgage

Corporation also manages the certificates in a fiduciary capacity providing accounting and monthly remittances to the investors.

Investment in mortgage participation certificates is advantageous to members of the Federal Home Loan Bank System because the certificates are transferable and meet the definition of real property loans for tax and regulatory purposes.

Guaranteed mortgage certificates

During 1975 the Mortgage Corporation issued two series of guaranteed mortgage certificates for a total of $500 million; these were sold in denominations of $100,000, $500,000, and $1 million. The certificates do not qualify as a mortgage investment for most regulatory purposes and were sold to non-traditional residential mortgage investors resulting in an inflow of capital for the home loan industry.

Special U.S. Treasury-funded program

In 1974 the U.S. Treasury and the Federal Home Loan Bank System jointly entered into a program to help the housing industry. Under this program the Mortgage Corporation obtained Treasury advances at favorable rates through the Federal Home Loan Bank of San Francisco and purchased conventional mortgages with them. During 1975 the Corporation borrowed $879.5 million under this program.

The interest on borrowings and related costs reported by the Mortgage Corporation includes interest charges on a significant part of the borrowings from the U.S. Treasury at rates lower than the rate prevailing at the time the funds were borrowed. Had the Mortgage Corporation financed these borrowings through the issuance of mortgage participation certificates, their interest and related costs would have increased by about $9.8 million and $1.2 million in calendar years 1975 and 1974, respectively. This benefit of lower borrowing costs to the Corporation was passed through to the mortgage borrowers in lower interest rates.

CHAPTER 6

INTERNAL AUDIT

The objective of internal auditing is to assist management in attaining its goals by furnishing information and recommendations pertinent to management's duties and objectives. The internal audit staff fulfills its responsibility by making examinations and issuing reports to management on their findings and appraisals of the agencies operations.

Internal auditing is important to us in carrying out our audit responsibilities. In determining the scope of our examinations, we consider the effectiveness of the internal audit program and, where possible, make full use of the internal audit staff's work.

The Board, each Federal home loan bank (FHLB), and the Mortgage Corporation have separate internal audit staffs.

FEDERAL HOME LOAN BANK BOARD

The Audit Branch, Management Systems Division, Office of Management Systems and Administration, makes financial and operational reviews of the Board, the Insurance Corporation, the Urban Reinvestment Task Force, and FHLBs' Office of Finance and issues its reports to the Board.

During 1975 the Audit Branch issued financial reports on the Imprest Fund of FHLBs' Office of Finance, the Insurance Corporation's midwestern office, and the Urban Reinvestment Task Force. They also completed operational audits of two district offices of the Board's Office of Examinations and Supervision.

We used, to the extent possible, the work of the Board's Audit Branch on its examination of the Insurance Corporation, thus reducing the scope of our review.

FEDERAL HOME LOAN BANKS

The Director of the Board's Office of the Federal home loan banks is responsible for the technical supervision and coordination of the 12 FHLBs' internal audit activities. Each bank has its own audit staff which organizationally reports to its Board of Directors or an audit committee composed of members of the Board of Directors. The internal auditors are located outside the line management of the FHLBs to insure their independence.

During the past year, the audit staff reviews focused on three areas

1. financial and compliance,

2. economy and efficiency, and

3. program results.

Written reports resulting from these reviews were submitted to the Federal home loan banks' Board of Directors or their audit committee and the Office of the Federal home loan banks at least on a quarterly basis.

FEDERAL HOME LOAN MORTGAGE CORPORATION

The Mortgage Corporation's internal auditors report directly to its President. The department is composed of a division head, two auditors, and one administrative support staff. The internal auditors are responsible for determining that adequate controls are maintained over the Corporation's assets and operations. Audits by the internal auditors are predominantly operational rather than financial and are made at all levels of corporate activity. In 1975 the internal auditing division issued 16 reports.

CHAPTER 7

SCOPE OF EXAMINATION AND

OPINION ON FINANCIAL STATEMENTS

We have examined the statements of financial condition of the Federal Home Loan Bank Board, the Federal home loan banks, the Federal Savings and Loan Insurance Corporation, and the Federal Home Loan Mortgage Corporation as of December 31, 1975 and 1974, and their related statements of income, expense, and retained earnings or primary reserve and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We used, to the extent possible, the work of the Board's internal auditors on their examination of the Insurance Corporation and the work of public accounting firms on their audits of the banks and Mortgage Corporation.

In our opinion, the accompanying financial statements (scheds. 1 through 13) present fairly the financial positions of the Board, banks, and Insurance and Mortgage Corporations at December 31, 1975 and 1974, and the results of their operations and the changes in their financial positions for the years then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

FEDERAL HOME LOAN BANK BOARD

FINANCIAL STATEMENTS

DECEMBER 31, 1975 AND 1974

SCHEDULE 1

FEDERAL HOME LOAN BANK BOARD

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1975 AND 1974

ASSETS	1975	1974
Cash with U.S. Treasury (note 2)	$ 1,199,460	$ 591,567
Accounts receivable	5,718,778	6,650,934
Land and building (note 3)	16,362,994	11,189,044
Furniture, fixtures and equipment, net (note 1)	1,554,055	1,854,855
Other	57,938	210,039
Total assets	$24,893,225	$20,496,439
LIABILITIES AND CAPITAL		
Accounts payable and accrued liabilities	$ 1,739,043	$ 3,428,339
Employees' accrued annual leave	1,906,351	1,846,141
Deferred credit - FHLBB cost of quarters (note 4)	16,229,680	10,189,680
Total liabilities	19,875,074	15,464,160
Capital, retained earnings	5,018,151	5,032,279
Total liabilities and capital	$24,893,225	$20,496,439

The accompanying notes to financial statements are an integral part of these statements.

SCHEDULE 2

FEDERAL HOME LOAN BANK BOARD

COMPARATIVE STATEMENT OF INCOME, EXPENSES, AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1975 AND 1974

	1975	1974
INCOME:		
Fees from examinations of savings and loan institutions	$13,740,828	$12,631,198
Assessments:		
Federal home loan banks	6,425,716	6,825,863
Federal Savings and Loan Insurance Corporation	14,044,946	15,041,256
Reimbursements for services performed	187,648	172,530
Miscellaneous	91,454	17,542
Total income	34,490,592	34,688,389
EXPENSES:		
Personnel compensation	23,785,701	21,973,300
Personnel benefits	2,345,872	1,976,577
Travel and transportation	4,031,588	3,779,247
Rent, communication, and utilities	2,494,318	2,062,076
Interest on Federal home loan bank loans	-0-	453,491
Depreciation of furniture, fixtures and equipment	159,067	439,600
Other services	1,189,685	1,462,022
Printing and reproduction	108,952	405,343
Supplies and materials	389,537	433,903
Total expenses	34,504,720	32,985,559
NET INCOME (LOSS)	(14,128)	1,702,830
RETAINED EARNINGS AT BEGINNING OF YEAR	5,032,279	3,329,449
RETAINED EARNINGS AT END OF YEAR	$ 5,018,151	$ 5,032,279

The accompanying notes to financial statements are an integral part of these statements.

SCHEDULE 3

FEDERAL HOME LOAN BANK BOARD

COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 1975 AND 1974

	1975	1974
FINANCIAL RESOURCES WERE PROVIDED FROM:		
Operations-Income		
Examination fees & charges	$13,740,828	$12,631,198
Assessments		
Federal home loan banks	6,425,716	6,825,863
Federal savings & loan insurance corporation	14,044,946	15,041,256
Reimbursements for services performed to other agencies	187,648	172,530
Miscellaneous	91,454	17,542
	34,490,592	34,688,389
Less-Expense		
Personnel compensation and benefits	26,131,573	23,949,877
Travel and transportation	4,031,588	3,779,247
Rent, communication, and utilities	2,494,318	2,062,076
Other services (excluding amortization of leasehold improvements totaling $96,938 and $170,035 in 1975 and 1974)	1,092,747	1,291,987
Printing and reproduction	108,952	405,343
Supplies and materials	389,537	433,903
Interest on Federal home loan bank loans	-0-	453,491
	34,248,715	32,375,924
Total resources provided by operations	241,877	2,312,465
Increase in:		
Deferred credit-FHLBB cost of quarters	6,040,000	10,189,680
Employees' accrued annual leave	60,210	234,603
Decrease (Increase) in:		
Furniture, fixtures and equipment	141,733	(1,344,456)
Accounts receivable	932,156	(1,422,431)
Other assets	55,163	(258,912)
Total resources provided	$ 7,471,139	$ 9,710,949
FINANCIAL RESOURCES WERE APPLIED TO:		
Acquisition of land and building	$ 5,173,950	$ 981,599
Loans payable to Federal home loan banks	-0-	8,869,680
Increase in cash	607,893	245,337
Decrease (Increase) in accounts payable and accrued liabilities	1,689,296	(385,667)
Total resources applied	$ 7,471,139	$ 9,710,949

The accompanying notes to financial statements are an integral part of these statements.

FEDERAL HOME LOAN BANK BOARD

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1975 AND 1974

1. Summary of significant accounting policies:

   a) Furniture, Fixtures, and Equipment - These assets are stated at cost less accumulated depreciation of $1,121,829 and $1,233,867 at December 31, 1975 and 1974, respectively. Depreciation is computed on the straight-line method over the estimated useful lives of the property.

   b) Reclassifications - Certain reclassifications have been made in 1974 financial statements to conform to the classifications used in 1975.

2. An additional $4,789,926 is available in a separate fund provided by appropriations 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 and long-term borrowing in order to promote an orderly flow of funds into residential construction.

3. Includes about $3.1 million which is the book value of the remaining portion of the original site for the new building.

4. In 1974 the Board assessed the Federal Home Loan Banks $40,000,000 for the total estimated cost to construct the new Federal Home Loan Bank Board building. As of December 31, 1975, $16,229,680 had been paid by the banks and recorded as Deferred credit - FHLBB cost of quarters. When the Board occupies the building, this credit will be systematically amortized to income over 25 years.

FEDERAL HOME LOAN BANKS

FINANCIAL STATEMENTS

DECEMBER 31, 1975 AND 1974

SCHEDULE 4

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1975 AND 1974

ASSETS	1975	1974
	(000 omitted)	
Cash (note 2)	$ 109,095	$ 144,392
Investments, at cost (note 3)	4,375,742	3,097,415
Advances to members (note 4)	17,844,626	21,804,462
Other loans:		
Guaranteed by AID, net (note 5)	80,392	84,440
Other FHL Banks	50,575	90,750
Total other loans	130,967	175,190
Accrued interest receivable	97,144	126,382
Bank premises and equipment	22,572	22,339
Less: accumulated depreciation and amortization	(7,995)	(6,433)
Net book value	14,577	15,906
Other assets:		
Investment in FHLMC (note 6)	100,000	100,000
Concessions and discount on consolidated obligations - bonds	17,418	22,006
Prepaid expense - FHLBB cost of quarters (note 12)	16,231	10,190
Other	2,657	2,807
Total other assets	136,306	135,003
Total assets	$22,708,457	$25,498,750

The accompanying notes to financial statements are an integral part of these statements.

SCHEDULE 4

LIABILITIES AND CAPITAL	1975	1974
Deposits and borrowings:		
Members - time	$ 2,024,015	$ 1,820,241
Members - demand	626,652	573,291
Other FHL Banks	50,575	90,750
Total deposits and borrowings	2,701,242	2,484,282
Accrued interest payable	292,118	361,541
Consolidated obligations: (note 7)		
Bonds	18,520,600	21,299,350
Discount notes	342,331	583,468
Less: Pass throughs to FHLMC	(2,480,000)	(2,437,600)
FHLB's participations	16,382,931	19,445,218
Other liabilities:		
Accounts payable	4,618	1,802
Accounts payable - FHLBB assessment	-	472
Other	32,741	42,097
Total other liabilities	37,359	44,371
Total liabilities	19,413,650	22,335,412
Contingencies and commitments (notes 8, 11, 12, 13, and 14)		
Capital stock outstanding (note 9)	2,704,625	2,624,306
Retained earnings:		
Legal reserve	342,426	304,619
Undivided profits	247,756	234,413
Total retained earnings	590,182	539,032
Total capital	3,294,807	3,163,338
Total liabilities and capital	$22,708,457	$25,498,750

SCHEDULE 5

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF INCOME AND EXPENSE

FOR THE YEARS ENDED DECEMBER 31, 1975 AND 1974

	1975	1974
	(000 omitted)	
INCOME:		
Interest on advances to members	$1,445,542	$1,456,871
Income from investments	338,816	230,982
Interest and fees on AID loans (note 5)	6,616	4,737
Earned commitment fees	4,498	16,429
Income from data processing services	10,032	6,946
Other income	5,041	12,542
Total Income	1,810,545	1,728,507
EXPENSES:		
Interest and other costs:		
Interest and concessions-consolidated obligations	1,433,471	1,222,984
Assessments - FHLB Board	6,633	6,609
Assessments - Office of Finance	1,601	1,949
Interest on deposits	136,890	155,115
Other Interest	1,909	3,556
Total Interest and Other Costs	1,580,504	1,390,213
Other operating expenses:		
Salaries and benefits (note 10)	21,489	17,266
Fees and professional services	1,337	1,055
Travel expense	1,368	1,218
Telephone and transmission costs	2,560	2,061
Stationery and supplies	3,349	2,792
Cost of quarters	3,651	3,292
Depreciation - furniture and equipment	1,332	1,341
Equipment rental and expense	4,210	3,106
Other	1,711	1,523
Total other operating expenses	41,007	33,654
Total Expenses	1,621,511	1,423,867
Net Income	$ 189,034	$ 304,640

The accompanying notes to financial statements are an integral part of these statements.

SCHEDULE 6

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1975 AND 1974

	1975	1974
	(000 omitted)	
LEGAL RESERVE:		
Balance January 1	$304,619	$244,071
Less: Audit Adjustments	-	375
Adjusted balance January 1	304,619	243,696
Add: Statutory transfer of net income	37,807	60,923
Balance December 31	342,426	304,619
UNDIVIDED PROFITS:		
Balance January 1	234,413	129,899
Add: Audit Adjustments	-	465
Adjusted balance January 1	234,413	130,364
Add: Net Income	189,034	304,640
Subtotal	423,447	435,004
Less: Statutory transfer of net income	37,806	60,923
Dividends paid on capital stock	137,885	139,668
Balance December 31	247,756	234,413
TOTAL RETAINED EARNINGS	$590,182	$539,032

The accompanying notes to financial statements are an integral part of these statements.

 SCHEDULE 7

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 1975 AND 1974

FINANCIAL RESOURCES WERE PROVIDED FROM:	1975	1974
	(000 omitted)	
Operations:		
Net income	$ 189,033	$ 304,640
Add (deduct) - Noncash charges (credits) to income:		
Depreciation and amortization of fixed assets	2,132	1,764
Concessions on consolidated obligations	9,406	9,281
Amortization of discount consolidated obligation notes	22,503	31,798
Other	(151)	2
Total funds provided from operations	222,923	347,485
Net proceeds from issuance of consolidated obligations	4,311,229	11,746,070
Proceeds from sale of capital stock	201,829	523,202
Increase (decrease) in:		
Deposits	256,992	656,489
Accrued interest payable	(67,885)	93,822
Other liabilities	(5,963)	23,546
Total	$4,919,125	$13,390,614
FINANCIAL RESOURCES WERE USED FOR:		
Payments on maturing consolidated obligations	7,400,785	6,796,747
Redemption of capital stock	121,512	21,230
Dividends on capital stock	137,885	139,668
Net additions to bank premises and equipment	1,044	3,158
Increase (decrease) in:		
Investments	1,278,326	(340,078)
Advances to members	(3,959,836)	6,657,412
Accrued interest receivable	(27,680)	51,692
Increase in other assets	2,385	67,994
Decrease in cash	(35,296)	(7,209)
Total	$4,919,125	$13,390,614

The accompanying notes to financial statements are an integral part of these statements.

FEDERAL HOME LOAN BANKS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1975 AND 1974

1. *Summary of significant accounting policies:*

   a. *Investments - Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts.*

   b. *Advances to Federal Home Loan Mortgage Corporation - Proceeds from certain consolidated obligations and the promissory note payable to U.S. Treasury have been advanced to the Federal Home Loan Mortgage Corporation at the same interest rates and maturities as the related consolidated obligations and the promissory note. Since the Federal Home Loan Mortgage Corporation is effectively reimbursing the Bank for the interest; the advance, related consolidated obligations, interest expense, and interest income have been offset and are not reflected in the financial statements.*

   c. *Bank Premises, Furniture and Equipment and Leasehold Improvements - These assets are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the property or life of the lease.*

      Maintenance and repairs are charged to expense, except that major repairs which extend the useful lives of the property are capitalized. The cost, less accumulated depreciation, of assets sold or retired is eliminated from the accounts in the year of disposal; the related gain or loss is included in the statement of income.

   d. *Concessions on Consolidated Obligations - The amounts allowed dealers in connection with the sale of consolidated obligation bonds are deferred and amortized on the straight-line method to the maturity of the obligations. The amounts applicable to the sale of consolidated obligation discount notes are charged directly to expense as incurred.*

   e. *Unearned Commitment Fees - Advance commitment fees are received at the time the agreement is made. Nonrefundable fees of less than $1,000 are taken into income immediately and fees of $1,000 or more are amortized to income over the period of the commitment on a straight-line basis. Refundable fees are deferred until the commitment expires or the loan is funded.*

f. Reclassification - Certain reclassifications have been made in 1974 financial statements to conform to the classification used in 1975.

2. Compensating Balances - The Banks have agreed to maintain average collected cash balances with various commercial banks in consideration for various services. These arrangements are informal and there are no legal restrictions as to the withdrawal of funds. The required compensating balances were approximately $35,442,000 at December 31, 1975.

3. Investments - The investments which approximate market value are comprised of the following as of December 31, 1975:

U.S. Treasury obligations	$1,120,839,000
U.S. Government agencies	15,102,000
Federal funds sold	417,250,000
Term funds sold	384,000,000
Bankers acceptances	992,719,000
Securities held under resale agreement	39,795,000
Participation in the Federal Home Loan Banks Consolidated Securities Fund	1,406,037,000
	$4,375,742,000

The Federal Home Loan Banks Consolidated Securities Fund was established by the Federal Home Loan Bank Board to offer a centralized portfolio management system for securities of the Federal Home Loan Banks. The Fund is managed by the Office of Finance of the Federal Home Loan Banks. The Fund invests primarily in short-term money market instruments.

4. Advances to Members - At December 31, 1975, the Banks have advances outstanding to members at interest rates ranging from 5.5 to 10.0 percent, maturing at various dates, as summarized below:

Years of Maturity	Amount
1976	$ 6,125,628,000
1977	3,028,897,000
1978 - 1980	7,486,951,000
1981 or after	1,203,150,000
	$17,844,626,000

Outstanding advances aggregating $17,072,785,000 are collateralized by pledged investment securities and first mortgage loans of the members have a loan value assigned by the Banks of approximately $23,466,380,000

The Banks are participating in a below market interest rate advance program initiated in May 1974 to support the housing industry. Advances of $3,460,937,000 were made under this program for a period of approximately 5 years at rates of 0.5 to 0.79 percent below the FHLB System's cost of related 5-year consolidated obligations. The net interest cost of this program amounts to approximately $18,921,000 and $5,426,000 for 1975 and 1974, respectively. The advances may be prepaid without penalty but only by tendering the related consolidated obligations sold to support this program.

5. Loans Guaranteed by the Agency for International Development - The Agency for International Development (AID) was established by the Foreign Assistance Act of 1961, as amended. Under Section 221 and 222 of the Act, AID issues guarantees backed by the full faith and credit of the United States of America to eligible U.S. investors insuring against loss of investments, including unpaid accrued interest, in self-liquidating housing projects. The Bank qualifies as an eligible investor.

Under contracts of guaranty, the Banks may, without the approval of AID, sell participating interests to members of any Federal Home Loan Bank. The outstanding loan balances are reported net of participations totaling $192,326,000 and $137,883,000 at December 31, 1975, and 1974, respectively.

The outstanding loan balances bear interest at rates ranging from 7.25 to 9.0 percent, and mature between 20 and 25 years.

The Banks receive service fees for these loans against which direct expenses associated with the financial arrangements are netted. The balance is deferred and amortized into income at 1 percent per month.

6. Investment in Federal Home Loan Mortgage Corporation - The investment in the Federal Home Loan Mortgage Corporation, which is wholly owned by the Federal Home Loan Banks, is stated at cost and consists of 100,000 shares of nonvoting capital stock, all of which is outstanding. These shares had an underlying book value of approximately $141,000,000 and $126,000,000 at December 31, 1975, and 1974, respectively.

7. Consolidated Obligations - Consolidated Federal Home Loan Bank Obligations are the joint and several obligations of all Federal Home Loan Banks. The outstanding obligations of the Federal Home Loan Banks, including the pass through to the Federal Home Loan Mortgage Corporation, at December 31, 1975 and 1974 was $18,864,800,000 and $21,890,350,000.

Regulations require the Banks to maintain unpledged qualifying assets in an amount equal to the consolidated obligations outstanding. "Qualifying assets" are defined as cash, obligations of or fully guaranteed by the United States, secured advances, and federally insured or guaranteed mortgages.

The following is a summary of the Banks' participation in consolidated obligations at December 31, 1975:

	Bonds		Discount Notes	
Years of Maturity	Range of Coupon Rates	Outstanding	Book Value	Par Value
1976	7.20 - 9.55	$ 4,510,000,000	$342,331,000	$344,200,000
1977	6.75 - 9.15	3,396,750,000		
1978 - 1980	7.05 - 9.50	6,756,150,000		
1981 or after	6.60 - 8.75	1,377,700,000		
		$16,040,600,000	$342,331,000	$344,200,000

The Banks' participation, as shown above, is reported net of advances to the Federal Home Loan Mortgage Corporation in the form of pass through of the proceeds of certain consolidated obligations. The following is a summary of the pass through at December 31, 1975.

	Bonds	
Years of Maturity	Range of Coupon Rates	Outstanding
1976	7.20 - 9.55	$ 290,000,000
1977	6.75 - 9.15	500,000,000
1978 - 1980	9.375 - 9.45	400,000,000
1981 or after	7.375 - 8.75	1,290,000,000
		$2,480,000,000

8. Promissory Note Payable to U.S. Treasury - In August 1974, the Federal Home Loan Bank of San Francisco and the U.S. Treasury entered into an agreement whereby funds in an aggregate amount not to exceed $3,000,000,000 (three billion dollars) may be advanced to the San Francisco Bank under Section 11 (i) of the Federal Home Loan Bank Act. The San Francisco Bank has agreed to relend these funds to the Federal Home Loan Mortgage Corporation as secured advances to finance a Special Commitment Program for the purchase of certain home mortgages. The Federal Home Loan Mortgage Corporation's note to the San Francisco Bank has been assigned to the Secretary of the Treasury as collateral for Bank's promissory note.

   Semiannual principal repayments together with interest at rates of 8.375 and 7.875 percent on the unpaid principal balance began January 1, 1975, and continues each subsequent July 1 and January 1 with the final payment due on January 1, 2006.

   The promissory note to the U.S. Treasury is one of the joint and several obligation of all Federal Home Loan Banks. The outstanding advance was $1,559,194,000 and $695,000,000 at December 31, 1975, and 1974, respectively. Proceeds from the note have been advanced to the Federal Home Loan Mortgage Corporation at the same interest rates as the note payable to the U.S. Treasury.

In addition to the above agreement and under certain specified conditions, the Federal Home Loan Banks may borrow from the U.S. Treasury amounts not to exceed $4,000,000,000 (four billion dollars), including the pass through of borrowings to the Federal Home Loan Mortgage Corporation.

9. *Capital - The capital stock has a par value of $100 per share and may not be issued at a price less than par value. The stock is non-negotiable and can only be redeemed at the Banks within legal limits.*

   Dividends are paid to members annually on the capital stock issued and outstanding at December 31, based on the actual period of time that stock is held during the year.

   Retained earnings of the Banks consist of undivided profits and a legal reserve. The Banks must transfer 20 percent of their net income to the legal reserve semiannually until the reserve equals the capital stock amount. Thereafter, 5 percent of the Banks' net income must be allocated for this purpose.

10. *Employee Retirement Plan - The Banks are participants in the Savings Association Retirement Fund and substantially all of their officers and employees are covered by the Plan. The Banks' contributions are determined by the Fund and represent the normal cost and prior service cost. Pension costs charged to operating expenses were $2,905,000 in 1975 and $1,795,000 in 1974.*

11. *Lease Commitments - Rental expense of $4,534,000 (1975) and $3,786,000 (1974) for premises and equipment has been charged to expense. Minimum rentals for each of the next 5 years and for subsequent 5-year periods are as follows:*

1976	*$ 4,435,300*
1977	*3,916,300*
1978	*3,292,000*
1979	*3,228,200*
1980	*2,520,100*
1981 or after	*5,704,800*
	$23,096,700

The Banks' premise lease agreement provides for increase in basic rentals resulting from increased property taxes and maintenance expense.

12. *Prepaid Expense - FHLBB Cost of Quarters - In December 1974, the FHLBB assessed the Banks $40,000,000 for the total estimated cost of constructing an office building in Washington, D.C. The FHLBB will request payment of the remaining $23,769,000 at such times and in such amounts as deemed necessary to meet anticipated construction expenditures.*

When the FHLBB takes occupancy of the new building this prepaid expense will be systematically amortized over 25 years.

13. *Commitments - Commitments for advances to members and to foreign borrowers under guaranteed loans totaled $513,450,000 and $90,600,000, respectively, at December 31, 1975.*

14. *Contingency - On October 25, 1973, a lawsuit was instituted against the Federal Home Loan Bank of Cincinnati, the Federal Home Loan Bank Board and certain Board members. Among other things, the plaintiffs alledged in their complaint that the data processing services provided by the Federal Home Loan Bank of Cincinnati to thrift institutions are beyond the statutory authority of the Bank. Among the relief requested, the plaintiffs ask that the defendants be permanently enjoined from authorizing the sale of data processing services by Federal Home Loan Banks. The Federal Home Loan Banks of Chicago, Des Moines, New York and Pittsburgh intervened in this lawsuit in April 1974, and are contesting this challenge to their authority. The ultimate outcome of this litigation is not determinable. Legal counsel and management are of the opinion, however, that the Federal Home Loan Banks have meritorious defense to the challenge to their authority to provide on-line data processing services to member institutions.*

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 1975 AND 1974

SCHEDULE 8

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1975 AND 1974

	1975	1974
ASSETS		
CASH	$ 281,755	$ 4,103,181
RECEIVABLES	10,522,711	9,715,306
INVESTMENTS AT AMORTIZED COST (note 2)	3,956,452,821	3,587,350,116
ACCRUED INTEREST ON INVESTMENTS	68,623,955	59,810,023
ASSETS ACQUIRED FROM INSURED INSTITUTIONS, NET (notes 3 and 5)	68,576,833	50,498,425
LOANS TO INSURED INSTITUTIONS AND ACCRUED INTEREST, NET (note 3)	49,503,381	57,048,803
SUBROGATED ACCOUNTS AND RELATED INTEREST, NET (note 3)	17,444,749	55,441,742
DEFERRED CHARGES AND OTHER ASSETS	158,865	34,797
Total assets	$4,171,565,070	$3,824,002,393
LIABILITIES AND RESERVES		
MISCELLANEOUS ACCRUED AND OTHER LIABILITIES	$ 6,546,181	$ 6,135,203
ALLOWANCE FOR ESTIMATED LOSSES FOR CONTRIBUTION AGREEMENTS (notes 3 and 4)	43,875,788	25,859,169
DEFERRED CREDITS	1,520,742	582,441
PRIMARY RESERVE (cumulative net income)	2,740,246,914	2,381,873,540
SECONDARY RESERVE (premium prepayments)	1,379,375,445	1,409,552,040
Total liabilities and reserves	$4,171,565,070	$3,824,002,393

The accompanying notes to financial statements are an integral part of these statements.

SCHEDULE 9

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

COMPARATIVE STATEMENT OF INCOME, EXPENSE, AND PRIMARY RESERVE

FOR THE YEARS ENDED DECEMBER 31, 1975 AND 1974

	1975	1974
INCOME:		
Insurance premiums	*$ 212,250,148*	*$ 190,033,548*
Interest on investments	*260,388,096*	*225,837,856*
Interest on loans to insured institutions	*3,431,804*	*4,010,605*
Interest on subrogated accounts (notes 1 & 6)	*19,193,069*	*6,500,000*
Income on assets acquired from insured institutions	*5,046,658*	*3,533,128*
Interest income on advance contributions	*84,247*	-
Miscellaneous income	*503,838*	*216,182*
Nonoperating income	*233,020*	*427,369*
Total income	*501,130,880*	*430,558,688*
EXPENSES:		
Administrative expenses	*713,896*	*667,194*
Services rendered by Federal Home Loan Bank Board	*14,044,946*	*15,041,256*
Insurance settlement and other expenses	*2,265,438*	*2,198,806*
Unallocated nonadministrative expenses	*1,010,345*	*1,433,353*
Net provision for losses (note 3)	*31,986,064*	*16,528,318*
Interest applied to members' equity in secondary reserve	*92,736,817*	*89,158,962*
Total expenses	*142,757,506*	*125,027,889*
Net income transferred to primary reserve	*358,373,374*	*305,530,799*
BALANCE, PRIMARY RESERVE, AT THE BEGINNING OF THE YEAR	*2,381,873,540*	*2,076,342,741*
BALANCE, PRIMARY RESERVE, AT THE END OF THE YEAR	*$2,740,246,914*	*$2,381,873,540*

The accompanying notes to financial statements are an integral part of these statements.

SCHEDULE 10

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 1975 AND 1974

	1975	1974
FINANCIAL RESOURCES WERE PROVIDED FROM:		
Operations-		
Insurance premiums (other than transfer from Secondary Reserve to pay insurance premiums of $62,854,065 and $56,409,652 in 1975 and 1974)	$149,395,183	$133,623,896
Interest on investments (net of $7,227,485 and $14,353,646 in amortized net discount for 1975 and 1974)	253,160,611	211,484,210
Interest on loans to insured institutions	3,431,804	4,010,605
Interest on subrogated accounts	19,193,069	6,500,000
Income on assets acquired from insured institutions	5,046,658	3,533,128
Other income	821,105	643,551
	431,048,430	359,795,390
Less:		
Administrative expenses	713,896	667,194
Services rendered by the FHLBB	14,044,946	15,041,256
Insurance settlement and other expenses	2,265,438	2,198,806
Unallocated nonadministrative expenses	1,010,345	1,433,353
	18,034,625	19,340,609
Total resources provided by operations	413,013,805	340,454,781
Decrease in:		
Loans to insured institutions and accrued interest	7,545,422	7,323,534
Subrogated accounts and related interest	37,996,993	9,164,712
Increase (Decrease) in:		
Miscellaneous accrued and other liabilities	410,978	2,115,322
Deferred credits	938,301	(27,190)
Decrease (Increase) in cash	3,821,426	(3,852,553)
Total resources provided	$463,726,925	$355,178,606
FINANCIAL RESOURCES WERE APPLIED TO:		
Net additions to investments	$361,875,220	$343,371,131
Increase (Decrease) in:		
Assets acquired from insured institutions	15,874,225	(6,342,239)
Receivables	807,405	687,415
Accrued interest on investments	8,813,932	4,349,608
Deferred charges and other assets	124,068	(12,551)
Refund of Secondary Reserve	60,058,447	359,051
Contributions to insured institutions	12,395,801	6,105,822
Losses on assets acquired	3,777,827	6,660,369
Total resources applied	$463,726,925	$355,178,606

The accompanying notes to financial statements are an integral part of these statements.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1975 AND 1974

1. Summary of significant accounting policies

a) Investments - Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion are computed on the "constant yield" method at rates based upon the lives of the related securities and are recognized as an adjustment to interest income on investments.

b) Furniture and Equipment - These assets are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the property. The net balance of this account is insignificant and is included in other assets.

c) Income Recognition -

1) Insurance premium income is recognized as earned when member institutions are assessed.

2) Interest on subrogated accounts is recognized in the year of actual recovery from the receiver.

d) Discounts on assets acquired are recorded as income over the average life of the portfolio using the straight-line method.

e) Reclassifications - Certain reclassifications have been made in the 1974 financial statements to conform to the classifications used in 1975.

2. Investments - The investments at December 31, 1975 and 1974, are as follows:

(in millions)

	1975		1974	
	Book Value	Market Value	Book Value	Market Value
U. S. Treasury Obligations	$3,815.8	$3,729.0	$3,447.0	$3,342.3
Federal Agency Securities	140.6	126.7	140.3	125.9
	$3,956.4	$3,855.7	$3,587.3	$3,468.2

3. Allowances for possible losses - An analysis of the changes in the allowances for possible losses on the accounts described below for years ended December 31, 1975 and 1974, follows:

Assets Acquired from Insured Institutions	1975	1974
Balance, beginning of period	$8,959,076	$13,912,649
Add: Provision charged to expense	1,573,644	1,706,796
Adjustment due to asset acquisition	3,169,465	-
Less: Losses on assets acquired	6,947,292	6,660,369
Balance, end of period	$6,754,893	$ 8,959,076

	1975	1974
Loans to Insured Institutions		
Balance, beginning of period	$ 5,000,000	$ -
Add: Provision charged to expense	-	5,000,000
Balance, end of period	$ 5,000,000	$ 5,000,000
Subrogated Accounts		
Balance, end of period	$ 1,500,000	$ 1,500,000
Contribution Agreements		
Balance, beginning of period	$25,859,169	$22,143,469
Add: Provision charged to expense	30,412,420	9,821,522
Less: Contributions paid out	12,395,801	6,105,822
Balance, end of period	$43,875,788	$25,859,169

4. *Allowance for Estimated Losses for Contribution Agreements - The Corporation enters into contribution agreements to restore an insured institution in default to normal operations or to facilitate a merger to prevent a default and, under these arrangements, agrees to make cash contributions, under contractual terms to a stipulated maximum liability. The remaining contingent liability under these agreements totaled $56,003,261 and $84,247,368 at December 31, 1975 and 1974 respectively.*

5. *Discounts on Assets Acquired - The discounts on assets acquired amounted to $1,689,883 and $1,931,139 in 1975 and 1974 respectively.*

6. *As of December 31, 1975, there were three receiverships with net subrogated accounts of $17,444,749. Post default interest is authorized on these accounts under 12 U.S.C. 1729 and applicable state law at a rate of five percent. The collectability of this interest cannot be* **predicted** *since actual amounts are not determined until final liquidation. It is, therefore, the policy of the Corporation, as stated in footnote 1, to recognize income on the subrogated accounts when received rather than on the accrual basis.*

FEDERAL HOME LOAN MORTGAGE CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 1975 AND 1974

 SCHEDULE 11

FEDERAL HOME LOAN MORTGAGE CORPORATION

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31, 1975 AND 1974

ASSETS	1975	1974
Mortgage loans, at unpaid principal balances (Notes 1, 2, 5 and 7)		
Insured by Federal Housing Administration (FHA) or guaranteed by Veterans Administration (VA)	$1,877,166,000	$1,956,115,000
Participation in conventional mortgage loans	843,697,000	1,206,297,000
Conventional mortgage loans	713,578,000	696,404,000
	3,434,441,000	3,858,816,000
Conventional loans funded under Special U.S. Treasury Program (Note 6)	1,528,224,000	693,514,000
	4,962,665,000	4,552,330,000
Less Unamortized discount	85,162,000	83,641,000
Allowance for possible losses (Note 3)	16,000,000	10,000,000
Total mortgage loans	4,861,503,000	4,458,689,000
Cash	369,000	3,614,000
Temporary cash investments, at cost plus accrued interest which approximates market	978,433,000	375,408,000
Accrued interest receivable	36,191,000	33,703,000
Accounts receivable and other assets	11,843,000	17,551,000
Claims against FHA and VA, net of allowance for losses of $200,000	2,901,000	4,300,000
Real estate owned, at the lower of cost or estimated realizable value	2,312,000	1,063,000
Unamortized debt expense	5,185,000	6,739,000
Total assets	$5,898,737,000	$4,901,067,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Bonds and advances payable, including $698,900,000 due in 1976 (Note 5)	$4,049,952,000	$3,988,574,000
Advances for Special U.S. Treasury Funded Program, including $30,970,000 due in January 1976 (Note 6)	1,559,194,000	695,000,000
Other liabilities:		
Accrued interest	121,298,000	66,843,000
Accounts payable and other accrued expenses	15,543,000	15,138,000
Commitment fees	96,000	2,494,000
	5,746,083,000	4,768,049,000
Reserve for management fee and guarantees (Note 7)	10,839,000	6,711,000
Guaranteed Mortgage Certificates (Note 7)	500,000,000	-0-
Less Underlying mortgage loans sold, including principal collections held in trust of $22,565,000	500,000,000	-0-
	-0-	-0-
Commitments (Note 4)		
Stockholders' Equity:		
Common stock, nonvoting, $1,000 par value; no maximum authorization; 100,000 shares issued and outstanding	100,000,000	100,000,000
Retained earnings	41,815,000	26,307,000
	141,815,000	126,307,000
Total liabilities and stockholders' equity	$5,898,737,000	$4,901,067,000

The accompanying notes to financial statements are an integral part of these statements.

SCHEDULE 12

FEDERAL HOME LOAN MORTGAGE CORPORATION

COMPARATIVE STATEMENT OF INCOME, EXPENSE, AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1975 AND 1974

	1975	1974
INCOME:		
Interest and discount on mortgage loans, net (Note 1)	$400,909,000	$259,019,000
Interest on temporary cash investments	41,053,000	35,581,000
Other income	2,948,000	885,000
Total income	444,910,000	295,485,000
EXPENSES:		
Interest on borrowings and related costs	407,843,000	250,362,000
Provision for losses, management fee and guarantees (Notes 3 and 7)	11,386,000	32,577,000
Administrative	10,173,000	7,554,000
Total expenses	429,402,000	290,493,000
Net income (per share of common stock--$155.08 in 1975 and $49.92 in 1974)	15,508,000	4,992,000
Retained earnings, beginning of year	26,307,000	21,315,000
Retained earnings, end of year	$ 41,815,000	$ 26,307,000

The accompanying notes to financial statements are an integral part of these statements.

FEDERAL HOME LOAN MORTGAGE CORPORATION

COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 1975 and 1974

	1975	1974
FINANCIAL RESOURCES WERE PROVIDED FROM:		
Net income	$ 15,508,000	$ 4,992,000
Charges (credits) to income not affecting funds:		
Amortization of mortgage purchase discount	(7,668,000)	(6,545,000)
Amortization of debt expense	1,630,000	1,261,000
Provision for losses, management fee and guarantees (Notes 3 and 7)	11,386,000	32,577,000
Funds provided from operations	20,856,000	32,285,000
Mortgage loan principal repayments	290,538,000	156,659,000
Proceeds from issuance of bonds and advances, net of debt expense	211,023,000	1,696,400,000
Proceeds from advances for Special U.S. Treasury Funded Program	879,500,000	695,000,000
Mortgage loans sold:		
Mortgage Participation Certificates, net of repurchase	453,851,000	42,771,000
Guaranteed Mortgage Certificates	500,000,000	-0-
FHA/VA	66,939,000	-0-
Increase in accounts payable and other accrued expenses	405,000	13,609,000
Increase in accrued interest payable	54,455,000	20,809,000
Total financial resources provided	$2,477,567,000	$2,657,533,000
FINANCIAL RESOURCES WERE APPLIED TO:		
Mortgage loans purchased, net of discount:		
Regular programs	$ 828,808,000	$1,[illegible]8,570,000
Special U.S. Treasury Funded Program	875,672,000	677,196,000
Advances and bonds retired	2,023,000	554,935,000
Repayments of advances for Special U.S. Treasury Funded Program	15,306,000	-0-
Decrease (increase) in short-term discount notes	147,600,000	(147,600,000)
Increase in accrued interest receivable	2,488,000	14,584,000
Increase in cash and temporary cash investments	599,780,000	50,802,000
Other items, net	5,890,000	19,046,000
Total financial resources applied	$2,477,567,000	$2,657,533,000

The accompanying notes to financial statements are an integral part of these statements.

SCHEDULE 13

FEDERAL HOME LOAN MORTGAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 1975 AND 1974

1 Summary of significant accounting policies

Recognition of Gain (Loss) on Mortgage Loans

The Corporation provides for estimated losses on mortgage loan purchases, including outstanding commitments, which may be incurred upon funding of such purchases through a security sale, or upon sale of the loans, and provides allowances for uninsured losses and contingencies. To the extent a loss is indicated on the financing of mortgage loans, the loss attributable to such financing is charged against the allowance for possible losses and is reflected in the balance sheet as a reduction of mortgage loans. This reduction in mortgage loans results in additional yield which is recognized over the term of the related borrowing.

Sales of Mortgage Participation Certificates and Guaranteed Mortgage Certificates representing undivided interests in mortgage loans provide for the Corporation to manage and guarantee the underlying mortgages. If the Corporation's net yield after estimated management fees and guarantees is less than the effective rate payable to the investor, the Corporation recognizes the estimated loss at the time of sale. Gains, representing the excess of yield (net of guarantee reserves) to the Corporation over that payable to the investor, are recognized as earned over the lives of the related mortgages.

Mortgage Loan Discount

Discount on mortgages purchased is recorded as income over the term of the related mortgage loans using the level yield method.

Amortization of Debt Expense

Debt expense is amortized over the period during which the related debt instrument is outstanding.

Commitment Fees

Commitment fee income is deferred and included in discount on mortgages as the mortgages are purchased, or recognized as other income if forfeited by nondelivery. Commitment fees on Mortgage Participation Certificate sales are charged to operations when paid.

2 Mortgage loans

As of December 31, 1975 and 1974, the effective net yield of mortgage loans after deducting servicing fees was as follows:

	1975	1974
FHA and VA mortgages	7.70%	7.61%
Participation in conventional mortgages	8.97%	8.96%
Conventional mortgages	8.90%	8.90%

3 Allowance for possible losses on mortgage loans

An analysis of the changes in the allowance for possible losses on mortgage loans for the years ended December 31, 1975 and 1974 follows:

	1975	1974
	(000 omitted)	
Balance, beginning of period	$10,000	$ 9,000
Provision charged to expense	9,435	31,400
Reduction attributable to:		
Loss on sales of Mortgage Participation Certificates	(2,310)	-0-
Loss on mortgages financed by bonds	-0-	(30,400)
Loss on mortgages sold	(1,125)	-0-
Balance, end of period	$16,000	$10,000

4 Contracts and commitments

The Corporation had outstanding contracts and commitments to purchase mortgage loans as summarized below. The average effective net yield is computed after deducting servicing fees. FHA and VA mortgage purchase contracts are at the coupon rate adjusted for the benefit of purchase discount. Delivery is mandatory under all commitment programs.

Type of Loan	Delivery Period In Months	December 31, 1975 Average Effective Net Yield	Amount
			(000 omitted)
FHA/VA home (1-4 family)	2	9.10%	$ 4,026
Participation in conventional home and multi-family mortgages:	2	9.03%	72,415
Conventional mortgages:			
Home	2	9.11%	33,059
Multi-family	2	8.75%	296
			$109,796

5 Bonds and advances

A summary of bonds and advances payable is as follows:

	Maturity	Interest Rates	December 31, 1975	1974
			(000 omitted)	
Bond payable to bank	1975/1986	7.75%	$ 20,128	
Advances from Federal Home Loan Bank in the form of a pass-through of short-term discount notes	1975	9.70%		$ 147,600
Advances from Federal Home Loan Bank in the form of a pass-through of consolidated Federal Home Loan Bank obligations	1976	9.36%	290,000	290,000
	1977	8.40	500,000	500,000
	1978	9.43	300,000	300,000
	1979	9.50	100,000	100,000
	1981	8.69	400,000	400,000
	1982	8.65	190,000	
	1984	8.78	300,000	300,000
	1993	7.41	400,000	400,000
			2,480,000	2,290,000

5 *Bonds and advances (cont'd)*

	Maturity	Interest Rates	December 31, 1975	1974
			(000 omitted)	
Mortgage-Backed Bonds	1976	7.15%	400,000	400,000
	1977	6.24	350,000	350,000
	1978	5.18	51,375	51,375
	1979	6.06	103,580	103,580
	1975/1980	5.25	201,408	202,558
	1985	5.33	3,461	3,461
	1976/1995	8.69	140,000	140,000
	1977/1996	7.84	150,000	150,000
	1997	7.25	150,000	150,000
			1,549,824	1,550,974
Bonds and advances payable			$4,049,952	$3,988,574

The 1997, 1976/1995, and 1977/1996 Mortgage-Backed Bonds and the 1993 advance from the Federal Home Loan Bank are redeemable at the Corporation's option commencing 1982, 1983, 1984, and 1985, respectively, at their face value. On the 1976/1995 and 1977/1996 Bonds, a sinking fund provides for annual retirements of $7 and $7.5 million principal amount of bonds, respectively, commencing in 1976 and 1977. In addition, the Corporation has a noncumulative option to increase the sinking fund amounts each year by an amount not exceeding the annual retirement amounts.

All Mortgage-Backed Bonds are guaranteed as tc principal and interest by the Government National Mortgage Association (GNMA). Under the provision of a Trust Indenture with GNMA dated October 26, 1970, and supplements thereto, the Corporation conveyed mortgages to the Trust as security for the Mortgage-Backed Bonds. As of December 31, 1975 and 1974, Trust assets of approximately $2.1 billion and $2.0 billion, respectively, constituting primarily principal balances of such mortgages are restricted for the payment of principal and interest on the Mortgage-Backed Bonds and are included in the accompanying balance sheet.

The bond payable to bank is collateralized by a like amount of FHA/VA mortgages and calls for specific annual principal repayments ranging from $663,000 to $1,408,000 over the life of the bond with the balance of unpaid principal due at maturity.

6 *Special U.S. Treasury Funded Program*

Conventional mortgage loans with an aggregate unpaid principal balance of $1,528,224,000 at December 31, 1975 and $693,514,000 at December 31, 1974 are pledged as collateral for advances on a joint United States Department of the Treasury -- Federal Home Loan Bank System program. Pursuant to the program, the Corporation committed to acquire up to $3 billion aggregate principal amount of conventional mortgages. As of December 31, 1975, approximately $1.575 billion of these mortgages had been purchased; and all other commitments had been cancelled or expired. The program provides in effect that the Corporation's borrowing costs will not exceed its return on the mortgages. The terms of the loan agreement provide for semiannual instalments in amounts equal to the principal collections on the related mortgage loans purchased.

7 *Mortgage loan sales*

The Corporation sells Mortgage Participation Certificates and Guaranteed Mortgage Certificates (GMC's) representing undivided interests in mortgage loans. The Corporation guarantees the timely payment of interest and the collection of principal on the mortgage loans and has provided $1,951,000 in 1975 and $1,177,000 in 1974 for such guarantees. These amounts have been reflected in the provision for losses, management fee and guarantees.

7 Mortgage loan sales (cont'd)

Holders of Mortgage Participation Certificates receive interest monthly at the certificate rate together with their pro rata share of principal payments received by the Corporation. The issued certificates have been accounted for as sales, and the mortgage loans and the certificates issued are not included in the accompanying balance sheet. Unpaid balances of the outstanding certificates were approximately $1.143 billion and $780 million at December 31, 1975 and December 31, 1974, respectively.

Holders of Guaranteed Mortgage Certificates are paid interest semiannually at the certificate rate and, annually, their pro rata share of principal collected or specified minimum annual principal reductions, whichever is greater. On March 15, 1990 and September 15, 1990 any GMC holder of the $300 million GMC Series A 1975 and $200 million GMC Series B 1975 may, at his or her option, require the Corporation to purchase such certificates at the then unpaid principal balance.

8 Pension plan

In November, 1974, the Corporation established a non-contributory pension plan covering all eligible employees. Total pension expense was approximately $347,000 and $274,000 for the years ended December 31, 1975 and 1974, respectively. The Corporation's policy is to fund pension cost accrued. The pension fund assets exceed the actuarially computed value of vested benefits. In the opinion of management, the pension plan complies with the provisions of the Pension Reform Act of 1974.

APPENDIX

PRINCIPAL OFFICIALS

RESPONSIBLE FOR THE ACTIVITIES

DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
FEDERAL HOME LOAN BANK BOARD		
BOARD OF DIRECTORS (note a):		
Garth Marston, Acting Chairman	Apr. 1974	June 1979
Grady Perry, Jr.	June 1973	June 1977
Thomas R. Bomar (note b)	June 1973	June 1975
FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION		
DIRECTOR:		
Richard Platt, Jr.	Sept. 1973	Present
FEDERAL HOME LOAN MORTGAGE CORPORATION		
PRESIDENT:		
Victor H. Indiek	Sept. 1974	Present
William J. Popejoy	June 1973	Sept. 1974

a/The board members of the Federal Home Loan Bank Board also serve as the Board of Directors of the Federal Home Loan Mortgage Corporation.

b/Mr. Bomar resigned as Chairman and Member of the Federal Home Loan Bank Board, effective June 1975.