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Federal Home Loan Bank Review

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Plans of Loan Amortization

This is the second of a series of articles on practices prescribed for Federal savings and loan associations

HOME-OWNER borrowers are demanding the direct-reduction plan for repaying their loans to building and loan associations. The depression has revealed to many the costliness of other types of loans. They now insist on knowing exactly what they have to pay and when they will be through paying. To satisfy this legitimate demand for fair treatment and to help recapture the goodwill of borrowers on which the long-term success of home-financing institutions depends, the direct-reduction plan has been made compulsory for Federal savings and loan associations.

Practically all the time-payment systems now in use among building and loan associations fall into 3 categories: (1) the serial or share-account sinking-fund plan; (2) the drop-share or cancel-and-endorse plan; and (3) the direct-reduction plan. The best way to understand and compare these 3 plans is to follow the month-by-month history of the same loan under each. To this end, the Division of Research and Statistics of the Federal Home Loan Bank Board has prepared complete schedules in parallel, vertical tables, showing how the same $3,000 loan at 6 percent per annum is handled under each of them. These 3 tables are reproduced in the following pages, with a fourth table which is merely a variation on the direct-reduction loan.

In these tables, it is assumed that the borrower is always prompt in paying on the day agreed so that no fines, forfeitures, penalties, nor other adjustments are necessary in the schedule. The actuarial or compound-interest theory of loan payment is used in all the tables for assuming the mathematical ratio of the amount of interest to the amount of principal for each periodic payment. In each table the monthly payment by the borrower made up of both principal and interest is an even sum equal to 1/100 of the original principal loaned—in this case, $30.

SERIAL OR SINKING-FUND PLAN

UNDER the serial or share-account sinking-fund plan, illustrated in table I, the $3,000 loaned to the borrower technically remains outstanding in full during the entire period of the loan, to be paid off in full at maturity. On this loan (technically a straight or term loan), the borrower contracts to pay interest at 6 percent per annum, or ½ of 1 percent per month, so that the interest payments on the $3,000 of original principal are $15 monthly as long as the loan is outstanding.

In order to accumulate a fund which shall be sufficient for the final payment of the $3,000 loan at maturity, the borrower agrees to purchase $3,000 worth of stock whose par value is $100, by additional payments of $15 each month. Thus, each monthly payment, covering both interest and the payment on shares, totals $30. As a shareholder in the association the borrower is usually paid dividends on the credit balance in his share account. The dividend rate varies widely. In many associations at the present time dividends equal about half the interest rate on loans. Even where the ratio is higher or where dividends actually equal interest rates, the danger that they will be lowered is always present. Accordingly, to show the possibilities of this situation, dividends in table I are computed on the basis of a 3-percent rate compounded semiannually. Thus, we have a $3,000 loan carrying interest at 6 percent, or $15 a month, on one side of the ledger. On the other side, we have $15 a month applied to purchase of shares, and dividends at 3 percent on the total amount paid in for shares, compounded every 6 months.

Four plans of amortization of a typical loan of $3,000 at 6 percent per annum with total monthly payments for both principal and interest combined equivalent to 1 percent of original principal

TABLE I.—SERIAL OR SINKING-FUND PLAN (PAR VALUE OF SHARES, $100)

1	2	3	4	Allocation of monthly payment		7	8	9
				5	6			
Months	Shares	Amount of principal outstanding during month	Monthly payment at end of month	Interest on outstanding principal	For purchase of shares of stock	Semiannual dividends credited on share account at 3 percent per annum	Total credits to share account at end of month	Current cumulative credit balance in share account
1	30	$3,000	$30.00	$15	$15.00		$15.00	$15.00
2	30	3,000	30.00	15	15.00		15.00	30.00
3	30	3,000	30.00	15	15.00		15.00	45.00
4	30	3,000	30.00	15	15.00		15.00	60.00
5	30	3,000	30.00	15	15.00		15.00	75.00
6	30	3,000	30.00	15	15.00		15.00	90.00
7	30	3,000	30.00	15	15.00		15.00	105.00
8	30	3,000	30.00	15	15.00		15.00	120.00
9	30	3,000	30.00	15	15.00		15.00	135.00
10	30	3,000	30.00	15	15.00		15.00	150.00
11	30	3,000	30.00	15	15.00		15.00	165.00
12	30	3,000	30.00	15	15.00	$1.35	16.35	181.35
13	30	3,000	30.00	15	15.00		15.00	196.35
14	30	3,000	30.00	15	15.00		15.00	211.35
15	30	3,000	30.00	15	15.00		15.00	226.35
16	30	3,000	30.00	15	15.00		15.00	241.35
17	30	3,000	30.00	15	15.00		15.00	256.35
18	30	3,000	30.00	15	15.00	2.72	17.72	274.07
19	30	3,000	30.00	15	15.00		15.00	289.07
20	30	3,000	30.00	15	15.00		15.00	304.07
21	30	3,000	30.00	15	15.00		15.00	319.07
22	30	3,000	30.00	15	15.00		15.00	334.07
23	30	3,000	30.00	15	15.00		15.00	349.07
24	30	3,000	30.00	15	15.00	4.11	19.11	368.18
25	30	3,000	30.00	15	15.00		15.00	383.18
26	30	3,000	30.00	15	15.00		15.00	398.18
27	30	3,000	30.00	15	15.00		15.00	413.18
28	30	3,000	30.00	15	15.00		15.00	428.18
29	30	3,000	30.00	15	15.00		15.00	443.18
30	30	3,000	30.00	15	15.00	5.52	20.52	463.70
31	30	3,000	30.00	15	15.00		15.00	478.70
32	30	3,000	30.00	15	15.00		15.00	493.70
33	30	3,000	30.00	15	15.00		15.00	508.70
34	30	3,000	30.00	15	15.00		15.00	523.70
35	30	3,000	30.00	15	15.00		15.00	538.70
36	30	3,000	30.00	15	15.00	6.96	21.96	560.66
37	30	3,000	30.00	15	15.00		15.00	575.66
38	30	3,000	30.00	15	15.00		15.00	590.66
39	30	3,000	30.00	15	15.00		15.00	605.66
40	30	3,000	30.00	15	15.00		15.00	620.66
41	30	3,000	30.00	15	15.00		15.00	635.66
42	30	3,000	30.00	15	15.00	8.41	23.41	659.07
43	30	3,000	30.00	15	15.00		15.00	674.07
44	30	3,000	30.00	15	15.00		15.00	689.07
45	30	3,000	30.00	15	15.00		15.00	704.07
46	30	3,000	30.00	15	15.00		15.00	719.07
47	30	3,000	30.00	15	15.00		15.00	734.07
48	30	3,000	30.00	15	15.00	9.89	24.89	758.96
49	30	3,000	30.00	15	15.00		15.00	773.96
50	30	3,000	30.00	15	15.00		15.00	788.96
51	30	3,000	30.00	15	15.00		15.00	803.96
52	30	3,000	30.00	15	15.00		15.00	818.96
53	30	3,000	30.00	15	15.00		15.00	833.96
54	30	3,000	30.00	15	15.00	11.38	26.38	860.34
55	30	3,000	30.00	15	15.00		15.00	875.34
56	30	3,000	30.00	15	15.00		15.00	890.34
57	30	3,000	30.00	15	15.00		15.00	905.34
58	30	3,000	30.00	15	15.00		15.00	920.34
59	30	3,000	30.00	15	15.00		15.00	935.34
60	30	3,000	30.00	15	15.00	12.91	27.91	963.25
61	30	3,000	30.00	15	15.00		15.00	978.25
62	30	3,000	30.00	15	15.00		15.00	993.25
63	30	3,000	30.00	15	15.00		15.00	1,008.25
64	30	3,000	30.00	15	15.00		15.00	1,023.25
65	30	3,000	30.00	15	15.00		15.00	1,038.25
66	30	3,000	30.00	15	15.00	14.45	29.45	1,067.70
67	30	3,000	30.00	15	15.00		15.00	1,082.70
68	30	3,000	30.00	15	15.00		15.00	1,097.70

TABLE II.—DROP-SHARE OR CANCEL-AND-ENDORSE PLAN (PAR VALUE OF SHARES, $100, NO DIVIDENDS CREDITED)

1	2	3	4	Allocation of monthly payment		7	8
				5	6		
Months	Shares	Amount of principal outstanding during month	Monthly payment at end of month	Interest on outstanding principal	For purchase of shares of stock	Par value of shares matured and retired	Current cumulative credit balance in share account
1	30	$3,000	$30	$15.00	$15.00		$15.00
2	30	3,000	30	15.00	15.00		30.00
3	30	3,000	30	15.00	15.00		45.00
4	30	3,000	30	15.00	15.00		60.00
5	30	3,000	30	15.00	15.00		75.00
6	30	3,000	30	15.00	15.00		90.00
7	30	3,000	30	15.00	15.00	$100.00	5.00
8	29	2,900	30	14.50	15.50		20.50
9	29	2,900	30	14.50	15.50		36.00
10	29	2,900	30	14.50	15.50		51.50
11	29	2,900	30	14.50	15.50		67.00
12	29	2,900	30	14.50	15.50		82.50
13	29	2,900	30	14.50	15.50		98.00
14	29	2,9 0	30	14.50	15.50	100.00	13.50
15	28	2,800	30	14.00	16.00		29.50
16	28	2,800	30	14.00	16.00		45.50
17	28	2,800	30	14.00	16.00		61.50
18	28	2,800	30	14.00	16.00		77.50
19	28	2,800	30	14.00	16.00		93.50
20	28	2,800	30	14.00	16.00	100.00	9.50
21	27	2,700	30	13.50	16.50		26.00
22	27	2,700	30	13.50	16.50		42.50
23	27	2,700	30	13.50	16.50		59.00
24	27	2,700	30	13.50	16.50		75.50
25	27	2,700	30	13.50	16.50		92.00
26	27	2,700	30	13.50	16.50	100.00	8.50
27	26	2,600	30	13.00	17.00		25.50
28	26	2,600	30	13.00	17.00		42.50
29	26	2,600	30	13.00	17.00		59.50
30	26	2,600	30	13.00	17.00		76.50
31	26	2,600	30	13.00	17.00		93.50
32	26	2,600	30	13.00	17.00	100.00	10.50
33	25	2,500	30	12.50	17.50		28.00
34	25	2,500	30	12.50	17.50		45.50
35	25	2,500	30	12.50	17.50		63.00
36	25	2,500	30	12.50	17.50		80.50
37	25	2,500	30	12.50	17.50		98.00
38	25	2,500	30	12.50	17.50	100.00	15.50
39	24	2,400	30	12.00	18.00		33.50
40	24	2,400	30	12.00	18.00		51.50
41	24	2,400	30	12.00	18.00		69.50
42	24	2,400	30	12.00	18.00		87.50
43	24	2,400	30	12.00	18.00	100.00	5.50
44	23	2,300	30	11.50	18.50		24.00
45	23	2,300	30	11.50	18.50		42.50
46	23	2,300	30	11.50	18.50		61.00
47	23	2,300	30	11.50	18.50		79.50
48	23	2,300	30	11.50	18.50		98.00
49	23	2,300	30	11.50	18.50	100.00	16.50
50	22	2,200	30	11.00	19.00		35.50
51	22	2,200	30	11.00	19.00		54.50
52	22	2,200	30	11.00	19.00		73.50
53	22	2,200	30	11.00	19.00		92.50
54	22	2,200	30	11.00	19.00	100.00	11.50
55	21	2,100	30	10.50	19.50		31.00
56	21	2,100	30	10.50	19.50		50.50
57	21	2,100	30	10.50	19.50		70.00
58	21	2,100	30	10.50	19.50		89.50
59	21	2,100	30	10.50	19.50	100.00	9.00
60	20	2,000	30	10.00	20.00		29.00
61	20	2,000	30	10.00	20.00		49.00
62	20	2,000	30	10.00	20.00		69.00
63	20	2,000	30	10.00	20.00		89.00
64	20	2,000	30	10.00	20.00	100.00	9.00
65	19	1,900	30	9.50	20.50		29.50
66	19	1,900	30	9.50	20.50		50.00
67	19	1,900	30	9.50	20.50		70.50
68	19	1,900	30	9.50	20.50		91.00

Four plans of amortization of a typical loan of $3,000 at 6 percent per annum with total monthly payments for both principal and interest combined equivalent to 1 percent of original principal—Continued

TABLE III.—DIRECT-REDUCTION PLAN A (INTEREST CREDITED MONTHLY)

1	2	3	Allocation of monthly payment	
			4	5
Months	Amount of principal outstanding during month	Monthly payment at end of month	Interest on outstanding principal	Payment on principal
1	$3,000.00	$30.00	$15.00	$15.00
2	2,985.00	30.00	14.93	15.07
3	2,969.93	30.00	14.85	15.15
4	2,954.78	30.00	14.77	15.23
5	2,939.55	30.00	14.70	15.30
6	2,924.25	30.00	14.62	15.38
7	2,908.87	30.00	14.54	15.46
8	2,893.41	30.00	14.47	15.53
9	2,877.88	30.00	14.39	15.61
10	2,862.27	30.00	14.31	15.69
11	2,846.58	30.00	14.23	15.77
12	2,830.81	30.00	14.16	15.84
13	2,814.97	30.00	14.07	15.93
14	2,799.04	30.00	14.00	16.00
15	2,783.04	30.00	13.92	16.08
16	2,766.96	30.00	13.83	16.17
17	2,750.79	30.00	13.75	16.25
18	2,734.54	30.00	13.67	16.33
19	2,718.21	30.00	13.59	16.41
20	2,701.80	30.00	13.51	16.49
21	2,685.31	30.00	13.43	16.57
22	2,668.74	30.00	13.34	16.66
23	2,752.08	30.00	13.26	16.74
24	2,635.34	30.00	13.18	16.82
25	2,618.52	30.00	13.09	16.91
26	2,601.61	30.00	13.01	16.99
27	2,584.62	30.00	12.92	17.08
28	2,567.54	30.00	12.84	17.16
29	2,550.38	30.00	12.75	17.25
30	2,533.13	30.00	12.67	17.33
31	2,515.80	30.00	12.58	17.42
32	2,498.38	30.00	12.49	17.51
33	2,480.87	30.00	12.40	17.60
34	2,463.27	30.00	12.32	17.68
35	2,445.59	30.00	12.23	17.77
36	2,427.82	30.00	12.14	17.86
37	2,409.96	30.00	12.05	17.95
38	2,392.01	30.00	11.96	18.04
39	2,373.97	30.00	11.87	18.13
40	2,355.84	30.00	11.78	18.22
41	2,337.62	30.00	11.69	18.31
42	2,319.31	30.00	11.60	18.40
43	2,300.91	30.00	11.50	18.50
44	2,282.41	30.00	11.41	18.59
45	2,263.82	30.00	11.32	18.68
46	2,245.14	30.00	11.22	18.78
47	2,226.36	30.00	11.13	18.87
48	2,207.49	30.00	11.04	18.96
49	2,188.53	30.00	10.94	19.06
50	2,169.47	30.00	10.85	19.15
51	2,150.32	30.00	10.75	19.25
52	2,131.07	30.00	10.66	19.34
53	2,111.73	30.00	10.56	19.44
54	2,092.29	30.00	10.46	19.54
55	2,072.75	30.00	10.36	19.64
56	2,053.11	30.00	10.27	19.73
57	2,033.38	30.00	10.17	19.83
58	2,013.55	30.00	10.06	19.94
59	1,993.61	30.00	9.97	20.03
60	1,973.58	30.00	9.87	20.13
61	1,953.45	30.00	9.77	20.23
62	1,933.22	30.00	9.67	20.33
63	1,912.89	30.00	9.56	20.44
64	1,892.45	30.00	9.46	20.54
65	1,871.91	30.00	9.36	20.64
66	1,851.27	30.00	9.26	20.74
67	1,830.53	30.00	9.15	20.85
68	1,809.68	30.00	9.05	20.95

TABLE IV.—DIRECT-REDUCTION PLAN B (INTEREST CREDITED SEMIANNUALLY)

1	2	3	4	Allocation of monthly payment	
				5	6
Months	Amount of principal outstanding during month	Monthly payment at end of month	Current cumulative balance of monthly payments not yet allocated	Interest on outstanding principal	Payment on principal
1	$3,000.00	$30.00	$30.00		
2	3,000.00	30.00	60.00		
3	3,000.00	30.00	90.00		
4	3,000.00	30.00	120.00		
5	3,000.00	30.00	150.00		
6	3,000.00	30.00	180.00	$90.00	$90.00
7	2,910.00	30.00	30.00		
8	2,910.00	30.00	60.00		
9	2,910.00	30.00	90.00		
10	2,910.00	30.00	120.00		
11	2,910.00	30.00	150.00		
12	2,910.00	30.00	180.00	87.30	92.70
13	2,817.30	30.00	30.00		
14	2,817.30	30.00	60.00		
15	2,817.30	30.00	90.00		
16	2,817.30	30.00	120.00		
17	2,817.30	30.00	150.00		
18	2,817.30	30.00	180.00	84.52	95.48
19	2,721.82	30.00	30.00		
20	2,721.82	30.00	60.00		
21	2,721.82	30.00	90.00		
22	2,721.82	30.00	120.00		
23	2,721.82	30.00	150.00		
24	2,721.82	30.00	180.00	81.65	98.35
25	2,623.47	30.00	30.00		
26	2,623.47	30.00	60.00		
27	2,623.47	30.00	90.00		
28	2,623.47	30.00	120.00		
29	2,623.47	30.00	150.00		
30	2,623.47	30.00	180.00	78.70	101.30
31	2,522.17	30.00	30.00		
32	2,522.17	30.00	60.00		
33	2,522.17	30.00	90.00		
34	2,522.17	30.00	120.00		
35	2,522.17	30.00	150.00		
36	2,522.17	30.00	180.00	75.67	104.33
37	2,417.84	30.00	30.00		
38	2,417.84	30.00	60.00		
39	2,417.84	30.00	90.00		
40	2,417.84	30.00	120.00		
41	2,417.84	30.00	150.00		
42	2,417.84	30.00	180.00	72.54	107.46
43	2,310.38	30.00	30.00		
44	2,310.38	30.00	60.00		
45	2,310.38	30.00	90.00		
46	2,310.38	30.00	120.00		
47	2,310.38	30.00	150.00		
48	2,310.38	30.00	180.00	69.31	110.69
49	2,199.69	30.00	30.00		
50	2,199.69	30.00	60.00		
51	2,199.69	30.00	90.00		
52	2,199.69	30.00	120.00		
53	2,199.69	30.00	150.00		
54	2,199.69	30.00	180.00	65.99	114.01
55	2,085.68	30.00	30.00		
56	2,085.68	30.00	60.00		
57	2,085.68	30.00	90.00		
58	2,085.68	30.00	120.00		
59	2,085.68	30.00	150.00		
60	2,085.68	30.00	180.00	62.57	117.43
61	1,968.25	30.00	30.00		
62	1,968.25	30.00	60.00		
63	1,968.25	30.00	90.00		
64	1,968.25	30.00	120.00		
65	1,968.25	30.00	150.00		
66	1,968.25	30.00	180.00	59.05	120.95
67	1,847.30	30.00	30.00		
68	1,847.30	30.00	60.00		

Four plans of amortization of a typical loan of $3,000 at 6 percent per annum with total monthly payments for both principal and interest combined equivalent to 1 percent of original principal—Continued

TABLE I.—SERIAL OR SINKING-FUND PLAN (PAR VALUE OF SHARES, $100)—(continued from p. 190)

1	2	3	4	Allocation of monthly payment		7	8	9
Months	Shares	Amount of principal outstanding during month	Monthly payment at end of month	5 Interest on outstanding principal	6 For purchase of shares of stock	Semiannual dividends credited on share account at 3 percent per annum	Total credits to share account at end of month	Current cumulative credit balance in share account
69	30	$3,000	$30.00	$15	$15.00	-------	$15.00	$1,112.70
70	30	3,000	30.00	15	15.00	-------	15.00	1,127.70
71	30	3,000	30.00	15	15.00	-------	15.00	1,142.70
72	30	3,000	30.00	15	15.00	$16.02	31.02	1,173.72
73	30	3,000	30.00	15	15.00	-------	15.00	1,188.72
74	30	3,000	30.00	15	15.00	-------	15.00	1,203.72
75	30	3,000	30.00	15	15.00	-------	15.00	1,218.72
76	30	3,000	30.00	15	15.00	-------	15.00	1,233.72
77	30	3,000	30.00	15	15.00	-------	15.00	1,248.72
78	30	3,000	30.00	15	15.00	17.60	32.60	1,281.32
79	30	3,000	30.00	15	15.00	-------	15.00	1,296.32
80	30	3,000	30.00	15	15.00	-------	15.00	1,311.32
81	30	3,000	30.00	15	15.00	-------	15.00	1,326.32
82	30	3,000	30.00	15	15.00	-------	15.00	1,341.32
83	30	3,000	30.00	15	15.00	-------	15.00	1,353.32
84	30	3,000	30.00	15	15.00	19.22	34.22	1,390.54
85	30	3,000	30.00	15	15.00	-------	15.00	1,405.54
86	30	3,000	30.00	15	15.00	-------	15.00	1,420.54
87	30	3,000	30.00	15	15.00	-------	15.00	1,435.54
88	30	3,000	30.00	15	15.00	-------	15.00	1,450.54
89	30	3,000	30.00	15	15.00	-------	15.00	1,465.54
90	30	3,000	30.00	15	15.00	20.86	35.86	1,501.40
91	30	3,000	30.00	15	15.00	-------	15.00	1,516.40
92	30	3,000	30.00	15	15.00	-------	15.00	1,531.40
93	30	3,000	30.00	15	15.00	-------	15.00	1,546.40
94	30	3,000	30.00	15	15.00	-------	15.00	1,561.40
95	30	3,000	30.00	15	15.00	-------	15.00	1,576.40
96	30	3,000	30.00	15	15.00	22.52	37.52	1,613.92
97	30	3,000	30.00	15	15.00	-------	15.00	1,628.92
98	30	3,000	30.00	15	15.00	-------	15.00	1,643.92
99	30	3,000	30.00	15	15.00	-------	15.00	1,658.92
100	30	3,000	30.00	15	15.00	-------	15.00	1,673.92
101	30	3,000	30.00	15	15.00	-------	15.00	1,688.92
102	30	3,000	30.00	15	15.00	24.21	39.21	1,728.13
103	30	3,000	30.00	15	15.00	-------	15.00	1,743.13
104	30	3,000	30.00	15	15.00	-------	15.00	1,758.13
105	30	3,000	30.00	15	15.00	-------	15.00	1,773.13
106	30	3,000	30.00	15	15.00	-------	15.00	1,788.13
107	30	3,000	30.00	15	15.00	-------	15.00	1,803.13
108	30	3,000	30.00	15	15.00	25.92	40.92	1,844.05
109	30	3,000	30.00	15	15.00	-------	15.00	1,859.05
110	33	3,000	30.00	15	15.00	-------	15.00	1,874.05
111	30	3,000	30.00	15	15.00	-------	15.00	1,889.05
112	30	3,000	30.00	15	15.00	-------	15.00	1,904.05
113	30	3,000	30.00	15	15.00	-------	15.00	1,919.05
114	30	3,000	30.00	15	15.00	27.66	42.66	1,961.71
115	30	3,000	30.00	15	15.00	-------	15.00	1,976.71
116	30	3,000	30.00	15	15.00	-------	15.00	1,991.71
117	30	3,000	30.00	15	15.00	-------	15.00	2,006.71
118	30	3,000	30.00	15	15.00	-------	15.00	2,021.71
119	30	3,000	30.00	15	15.00	-------	15.00	2,036.71
120	30	3,000	30.00	15	15.00	29.42	44.42	2,081.13
121	30	3,000	30.00	15	15.00	-------	15.00	2,096.13
122	30	3,000	30.00	15	15.00	-------	15.00	2,111.13
123	30	3,000	30.00	15	15.00	-------	15.00	2,126.13
124	30	3,000	30.00	15	15.00	-------	15.00	2,141.13
125	30	3,000	30.00	15	15.00	-------	15.00	2,156.13
126	30	3,000	30.00	15	15.00	31.22	46.22	2,202.35
127	30	3,000	30.00	15	15.00	-------	15.00	2,217.35
128	30	3,000	30.00	15	15.00	-------	15.00	2,232.35
129	30	3,000	30.00	15	15.00	-------	15.00	2,247.35
130	30	3,000	30.00	15	15.00	-------	15.00	2,262.35
131	30	3,000	30.00	15	15.00	-------	15.00	2,277.35
132	30	3,000	30.00	15	15.00	33.03	48.03	2,325.38
133	30	3,000	30.00	15	15.00	-------	15.00	2,340.38
134	30	3,000	30.00	15	15.00	-------	15.00	2,355.38
135	30	3,000	30.00	15	15.00	-------	15.00	2,370.38
136	30	3,000	30.00	15	15.00	-------	15.00	2,385.38

TABLE II.—DROP-SHARE OR CANCEL-AND-ENDORSE PLAN (PAR VALUE OF SHARES, $100, NO DIVIDENDS CREDITED)—(continued from p. 190)

1	2	3	4	Allocation of monthly payment		7	8
Months	Shares	Amount of principal outstanding during month	Monthly payment at end of month	5 Interest on outstanding principal	6 For purchase of shares of stock	Par value of shares matured and retired	Current cumulative credit balance in share account
69	19	$1,900	$30	$9.50	$20.50	$100.00	$11.50
70	18	1,800	30	9.00	21.00	---------	32.50
71	18	1,800	30	9.00	21.00	---------	53.50
72	18	1,800	30	9.00	21.00	---------	74.50
73	18	1,800	30	9.00	21.00	---------	95.50
74	18	1,800	30	9.00	21.00	100.00	16.50
75	17	1,700	30	8.50	21.50	---------	38.00
76	17	1,700	30	8.50	21.50	---------	59.50
77	17	1,700	30	8.50	21.50	---------	81.00
78	17	1,700	30	8.50	21.50	100.00	2.50
79	16	1,600	30	8.00	22.00	---------	24.50
80	16	1,600	30	8.00	22.00	---------	46.50
81	16	1,600	30	8.00	22.00	---------	68.50
82	16	1,600	30	8.00	22.00	---------	90.50
83	16	1,600	30	8.00	22.00	100.00	12.50
84	15	1,500	30	7.50	22.50	---------	35.00
85	15	1,500	30	7.50	22.50	---------	57.50
86	15	1,500	30	7.50	22.50	---------	80.00
87	15	1,500	30	7.50	22.50	100.00	2.50
88	14	1,400	30	7.00	23.00	---------	25.50
89	14	1,400	30	7.00	23.00	---------	48.50
90	14	1,400	30	7.00	23.00	---------	71.50
91	14	1,400	30	7.00	23.00	---------	94.50
92	14	1,400	30	7.00	23.00	100.00	17.50
93	13	1,300	30	6.50	23.50	---------	41.00
94	13	1,300	30	6.50	23.50	---------	64.50
95	13	1,300	30	6.50	23.50	---------	68.00
96	13	1,300	30	6.50	23.50	100.00	11.50
97	12	1,200	30	6.00	24.00	---------	35.50
98	12	1,200	30	6.00	24.00	---------	59.50
99	12	1,200	30	6.00	24.00	---------	83.50
100	12	1,200	30	6.00	24.00	100.00	7.50
101	11	1,100	30	5.50	24.50	---------	32.00
102	11	1,100	30	5.50	24.50	---------	56.50
103	11	1,100	30	5.50	24.50	---------	81.00
104	11	1,100	30	5.50	24.50	100.00	5.50
105	10	1,000	30	5.00	25.00	---------	30.50
106	10	1,000	30	5.00	25.00	---------	55.50
107	10	1,000	30	5.00	25.00	---------	80.50
108	10	1,000	30	5.00	25.00	100.00	5.50
109	9	900	30	4.50	25.50	---------	31.00
110	9	900	30	4.50	25.50	---------	56.50
111	9	900	30	4.50	25.50	---------	82.00
112	9	900	30	4.50	25.50	100.00	7.50
113	8	800	30	4.00	26.00	---------	33.50
114	8	800	30	4.00	26.00	---------	59.50
115	8	800	30	4.00	26.00	---------	85.50
116	8	800	30	4.00	26.00	100.00	11.50
117	7	700	30	3.50	26.50	---------	38.00
118	7	700	30	3.50	26.50	---------	64.50
119	7	700	30	3.50	26.50	---------	91.00
120	7	700	30	3.50	26.50	100.00	17.50
121	6	600	30	3.00	27.00	---------	44.50
122	6	600	30	3.00	27.00	---------	71.50
123	6	600	30	3.00	27.00	---------	98.50
124	6	600	30	3.00	27.00	100.00	25.50
125	5	500	30	2.50	27.50	---------	53.00
126	5	500	30	2.50	27.50	---------	80.50
127	5	500	30	2.50	27.50	100.00	8.00
128	4	400	30	2.00	28.00	---------	36.00
129	4	400	30	2.00	28.00	---------	64.00
130	4	400	30	2.00	28.00	---------	92.00
131	4	400	30	2.00	28.00	100.00	20.00
132	3	300	30	1.50	28.50	---------	48.50
133	3	300	30	1.50	28.50	---------	77.00
134	3	300	30	1.50	28.50	100.00	5.50
135	2	200	30	1.00	29.00	---------	34.50
136	2	200	30	1.00	29.00	---------	63.50

Four plans of amortization of a typical loan of $3,000 at 6 percent per annum with total monthly payments for both principal and interest combined equivalent to 1 percent of original principal—Continued

TABLE III.—DIRECT-REDUCTION PLAN A (INTEREST CREDITED MONTHLY)—(continued from p. 191)

1	2	3	Allocation of monthly payment	
			4	5
Months	Amount of principal outstanding during month	Monthly payment at end of month	Interest on outstanding principal	Payment on principal
69	$1,788.73	$30.00	$8.94	$21.06
70	1,767.67	30.00	8.84	21.16
71	1,746.51	30.00	8.73	21.27
72	1,725.24	30.00	8.63	21.37
73	1,703.87	30.00	8.52	21.48
74	1,682.39	30.00	8.41	21.59
75	1,660.80	30.00	8.30	21.70
76	1,639.10	30.00	8.20	21.80
77	1,617.30	30.00	8.08	21.92
78	1,595.38	30.00	7.98	22.02
79	1,573.36	30.00	7.87	22.13
80	1,551.23	30.00	7.76	22.24
81	1,528.99	30.00	7.64	22.36
82	1,506.63	30.00	7.53	22.47
83	1,484.16	30.00	7.42	22.58
84	1,461.58	30.00	7.31	22.69
85	1,438.89	30.00	7.20	22.80
86	1,416.09	30.00	7.08	22.92
87	1,393.17	30.00	6.96	23.04
88	1,370.13	30.00	6.85	23.15
89	1,346.98	30.00	6.74	23.26
90	1,323.72	30.00	6.62	23.38
91	1,300.34	30.00	6.50	23.50
92	1,276.84	30.00	6.38	23.62
93	1,253.22	30.00	6.27	23.73
94	1,229.49	30.00	6.14	23.86
95	1,205.63	30.00	6.03	23.97
96	1,181.66	30.00	5.91	24.09
97	1,157.57	30.00	5.79	24.21
98	1,133.36	30.00	5.67	24.33
99	1,109.03	30.00	5.54	24.46
100	1,084.57	30.00	5.42	24.58
101	1,059.99	30.00	5.30	24.70
102	1,035.29	30.00	5.18	24.82
103	1,010.47	30.00	5.05	24.95
104	985.52	30.00	4.93	25.07
105	960.45	30.00	4.80	25.20
106	935.25	30.00	4.68	25.32
107	909.93	30.00	4.55	25.45
108	884.48	30.00	4.42	25.58
109	858.90	30.00	4.29	25.71
110	833.19	30.00	4.17	25.83
111	807.36	30.00	4.04	25.96
112	781.40	30.00	3.91	26.09
113	755.31	30.00	3.77	26.23
114	729.08	30.00	3.65	26.35
115	702.73	30.00	3.51	26.49
116	676.24	30.00	3.38	26.62
117	649.62	30.00	3.25	26.75
118	622.87	30.00	3.11	26.89
119	595.98	30.00	2.98	27.02
120	568.96	30.00	2.85	27.15
121	541.81	30.00	2.71	27.29
122	514.52	30.00	2.57	27.43
123	487.09	30.00	2.43	27.57
124	459.52	30.00	2.30	27.70
125	431.82	30.00	2.16	27.84
126	403.98	30.00	2.02	27.98
127	376.00	30.00	1.88	28.12
128	347.88	30.00	1.74	28.26
129	319.62	30.00	1.60	28.40
130	291.22	30.00	1.46	28.54
131	262.68	30.00	1.31	28.69
132	233.99	30.00	1.17	28.83
133	205.16	30.00	1.03	28.97
134	176.19	30.00	.88	29.12
135	147.07	30.00	.73	29.27
136	117.80	30.00	.59	29.41

TABLE IV.—DIRECT REDUCTION PLAN B (INTEREST CREDITED SEMIANNUALLY)—(continued from p. 191)

1	2	3	4	Allocation of monthly payment	
				5	6
Months	Amount of principal outstanding during month	Monthly payment at end of month	Current cumulative balance of monthly payments not yet allocated	Interest on outstanding principal	Payment on principal
69	$1,847.30	$30.00	$90.00		
70	1,847.30	30.00	120.00		
71	1,847.30	30.00	150.00		
72	1,847.30	30.00	180.00	$55.42	$124.58
73	1,722.72	30.00	30.00		
74	1,722.72	30.00	60.00		
75	1,722.72	30.00	90.00		
76	1,722.72	30.00	120.00		
77	1,722.72	30.00	150.00		
78	1,722.72	30.00	180.00	51.68	128.32
79	1,594.40	30.00	30.00		
80	1,594.40	30.00	60.00		
81	1,594.40	30.00	90.00		
82	1,594.40	30.00	120.00		
83	1,594.40	30.00	150.00		
84	1,594.40	30.00	180.00	47.83	132.17
85	1,462.23	30.00	30.00		
86	1,462.23	30.00	60.00		
87	1,462.23	30.00	90.00		
88	1,462.23	30.00	120.00		
89	1,462.23	30.00	150.00		
90	1,462.23	30.00	180.00	43.87	136.13
91	1,326.10	30.00	30.00		
92	1,326.10	30.00	60.00		
93	1,326.10	30.00	90.00		
94	1,326.10	30.00	120.00		
95	1,326.10	30.00	150.00		
96	1,326.10	30.00	180.00	39.78	140.22
97	1,185.88	30.00	30.00		
98	1,185.88	30.00	60.00		
99	1,185.88	30.00	90.00		
100	1,185.88	30.00	120.00		
101	1,185.88	30.00	150.00		
102	1,185.88	30.00	180.00	35.58	144.42
103	1,041.46	30.00	30.00		
104	1,041.46	30.00	60.00		
105	1,041.46	30.00	90.00		
106	1,041.46	30.00	120.00		
107	1,041.46	30.00	150.00		
108	1,041.46	30.00	180.00	31.24	148.76
109	892.70	30.00	30.00		
110	892.70	30.00	60.00		
111	892.70	30.00	90.00		
112	892.70	30.00	120.00		
113	892.70	30.00	150.00		
114	892.70	30.00	180.00	26.78	153.22
115	739.48	30.00	30.00		
116	739.48	30.00	60.00		
117	739.48	30.00	90.00		
118	739.48	30.00	120.00		
119	739.48	30.00	150.00		
120	739.48	30.00	180.00	22.19	157.81
121	581.67	30.00	30.00		
122	581.67	30.00	60.00		
123	581.67	30.00	90.00		
124	581.67	30.00	120.00		
125	581.67	30.00	150.00		
126	581.67	30.00	180.00	17.45	162.55
127	419.12	30.00	30.00		
128	419.12	30.00	60.00		
129	419.12	30.00	90.00		
130	419.12	30.00	120.00		
131	419.12	30.00	150.00		
132	419.12	30.00	180.00	12.57	167.43
133	251.69	30.00	30.00		
134	251.69	30.00	60.00		
135	251.69	30.00	90.00		
136	251.69	30.00	120.00		

Four plans of amortization of a typical loan of $3,000 at 6 percent per annum with total monthly payments for both principal and interest combined equivalent to 1 percent of original principal—Continued

TABLE I.—SERIAL OR SINKING-FUND PLAN (PAR VALUE OF SHARES, $100)—(continued from p. 192)

1	2	3	4	Allocation of monthly payment		7	8	9
				5	6			
Months	Shares	Amount of principal outstanding during month	Monthly payment at end of month	Interest on outstanding principal	For purchase of shares of stock	Semiannual dividends credited on share account at 3 percent per annum	Total credits to share account at end of month	Current cumulative credit balance in share account
137	30	$3,000	$30.00	$15	$15.00	-------	$15.00	$2,400.38
138	30	3,000	30.00	15	15.00	$34.88	49.88	2,450.26
139	30	3,000	30.00	15	15.00	-------	15.00	2,465.26
140	30	3,000	30.00	15	15.00	-------	15.00	2,480.26
141	30	3,000	30.00	15	15.00	-------	15.00	2,495.26
142	30	3,000	30.00	15	15.00	-------	15.00	2,510.26
143	30	3,000	30.00	15	15.00	-------	15.00	2,525.26
144	30	3,000	30.00	15	15.00	36.75	51.75	2,577.01
145	30	3,000	30.00	15	15.00	-------	15.00	2,592.01
146	30	3,000	30.00	15	15.00	-------	15.00	2,607.01
147	30	3,000	30.00	15	15.00	-------	15.00	2,622.01
148	30	3,000	30.00	15	15.00	-------	15.00	2,637.01
149	30	3,000	30.00	15	15.00	-------	15.00	2,652.01
150	30	3,000	30.00	15	15.00	38.66	53.66	2,705.67
151	30	3,000	30.00	15	15.00	-------	15.00	2,720.67
152	30	3,000	30.00	15	15.00	-------	15.00	2,735.67
153	30	3,000	30.00	15	15.00	-------	15.00	2,750.67
154	30	3,000	30.00	15	15.00	-------	15.00	2,765.67
155	30	3,000	30.00	15	15.00	-------	15.00	2,780.67
156	30	3,000	30.00	15	15.00	40.59	55.59	2,836.26
157	30	3,000	30.00	15	15.00	-------	15.00	2,851.26
158	30	3,000	30.00	15	15.00	-------	15.00	2,866.26
159	30	3,000	30.00	15	15.00	-------	15.00	2,881.26
160	30	3,000	30.00	15	15.00	-------	15.00	2,896.26
161	30	3,000	30.00	15	15.00	-------	15.00	2,911.26
162	30	3,000	30.00	15	15.00	42.54	57.54	2,968.80
163	30	3,000	30.00	15	15.00	-------	15.00	2,983.80
164	30	3,000	29.72	15	14.72	1.48	16.20	3,000.00
Total	---	-------	4,919.72	2,460	2,459.72	540.28	3,000.00	----------

TABLE II.—DROP-SHARE OR CANCEL-AND-ENDORSE PLAN (PAR VALUE OF SHARES, $100, NO DIVIDENDS CREDITED)—(continued from p. 192)

1	2	3	4	Allocation of monthly payment		7	8
				5	6		
Months	Shares	Amount of principal outstanding during month	Monthly payment at end of month	Interest on outstanding principal	For purchase of shares of stock	Par value of shares matured and retired	Current cumulative credit balance in share account
137	2	$200	$30	$1.00	$29.00	--------	$92.50
138	2	200	30	1.00	29.00	$100.00	21.50
139	1	100	30	.50	29.50	--------	51.00
140	1	100	30	.50	29.50	--------	80.50
141	1	100	20	.50	19.50	100.00	------
Total	----	-------	4,220	1,220.00	3,000.00	3,000.00	------

Four plans of amortization of a typical loan of $3,000 at 6 percent per annum with total monthly payments for both principal and interest combined equivalent to 1 percent of original principal—Continued

TABLE III.—DIRECT-REDUCTION PLAN A (INTEREST CREDITED MONTHLY)—(continued from p. 193)

1	2	3	Allocation of monthly payment	
Months	Amount of principal outstanding during month	Monthly payment at end of month	4 Interest on outstanding principal	5 Payment on principal
137	$88.39	$30.00	$.44	$29.56
138	58.83	30.00	.29	29.71
139	29.12	29.27	.15	29.12
Total		4,169.27	1,169.27	3,000.00

TABLE IV.—DIRECT-REDUCTION PLAN B (INTEREST CREDITED SEMIANNUALLY)—(continued from p. 193)

1	2	3	4	Allocation of monthly payment	
Months	Amount of principal outstanding during month	Monthly payment at end of month	Current cumulative balance of monthly payments not yet allocated	5 Interest on outstanding principal	6 Payment on principal
137	$251.69	$30.00	$150.00		
138	251.69	30.00	180.00	$7.55	$172.45
139	79.24	30.00	30.00		
140	79.24	30.00	60.00		
141	79.24	20.43	80.43	1.19	79.24
Total		4,220.43		1,220.43	3,000.00

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Under this plan, it is evident that the exact length of time necessary to accumulate a sinking fund to pay the loan is determined by the size of the monthly payment on shares and the rate of dividends credited monthly on the balance of the share account. On this basis, we find that it takes 163 months of equal payments of $30 a month and an additional 164th payment of $29.72 to pay the interest and accumulate enough in the share account to reach $3,000, which is the amount of the sinking fund necessary to pay off the $3,000 loan in full.

DIRECT-REDUCTION PLAN

SINCE the drop-share plan is a compromise between the sinking-fund plan and the direct-reduction plan, we shall consider it last. Under the direct-reduction plan, as shown in table III, the general system of bookkeeping entries is made as simple as possible. The borrower does not subscribe for shares, so there are no share accounts, no records of shares canceled, and no dividends to be credited. Under this plan, the borrower gets full credit immediately for every payment he makes toward the reduction of the loan. He is charged interest each month only on the amount of principal outstanding during that month. This interest charge is subtracted from his monthly payment of $30 and the remainder is applied as a payment on the outstanding principal.

Under this plan 138 monthly payments of $30 each with an additional 139th payment of $29.27 are sufficient to retire the loan, principal and interest.

Incidentally, in using the direct-reduction plan, some associations apply the same amount to payments on principal each month. The decreasing interest payments result in a decreasing instead of an equal payment by the borrower each month. Under this system the borrower either pays for a longer period or starts with a higher monthly payment. The total cost, however, remains the same.

A frequent variation of the direct-reduction plan is shown in table IV in which interest is credited semiannually instead of monthly. This imposes an additional burden on the borrower because in each 6-month period he is still paying interest on an accumulating sum of money, ranging from $15 to about $150, which he has already paid back, and which has not been allocated to principal as received. The net result is that he has to pay $30 each month for 140 months and an additional 141st payment of $20.43.

CANCEL-AND-ENDORSE OR DROP-SHARE PLAN

WE HAVE said that the cancel-and-endorse or drop-share plan of amortization, shown in table II, is a compromise between the sinking-fund plan and the direct-reduction plan. Many building and loan associations, desirous of getting as nearly as possible on the direct-reduction plan without giving up the share-account feature, have shown a preference for this system. Because of State statutory requirements or of tradition, they wish to retain some appearance of the membership feature (which is legally evidenced by the existence of these share accounts) no matter how small the total credit balance in them.

When a $3,000 loan at 6 percent per annum is made under the drop-share plan, the borrower subscribes for 30 shares of $100 par-value stock, as under the serial or sinking-fund plan. As he makes payments on the shares and as dividends are credited to his share account, however, this account will never show a credit balance as great as $100 for more than a day or so, because as soon as $100 is accumulated, a $100 par-value share of stock is retired and canceled by applying this amount to the reduction of the principal debt.[1]

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[1] The $100 par value drop-share plan here presented is merely one of many possible similar plans. It is obvious that a $50 or a $25 plan or any fixed amount could be used. Furthermore, most drop-share plans follow a time basis instead of a fixed amount basis and "drop" or retire the balance in the share account at fixed intervals of time such as every 3 months or every 6 months or in some cases, every year.

It is common practice for associations using the drop-share plan to pay no dividends on the credit balance accumulating in the share account toward the cancelation of each $100 share. The result is—as in table IV where interest is compounded every 6 months under the direct-reduction plan—to charge the borrower interest on money he has already paid back. Consequently, we find that under the drop-share plan, as illustrated in table II, 140 monthly payments of $30 and an additional 141st payment of $20 are required to retire the loan.

COMPARISON OF RESULTS UNDER THE THREE PLANS

THE last page of the tables shows at a glance that the time over which payments must be made and the total amount paid by the borrower for the same amount of loan at the same *nominal* rate of interest are different under each plan. The following brief table summarizes the number of months, the total amount of monthly payments, the total amount paid on interest, and the total amount paid on principal under the four plans:

Summary of payments on a $3,000 loan at 6 percent nominal interest under 4 plans of loan amortization

Plan	Number of monthly payments	Total payments	Payments on interest	Payments on shares or principal	Effective rate of interest
					Percent
Serial	164	$4, 919. 72	$2, 460. 00	[1] $2, 459. 72	7. 92
Drop-share	141	4, 220. 00	1, 220. 00	3, 000. 00	6. 17
Direct-reduction: Interest compounded monthly	139	4, 169. 27	1, 169. 27	3, 000. 00	6. 00
Direct-reduction: Interest compounded semiannually	141	4, 220. 43	1, 220. 43	3, 000. 00	6. 17

[1] Under the share-account sinking-fund plan, the borrower receives a credit of $540.28, representing dividends at 3 percent compounded semiannually throughout the life of the loan. This sum added to the payments on shares equals $3,000, and this cancels the loan.

It is evident from this summary that under the direct-reduction plan with interest compounded monthly, the borrower pays his loan 25 months sooner than under the share-account sinking-fund plan here illustrated, and that the total cost to him is $750.45 less. As compared with the other direct-reduction plan, in which interest is compounded semiannually, or the drop-share plan, the borrower pays the loan 2 months sooner and saves approximately $51. Translated into terms of effective rate of interest, we find that under the first direct-reduction plan, the nominal rate of 6 percent is the effective rate, whereas under the second direct-reduction plan and under the drop-share plan the effective rate is 6.17 percent, and under the serial plan when the dividend rate is half the interest rate, it is 7.92 percent.[1]

[1] In this connection, an interesting point arises as to the relation between interest rate and risk. According to the actuarial or compound-interest theory, the effective rate of 6.17 percent for loans carried under the second direct-reduction plan and under the drop-share plan is uniform throughout the life of the loan. Looked at from the way in which the books are kept, however, the effective rate shifts from approximately 6 percent in the early years of the loan to considerably more than 6.17 percent in the later years. This is true because as the outstanding principal of the loan decreases, the proportion of monthly payment that is applied to interest decreases. Consequently, the borrower is paying for an ever-increasing proportion of principal of which he does not have the use.

The effect of this situation from a practical point of view is to charge the borrower a higher rate as the risk decreases. This is contrary to the principle and practice of an increasing number of home-financing institutions. Such institutions are offering loans at 4½ or 5 percent where the risk is low and raise the rate to 5½ or 6 percent where the risk is greater. To be

MERITS OF THE DIRECT-REDUCTION PLAN

THE merits of the direct-reduction plan may be listed briefly: (1) It generally costs the borrower less than the other plans commonly used and brings him to the ownership of his house in a shorter time. (2) It is the simplest plan, requiring the least number of calculations, eliminating the complicated and quasi-fictitious bookkeeping entries of share accounts, and reducing the possibilities of error. (3) Most important of all, it is easiest for borrowers as well as for building and loan employees who keep the records to understand. In the long run, nothing is gained by using a system which the borrower cannot understand. (4) Finally, the use of the direct-reduction loan eliminates a grave risk to which the borrower under the share-account sinking-fund plan in most States is subject. This risk is the loss of all his payments on his home in the event that the building and loan association from which he has borrowed becomes insolvent.

In 4 States out of 5 where the laws do not specify to what extent a borrower, who is also a shareholder, shall be liable for the losses sustained by his association, the courts have followed what is known as the Pennsylvania rule. This rule holds that a borrower's repayments shall be regarded not as repayments of the loan but as installments on shares, and that the borrower must, therefore, bear the losses of the association in proportion to his shareholdings. Where such a rule holds, it is possible to imagine a situation in which a borrower might pay his loan out almost to maturity only to find that failure of the association had caused him to lose practically every cent he had paid in.

In only nine States have the courts favored the borrower and followed what is known as the Maryland rule. This rule, in contrast to the Pennsylvania rule, maintains that the borrowing member should be given credit on his loan for all share payments made, thus holding him liable only for the remaining principal with interest. Even in these nine States (California, Maryland, Massachusetts, North Carolina, South Carolina, Texas, Utah, Washington, and, in a qualified way, South Dakota) there is always danger that the more widely accepted Pennsylvania rule may be adopted. Thus, in North Carolina, which was formerly supposed to follow the Maryland rule, there have been in the last few years several decisions following the Pennsylvania rule. In a recent decision a North Carolina court said, " . . . the monthly installments paid by him (the borrower) to the association should be applied to the payment of his dues as a shareholder and not as credits on his indebtedness to the association."

consistent, institutions accepting this principle should reduce the rate on loans periodically as payments on principal decrease the risk. Of course, such a principle is just as applicable to the simple direct-reduction plan as it is to the others mentioned.

HISTORY OF THE SHARE-ACCOUNT SINKING-FUND PLAN

It would seem that the present-day borrower has little to gain and much to lose under the sinking-fund plan. This plan was justified only in the early days of the building-and-loan movement in this country when practically every member joined an association as an investor in the hope of eventually receiving a loan. Under such conditions, all members sooner or later received comparable benefits and were bound to share equally in the risks. When, however, associations began to attract one class of members, who were solely investors seeking a profitable haven for their savings, and a separate class of members who were solely borrowers seeking the means of obtaining a home, a great deal of the justification for the share-account sinking-fund plan disappeared. One of the reasons that the use of money commands a price is because the lender risks its loss in whole or in part. The magnitude of the risk largely determines the interest rate. It is the borrower who pays for the use of this money and for the risk it runs. It is obviously unfair to ask him to assume a share of that risk as well as to pay a premium on it. Yet, this is exactly what the sinking-fund plan in most States does.

It is sometimes argued in behalf of the sinking-fund plan that where the dividend rate equals the interest rate and is credited monthly the actual cost of his loan to the home-owner borrower is the same as under the direct-reduction plan. But the time when dividend rates could be made to equal or exceed interest rates without imposing an unfair burden on some borrowers or investors is passed. For it is only through the use of oblique means of supplementing income, such as heavy fees, fines, forfeitures, that this feat is ever possible and these are being dropped by associations making a determined effort to recapture the confidence of the public.

It is true that the laws of many States have made use of the direct-reduction loan in its simplest form difficult or impossible. For example, some States require that shares be held in the full amount of the loan; others, that loans be made only to members. Such laws are relics of a bygone period of building-and-loan development. In any event, it seems that the drop-share plan satisfies the requirements of States in which the direct-reduction loan cannot be frankly adopted.

Another way to satisfy State legal requirements extensively employed in some States involves the purchase of one one-hundredth of a share by a borrower to qualify him as a member. His loan is then handled under the direct-reduction plan.

DIRECT-REDUCTION LOAN COMPULSORY FOR FEDERAL ASSOCIATIONS

THE use of the direct-reduction loan is compulsory for all Federal savings and loan associations except in States where State legislation makes such a plan impracticable. In a few States the legal rate of interest for building and loan associations is so low that on the direct-reduction plan an association would not be able to compete successfully with other associations employing the share sinking-fund plan. This is because under the direct-reduction plan the contract interest rate is the true rate, whereas under the share sinking-fund plan it is always less than the true rate. Therefore, the same contract rate will return a greater revenue to the association operating under the share sinking-fund plan—at the borrower's expense, of course—and enable it to declare higher dividends than are possible to an association operating on the direct-reduction plan.

Associations in such States, however, generally desire to adopt the direct-reduction plan, because of its simplicity and its attraction for the borrower. In one southern State where the statutory maximum rate for building associations is 6 percent and all associations now use the share sinking-fund plan, the State building and loan league is sponsoring a bill to authorize the direct-reduction plan and the charging of a small loan fee. If the bill is carried, it is believed that all associations in the State intend to make only direct-reduction loans and that, with the aid of the loan fee, they will be able to continue to pay their investors a moderate profit. Of course under such a plan the size of the loan fee determines the effective cost of the loan to the borrower. His position will be but little improved if a large loan fee acts to cancel the savings secured him by use of the direct-reduction plan and continues to obscure the real cost of money to him.

As was said at the beginning of this article, borrowers are insisting on knowing exactly what they have to pay, and when they will be through paying. One means to these ends is the direct-reduction plan. That is why they are demanding it and why they will demand the elimination of any practices that tend to obscure the real cost of loans.

Mortgage and Other Investments of Life Insurance Companies

DURING the depression the mortgage investments of life insurance companies have decreased by about $1,750,000,000 while their holdings in real estate, bonds, and cash have increased by approximately $3,000,000,000. These facts appear from a study of the growth and investment activities of all life insurance companies for the years 1925–34, inclusive, made by the Division of Research and Statistics of the Federal Home Loan Bank Board. The results of this study are summarized in the accompanying table.

The table reveals that the assets of all life insurance companies have nearly doubled in the 10-year period studied, rising from $11,500,000,000 in 1925 to an estimated $21,800,000,000 in 1934 (column A).

The volume of funds invested in all mortgages rose to a peak of $7,741,000,000 in 1931. Since that time, the decrease has been greater each year so that the estimated amount of all mortgages held at the end of 1934 was only $5,995,000,000 (column C). The ratio of all mortgages held to total assets reached a peak in 1927 of 43.1 percent. Since that time, the ratio has fallen with increasing velocity annually to 27.5 percent in 1934, which is the smallest ratio for mortgages in 25 years (column D).

The sharpest proportionate decrease has been experienced in volume of farm mortgages held. Whereas in 1925 they constituted 17.7 percent of total assets, in 1934 this ratio had fallen to 5.8 percent. In dollar volume, the decrease was from approximately $2,042,000,000 to $1,265,000,000. In contrast with the heavy drop in farm-mortgage holdings, nonfarm mortgages held fell from a peak of $5,725,000,000 in 1931 to $4,730,000,000 in 1934 or roughly a billion dollars (column F).

The life insurance companies do not furnish a break-down of nonfarm mortgages held. However, on the basis of data collected in January 1934, the Division of Research and Statistics estimated that mortgages on urban homes represented approximately 15 percent of all nonfarm mortgages held by life insurance companies at that time.

The volume of real estate held has increased continuously and sharply each year of the depression, growing from $453,000,000 in 1930 to $1,678,000,000 at the end of 1934 (column I). This figure includes home and branch office buildings amounting to probably $300,000,000. The ratio of real estate owned to total assets jumped from 2.4 percent to 7.7 percent during these years (column J). Incidentally, the real estate held at the end of 1934 represents 28 percent of all mortgages held, a jump from 5.9 percent in 1930.

The cash holdings and investments other than mortgages show the increases that are to be expected in view of the drop in mortgage holdings and the steady increase in total assets. Thus the estimated cash reserve jumped from a low of 0.72 percent of total assets in 1930 to 2.74 percent, or nearly $600,000,000, in 1934 (columns M and N). Investments in United States Government bonds jumped from roughly $340,000,000 in 1930 to $1,591,000,000 in 1934. Investments in other government bonds show a relatively slighter increase, as do investments in stocks and other bonds (columns S and V).

The drop in mortgage holdings and the steady rise in cash and investments in United States Government bonds seem to indicate a cautious attitude toward new mortgage investments. Certainly, the

$597,000,000 of uninvested cash and the $1,591,000,000 of Government bond holdings make an impressive showing of liquidity and present lending capacity.

Estimates of the amount of mortgage and other investments of all life insurance companies in the United States for years 1925–34, inclusive[1]

End of year	Total assets of all life insurance companies		Estimated amount of all mortgages held			Estimated amount of nonfarm mortgages held			Estimated amount of real estate held[3]			
	(A) Amount (000 omitted)	(B) Percent change each year	(C) Amount (000 omitted)	(D) Ratio to total assets	(E) Percent change each year	(F) Amount (000 omitted)	(G) Ratio to total assets	(H) Percent change each year	(I) Amount (000 omitted)	(J) Ratio to total assets	(K) Percent change each year	(L) Ratio to all mortgages held
				Percent			*Percent*			*Percent*		*Percent*
1925	$11, 537, 615	....	$4, 741, 960	41. 1	....	$2, 699, 802	23. 4	....	$207, 677	1. 8	....	4. 4
1926	12, 939, 807	+12. 2	5, 564, 117	43. 0	+17. 3	3, 429, 049	26. 5	+27. 0	232, 917	1. 8	+12. 0	4. 2
1927	14, 391, 851	+11. 2	6, 202, 888	43. 1	+11. 5	4, 044, 110	28. 1	+17. 9	273, 445	1. 9	+17. 2	4. 4
1928	15, 961, 094	+10. 9	6, 799, 426	42. 6	+9. 6	4, 660, 639	29. 2	+15. 3	319, 222	2. 0	+16. 8	4. 7
1929	17, 482, 309	+9. 5	7, 342, 570	42. 0	+8. 0	5, 244, 693	30. 0	+12. 5	367, 128	2. 1	+15. 0	5. 0
1930	18, 879, 611	+8. 0	7, 646, 242	40. 5	+4. 1	5, 588, 365	29. 6	+6. 5	453, 111	2. 4	+23. 4	5. 9
1931	20, 159, 940	+6. 8	7, 741, 417	38. 4	+1. 2	5, 725, 423	28. 4	+2. 5	564, 478	2. 8	+24. 5	7. 3
1932	20, 754, 112	+2. 9	7, 409, 218	35. 7	−4. 3	5, 562, 102	26. 8	−2. 8	830, 164	4. 0	+47. 2	11. 2
1933	20, 895, 726	+. 7	6, 770, 215	32. 4	−8. 6	5, 140, 349	24. 6	−7. 6	1, 191, 056	5. 7	+43. 5	17. 6
1934	[2]21, 800, 000	+4. 3	5, 995, 000	27. 5	−11. 4	4, 730, 600	21. 7	−8. 0	1, 678, 600	7. 7	+41. 0	28. 0

End of year	Estimated cash			Estimated amount of United States Government bonds			Estimated amount of other government bonds			Estimated amount of stocks and other bonds		
	(M) Amount (000 omitted)	(N) Ratio to total assets	(O) Percent change each year	(P) Amount (000 omitted)	(Q) Ratio to total assets	(R) Percent change each year	(S) Amount (000 omitted)	(T) Ratio to total assets	(U) Percent change each year	(V) Amount (000 omitted)	(W) Ratio to total assets	(X) Percent change each year
		Percent			*Percent*			*Percent*			*Percent*	
1925	$108, 455	0. 94	....	$680, 719	5. 9	....	$692, 257	6. 0	....	$3, 265, 145	28. 3	....
1926	98, 343	. 76	−9. 4	530, 532	4. 1	−22. 0	698, 750	5. 4	+1. 0	3, 700, 785	28. 6	+13. 4
1927	118, 013	. 82	+20. 0	474, 931	3. 3	−10. 5	762, 768	5. 3	+9. 2	4, 202, 420	29. 2	+13. 5
1928	121, 304	. 76	+2. 5	430, 950	2. 7	−9. 3	861, 899	5. 4	+13. 0	4, 756, 406	29. 8	+13. 2
1929	127, 621	. 73	+5. 8	349, 646	2. 0	−18. 8	1, 031, 456	5. 9	+19. 6	5, 139, 799	29. 4	+8. 1
1930	135, 933	. 72	+6. 3	339, 833	1. 8	−2. 9	1, 113, 897	5. 9	+8. 1	5, 645, 004	29. 9	+9. 8
1931	161, 280	. 80	+18. 4	383, 039	1. 9	+12. 6	1, 270, 076	6. 3	+14. 0	5, 906, 862	29. 3	+4. 6
1932	315, 463	1. 52	+95. 7	456, 590	2. 2	+19. 3	1, 328, 263	6. 4	+4. 6	5, 831, 905	28. 1	−1. 3
1933	451, 348	2. 16	+43. 2	877, 620	4. 2	+92. 1	1, 379, 118	6. 6	+3. 8	5, 746, 325	27. 5	−1. 5
1934	597, 320	2. 74	+32. 4	1, 591, 400	7. 3	+81. 2	1, 613, 200	7. 4	+17. 0	6, 060, 400	27. 8	+5. 5

[1] Assets, except for 1934, as given by Life Insurance Yearbooks of the Spectator Co. Estimates are based on the figures supplied by the Association of Life Insurance Presidents for companies representing about 90 percent of assets and investments of all companies.

[2] Estimated by the Association of Life Insurance Presidents.

[3] Includes branch and home-office properties amounting possibly to 300 million dollars, which has probably not increased since 1929.

Advertising and Publicity for Federal Savings and Loan Associations

THE building and loan business has always been handicapped because its safeguards, advantages, and limitations have not been understood by the general public. A market survey conducted last year at the instance of the American Savings, Building and Loan Institute disclosed that only a small minority of people have more than a superficial knowledge of the operation of these thrift, home-financing institutions. Only 9.2 percent of the people interviewed recommended investment in building and loan associations. Actual misinformation is widely held.

This situation has had three adverse results. It has restricted the volume of savings invested in building and loan accounts. It has led many home owners, ignorant of the merits of long-term amortized loans, to use far less desirable types of mortgage loans. It has, because of public failure to differentiate the long-term savings invested in building and loan associations from demand deposits in commercial banks, aggravated withdrawal and repurchase problems.

Removal of these handicaps by a definite program of educational advertising and publicity is essential to the expansion of savings and loan institutions. The contemplated advertising program of the Savings and Loan Cooperative Advertisers, Inc., under the auspices of the United States Building and Loan League, represents the longest stride so far taken in that direction.

FEDERAL SAVINGS AND LOAN EDUCATIONAL ACTIVITY

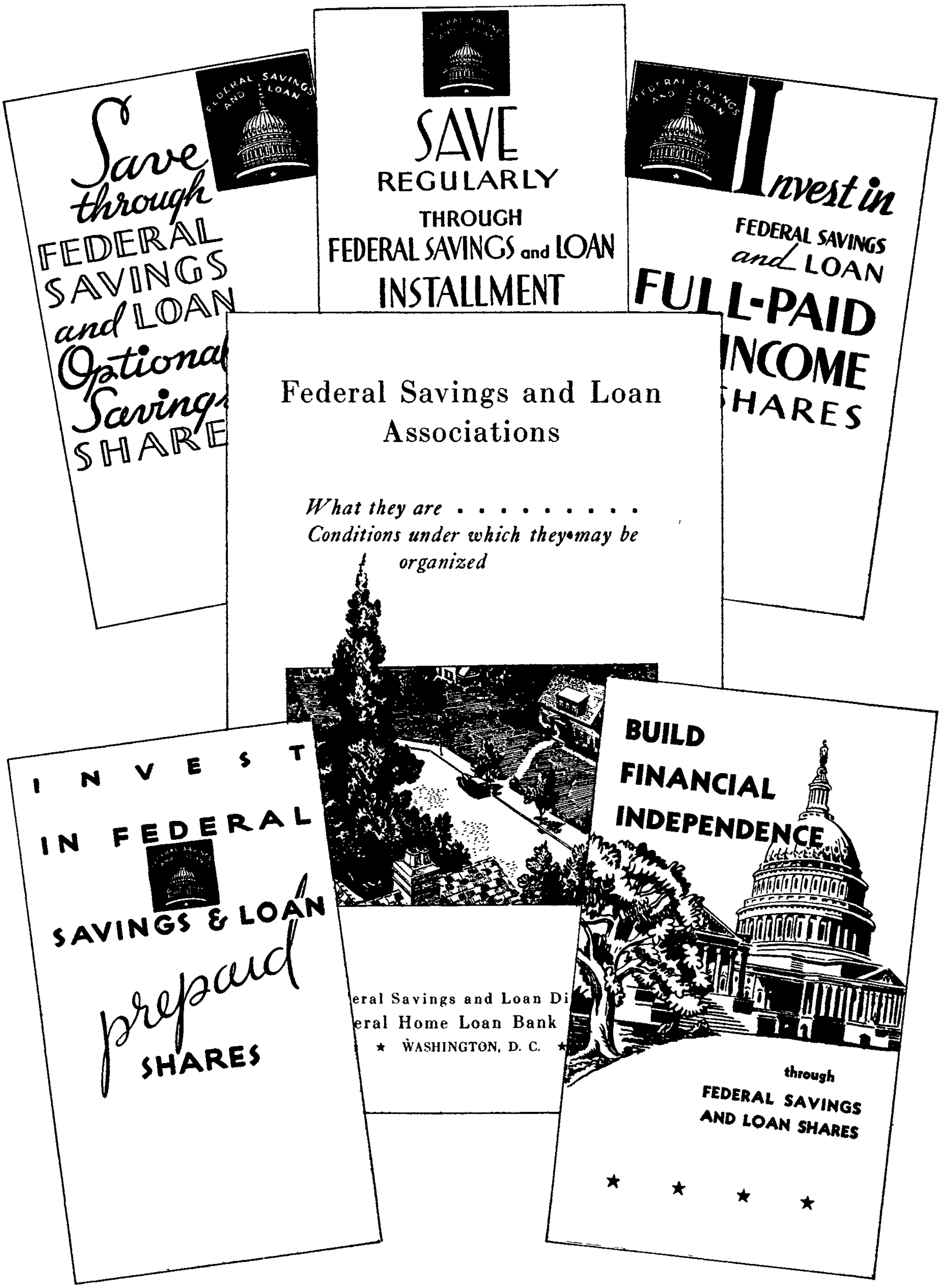
AS A NEW form of thrift and home-lending institution, distinct in many respects from any earlier form, the Federal savings and loan associations confront a specific educational problem. In addition, they are under obligation to build up their resources rapidly, for a special objective of Congress in providing for their establishment was to make adequate home-financing credit available as quickly as possible in the communities needing it. In section 6 of the Home Owners' Loan Act, which provides for the encouragement of these local, thrift, home-financing institutions, Congress had this educational problem specifically in mind.

The Federal Home Loan Bank Board has by several means endeavored to carry out the purpose expressed in the act. It has had prepared a series of 10 booklets for Federal associations to use to call public attention to their methods of organization, the investment merits of the four types of shares available, the superiority of their loan plan, and the benefits afforded through insurance of accounts under the Federal Savings and Loan Insurance Corporation. The covers of these booklets are reproduced in the following pages. Sample quantities have been sent to each Federal savings and loan association. A number of the associations have subsequently ordered at their own expense large additional amounts for use in direct-mail advertising.

NEWSPAPER ADVERTISING

MORE recently, the Board has had prepared a series of 26 newspaper advertisements, several of which are reproduced herewith. They may be used by any Federal association desiring to do so, at its own expense. Many individual Federal savings and loan associations have already made extensive

SAMPLES OF LEAFLETS FOR USE OF FEDERAL SAVINGS AND LOAN ASSOCIATIONS



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Buy Your Future Income Through This Federal Plan

Build financial independence by putting aside a definite part of your earnings each week or month to buy shares of this Association.

SAFETY OF YOUR INVESTMENT INSURED UP TO $5000

by the Federal Savings and Loan Insurance Corporation, Washington, D. C.

Four types of shares are offered, to fit any personal plan. We accept savings in any amount from 50 cents a month up to any multiple of $100.

A special bonus is paid to shareholders on systematic monthly savings, in addition to the dividends which all shareholders receive.

Write or call for free booklet

STRONG SAFEGUARDS FOR YOUR SAVINGS

Among the safeguards which surround your savings invested in Federal Savings and Loan shares are these important features:

1. **SAFETY OF YOUR INVESTMENT INSURED UP TO $5000**
2. Federal supervision and regulation of this Association.
3. Sound repurchase provisions.
4. The time-tested lending methods under which this Association operates, in making conservative, direct cash reduction first mortgage loans on real estate, mainly homes.

Write or call for free booklet

NOW . . . . INSURANCE for *your long-term* SAVINGS

FEDERAL SAVINGS AND LOAN

Safety of your investment in this Association fully insured up to $5,000 by the Federal Savings and Loan Insurance Corporation, Washington, D. C.

This Federally supervised, mutual thrift institution operates under time-tested methods in making conservative, direct reduction first mortgage loans, mainly on homes.

You can invest money to pay you a reasonable dividend return in shares of this Association in any amount, from as little as 50 cents a month up to any multiple of $100.

Write or call for free booklet

To Build, Improve or Refinance YOUR HOME

FEDERAL SAVINGS AND LOAN

Here are the advantages of borrowing from this Association on a long-term monthly direct cash reduction loan:

1. Moderate cost.
2. Reasonable interest rates.
3. Convenient monthly cash payments, suited to your income. No share payments required.
4. No renewal charges or future expense for brokerag title search, recording or other fees. Your loan automatically paid off by installments.

It will pay you to consult us if you have a mortgage co ing due, or if you wish to make a long-term loan to bu or modernize your home.

Write or call for free booklet

YOUR NAME AND ADDRESS

The Dollar Saved is the Dollar at Work

FEDERAL SAVINGS AND LOAN

When you and 199 other people each invest $5 in shares of this Association, we lend that $1,000 to a home owner, to build or modernize his house.

Most of the money pays local carpenters and other artisans for their labor. The rest goes to local merchants to buy building materials for the job.

The workers and merchants who receive that $1,000 spend nearly all of it here in this community. It keeps on working for the benefit of everyone.

The home owner pays back part of the $1,000 each month, together with interest on the unpaid balance, so that you and other thrifty shareholders may receive dividends as long as your money remains invested.

That is the way saved dollars *should* work for the community's profit. Don't let them stay idle.

Write or call for free booklet —

IS YOUR MORTGAGE FALLING DUE?

FEDERAL SAVINGS AND LOAN

Avoid future renewal worries. Refinance your home by our safe, convenient monthly cash payment plan, extending over a long period of years. Reasonable interest.

It is the surest, quickest and least expensive method of repaying a home loan.

You know when you make your loan exactly what the monthly payment is and what the unpaid balance will amount to at any time. You do not have to buy shares in order to obtain a loan.

It will pay you to consult us if you have a mortgag coming due, or if you wish to borrow money to build modernize your home.

Write or call for free booklet

YOUR NAME AND ADDRESS

AN ASSET TO THIS COMMUNITY

FEDERAL SAVINGS AND LOAN

A Federal Savings and Loan Association is more than simply an institution where thrifty people place their savings.

The funds of this Association are invested in local home mortgages. Our convenient, long-term loans permit home owners to build or improve their properties. Local labor and materials are employed, promoting business activity which benefits everyone.

Business and professional men and other civic leaders should know what this Association is, and how it operates in the service of the entire public.

Your letterhead request will bring a complete descriptive booklet.

Write or call for free booklet

YOUR NAME AND ADDRESS

A SECURITY FOR EXACTING INVESTORS

FEDERAL SAVINGS AND LOAN

Some of the leading business executives and some of the foremost corporations in the United States have placed part of their own funds in shares of Federal Savings and Loan Associations.

Their motive is two-fold:

1. Safety—Every investor's holdings in a Federal Savings and Loan Association are fully insured up to $5,000.
2. Public Service—Funds so invested are loaned mainly for the building and improvement of homes, leading t the employment of labor and the purchase of mate rials, thus creating business activity from which ever one benefits.

We will be glad to give you further information on t ways in which this Association protects your savings a serves the interests of this community.

Write or call for free booklet

YOUR NAME AND ADDRESS

Why Home Owners Prefer the Federal Loan Plan

FEDERAL SAVINGS AND LOAN

1. The safest, surest, least expensive method of paying off a home loan over a convenient term of years.
2. Repaid by moderate monthly cash installments suited to your income.
3. Ends all future commission and renewal expense.
4. Reduces interest cost each month.
5. Reduces each month the amount still owed.
6. Has a definite, unchanging payment each month, for which you can plan in advance from the moment your loan is made.
7. Developed by over a century of experience.
8. Supervised by the Federal Government.
9. Brings you steadily nearer to the day when you can say "We own our home free and clear of debt."
10. You do not have to buy shares in order to obtain a loan.

Why not consult us before making or renewing a loan on your home?

YOUR NAME AND ADDRESS

use of their own direct-mail and newspaper advertising, given radio broadcasts, and have developed window displays and other means of public education and sales promotion. The desirability of these steps seems to be fully confirmed by the rapid growth in investments in Federal savings and loan associations, the elimination of repurchase and withdrawal difficulties among converted institutions, and a substantial increase in lending activities through satisfactory opportunities for loans, particularly in the refinancing field.

LOCAL PUBLICITY

THRIFT and home-financing institutions, whether under Federal or State charter, are local agencies. Each obtains most of its funds from the people in its own community and lends on homes in that community. Its educational program must, therefore, be directed at a specific group of people and meet specific local conditions.

The purpose of the Board has been simply to assist in the initial development of publicity and advertising plans with regard to those features which are common to all Federal savings and loan associations. For the maintenance of a constant flow of educational material to its own special public, each association must in the main depend on its own resources and study the opportunities and conditions peculiar to its community. This is particularly true of publicity, as contrasted with paid advertising.

Publicity is of urgent importance to every Federal savings and loan association. As an aid and a guide to Federal associations in handling their own local publicity, the Board some time ago sent an outline on the subject to all Federals. With the thought that it may be of interest to all members of the Federal Home Loan Bank System, it is reproduced herewith. Attention is called particularly to section V.

LOCAL PUBLICITY FOR FEDERAL SAVINGS AND LOAN ASSOCIATIONS

I. *Press relations.*—Directors and executives of the association should establish relations of mutual confidence and helpfulness with newspaper reporters and editors throughout their lending territory and should at all times be accessible to press representatives.

II. *News interest.*—News releases should be issued strictly upon the basis of their genuine interest to the public, particularly avoiding " advertising ", salesmanship, and " personal " publicity. This policy will secure the respect of newspaper men and lead to closer cooperation in giving the public adequate information concerning the association.

III. *Local emphasis.*—The great strength of a Federal savings and loan association is that it is distinctly a *local* institution and must stand or fall by the character of its service to its own community. Every step should be taken to emphasize this local mutual aspect of the association's operation, so that it may come to be regarded by everyone with confidence and good will as a valuable asset to the city.

IV. *Topics for publicity.*—Examples of suitable topics for local news releases by the association are:

1. Opinions of leading directors or executives regarding current real estate or general business conditions, avoiding guesswork and controversy.
2. The benefits of home ownership, not only to the family but to the community, pointing out that the ultimate goal of home financing is home ownership free and clear.
3. Local public statistics of interest to real estate and financial editors.
4. Increasing volume of association's resources, with specific dates and figures for comparison, particularly on actual number of shareholders and average size of accounts.
5. Rising trend of lending operations in dollar volume and by number of home-owner borrowers.
6. Association's methods of assisting borrowers who are building new homes to get sound value and economical cost in materials, architecture, and equipment by specification or otherwise.
7. Summary of advantages of long-term amortized loans to home owner and investor.
8. Loans available for refinancing, repairs and modernization, and construction.
9. Comments on general growth in loans and resources of Federal savings and loan associations in the State or throughout the country (such information is no longer extensively used when released in Washington but can readily be tied in with local releases). Reports on these details will be sent to you from Washington.
10. Clear, brief, explanatory statements regarding Federal Savings and Loan Insurance Corporation and the way in which it protects savings.
11. Transmittal releases dealing with new booklets prepared by or for your association, dealing with loaning policies, insurance of accounts, and

other questions of general public interest and information.

12. Purposes and functions of the Federal Home Loan Bank System and advantages which a Federal savings and loan association derives from membership in the System.

13. History of building and loan in America and England, its place in home financing; with emphasis on the local, mutual character, not offering high profits to any one individual or group but all investors sharing alike in proportion to their investments. Importance of building and loan principle in providing a steady supply of funds for building up the community.

14. Explanatory remarks regarding periodic balance sheet or income account or annual report of the association.

15. Copies or condensations of addresses made by executives of the association before local, State, or national groups on home-loan financing topics.

16. Information regarding the part which some director or executive of the association may take in any important civic activity as a matter of public service.

The foregoing illustrate a few of the limitless possibilities of local publicity, and may suggest many others out of the daily routine activities of the association.

V. *Precautions to avoid misunderstandings.*—Public misunderstanding will be prevented if care is taken in the association's local publicity to comply with the following precautions:

1. Make no implication that the association performs a banking or deposit business, or that accounts are subject to immediate repurchase, even though the association may be in highly liquid condition at the time.

2. The fact should be emphasized that your association is mutual and local, rather than a Federal enterprise in any direct sense. Reference to Federal sponsorship should be restricted to details of supervision and examination.

3. Avoid direct comparisons or contrasts indicating the advantages of a Federal association over any other specific form of savings or home-financing institution whatever.

4. Do not suggest that the insurance feature represents a Federal guaranty, or that the insurance involves a guaranty of liquidity or assurance of a minimum dividend rate.

5. Your information to the press should have the quality of understatement rather than exaggeration. Conservatism and restraint in statements from financial institutions of any kind are vital in securing and retaining the confidence of press and public.

6. Never compare Federal savings and loan shares with Federal Government bonds in any way.

7. Do not suggest a definite future rate or dividend to shareholders—a clear-cut statement of the rate actually paid in the past is sufficient.

8. Do not use the term "guaranteed" with reference to insurance of accounts.

9. Do not refer to a share account as a "savings account." Under the statute it is a share account, not a savings account. Such expressions as "interest on savings" are misleading.

VI. *Standards for news releases.*—News releases should be brief and clear. They should be prepared in readable form by typewriter or mimeograph, and should be distributed simultaneously to all newspapers concerned, in order to give each paper equal opportunity to use the material. Verbal news statements are subject to error and misunderstanding, except in reply to specific questions and where time does not permit a typed release to be prepared.

VII. *Forms for news releases.*—Releases should show clearly at the top of the first page:

1. The name, address, and telephone number of the association.

2. The date at which the release is to be used, and whether by morning or evening papers, as follows:

FIFTH FEDERAL SAVINGS AND LOAN ASSOCIATION OF MIDDLEBURG

MIDDLEBURG, INDIANA

310 Main Street	For release to
Telephone: Main 1010	A. M. newspapers
	Tuesday, January 1, 1935

3. It may be wise to summarize the subject matter in a short introductory paragraph, to give reporters or editors at a glance the main facts.

VIII. *Publicity media other than newspapers.*

1. Local radio talks, tracing the development of Federals. Being of an educational nature and in the public interest, such talks are welcomed by most local stations. They should be short and well prepared, perhaps dramatized, as by use of a questions and answer dialog on salient features of the association's value to home owners and savers.

2. Speeches before luncheon clubs, women's clubs, civic organizations, etc.

3. Interesting material can be supplied to newspaper reporters desiring to prepare informative "feature" stories of extended length for Sunday supplements, as contrasted with strictly news releases.

4. Contests and prizes of special appeal to children, particularly for associations in towns under 100,000 population. Apart from educating the younger generation in thrift, such contests are of direct interest to parents and help to emphasize the community aspects of home finance to the public.

Federal Authority for Conversion of Thrift Home-Financing Institutions From State to Federal Charter

THE Home Owners' Loan Act of 1933 as amended provides that: "Any member of the Federal Home Loan Bank may convert itself into a Federal savings and loan association under this act upon a vote of 51 per centum or more of the votes cast at a legal meeting called to consider such action." It further provides that such conversion shall be subject to such rules and regulations as the Federal Home Loan Bank Board may prescribe. Up to March 1, 1935, 209 State-chartered institutions situated in 32 States had converted to Federal charter under this statute.

From the passage of this act until February 1935, 15 States on which reports had been received had enacted legislation concerning the conversion of institutions under their jurisdiction from State to Federal charters. Of these 15 States, 10 followed the Federal statute and provided that conversion may take place by a majority vote of those present or by proxy at a legal meeting called for the purpose. The 10 States so acting are Indiana, Minnesota, New York, Ohio, Oklahoma, Oregon, Rhode Island, South Carolina, Washington, and West Virginia. A draft of a conversion law for adoption by States which is harmonious to the Federal law is appended at the end of this article.

In the other 5 States in which legislative action has been taken, however, the requirements to effect conversion differ from those set up by Congress. Thus, in Illinois and Iowa a three-fourths vote of the shareholders present or by proxy is required; in Michigan, a two-thirds vote; in Kentucky, conversion may be accomplished upon approval in writing of the holders of two-thirds of the capital stock and authorization by two-thirds of the board of directors; in New Jersey, 40 percent of all members must be present in person and a vote of 75 percent of the shares represented in person or by proxy is necessary in order to consummate conversion.

In a sixteenth State, Wisconsin, although the legislature has enacted no statute on the subject, the question of whether a State-chartered institution may convert under the Federal statute has been raised in the courts. The case was first tried in the Circuit Court of Milwaukee County, Wis., and a decision rendered last September upholding the constitutionality of that section of the Home Owners' Loan Act providing for conversion. This decision, however, was later reversed by the Supreme Court of Wisconsin and the conversions which had taken place in such cases under the authority of the Federal act were declared null and void. Appeal from such decision to the United States Supreme Court is being perfected. Enabling legislation is being considered by the State legislature of Wisconsin at its present session.

It is evident that some decision must be reached as to whether Federal or State law control. The question is one of jurisdiction. Where does supreme authority over the financial system of the Nation rest? The question is not a new one. It was raised at the end of the Civil War when Congress provided for the conversion of State banks into national banks, and it was raised again in 1916 when Congress created the Federal Farm Loan Board, Federal land banks, and national farm-loan associations, and in 1923 when Congress authorized any State-chartered agricultural or livestock financing corporation to be converted into a national agricultural credit corporation.

CONVERSION OF STATE BANKS INTO NATIONAL BANKS

To UNDERSTAND the decisions reached on these earlier occasions, we need to follow the course of constitutional and legislative thought on this subject as it has developed in America. The power of Congress to establish banks as appropriate facilities to aid in the fiscal operations of the Federal Government was placed beyond controversy by the decisions of the Supreme Court of the United States in *McCulloch* v. *Maryland,* 4 Wheat. 316; *Osborn* v. *Bank of United States,* 9 Wheat, 738. In the decision in the famous *McCulloch* v. *Maryland case,* Chief Justice Marshall wrote:

> Although, among the enumerated powers of Government we do not find the word "bank" or "incorporation", we find the great powers to lay and collect taxes; to borrow money; to regulate commerce; to declare and conduct a war; and to raise and support armies and navies. . . . It is not denied that the powers given to the Government imply the ordinary means of execution. That, for example, of raising revenue, and applying it to national purposes, is admitted to imply the power of conveying money from place to place, as the exigencies of the Nation may require and of employing the usual means of conveyance.

Such was the logic that justified the establishment of banks under Federal charter. The next major step was taken when the United States Supreme Court, in *Casey* v. *Galli,* 94 U. S. 673, approved the conversion of a State bank into a national bank. In that decision the court said:

> No authority from the State was necessary to enable the bank so to change its organization. The option to do that was given by the forty-fourth section of the banking act of Congress, 13 Stat. 112. The power there conferred was ample, and its validity cannot be doubted. The act is silent as to any assent or permission by the State. It was as competent for Congress to authorize the transmutation as to create such institutions originally.

CONVERSION OF AGRICULTURAL FINANCING AGENCIES

THE incorporation of banks under Federal charter either originally or through conversion reflected the growing consciousness of Congress that it could not control the currency and the monetary system of the country unless it also controlled banking and banking credit. However, there is obviously no difference between credit extended to merchants on the security of commercial paper and credit extended to farmers on agricultural security. Consequently, when the emergency created by the World War and calling for an increase in the food supply, made necessary the provision of farm-mortgage credits, Congress enacted the Federal Farm Loan Act. This act, approved in 1916, provided for the creation of Federal land banks, the Federal Farm Loan Board, and the national farm-loan associations under Federal charters. Again, no specific authorization to create such associations is found in the Constitution, but such power is embraced within the general power "to make all laws which shall be necessary and proper for carrying into execution" any of the powers vested in the Federal Government. It had thus become apparent that the power to issue currency was not the limiting factor in determining what financial institutions should be included in the fiscal system whose regulation is the exclusive duty of Congress.

The constitutionality of congressional action in establishing agricultural-financing institutions under Federal charter was upheld by the Supreme Court of the United States in *Smith* v. *Kansas City Title and Trust Co.* (255 U. S. 180). In that case the language of the court was rather explicit in stating that such federally chartered institutions could be established for the purpose, among others, of making loans on mortgages. The decision in part reads as follows:

> But the existence of the power under the Constitution is not determined by the extent of the

exercise of the authority conferred under it. Congress declared it necessary to create these fiscal agencies and to make them authorized depositaries of public money. Its power to do so is no longer open to question.

But, it is urged, the attempt to create these Federal agencies, and to make these banks fiscal agents and public depositaries of the Government, is but a pretext. But nothing is better settled by the decisions of this court than that, when Congress acts within the limits of its constitutional authority, it is not the province of the judicial branch of the Government to question its motives. . . . Whether technically banks, or not, these organizations may serve the Governmental purposes declared by Congress in their creation. Furthermore, these institutions are organized to serve as a market for United States bonds. . . .

We therefore conclude that the creation of these banks, and the grant of authority to them to act for the Government as depositaries of public moneys and purchasers of Government bonds, brings them within the creative power of Congress, although they may be intended, in connection with other privileges and duties, to facilitate the making of loans upon farm security at low rates of interest. This does not destroy the validity of these enactments any more than the general banking powers destroyed the authority of Congress to create the United States bank, or the authority given to national banks to carry on additional activities destroyed the authority of Congress to create those institutions.

As the agricultural-credit problem did not subside after the World War, Congress in 1923 authorized the creation of national agricultural credit corporations under Federal charter and the conversion into Federal corporations of State-chartered agricultural financing institutions.

URBAN HOME-FINANCING CREDIT BECOMES A NATIONAL PROBLEM

THE vital part played by the urban home-financing structure in the Nation's fiscal system was not forced on the attention of the public and of Congress until the depression which began in 1929. Then the urban home-debt structure of $21,000,000,000 collapsed and threatened ruin not only to the home owners and home-financing institutions but to the entire banking system. Accordingly, Congress employed its constitutional power, first, to provide, in the Federal Home Loan Banks, a national reserve system for the Nation's principal home-financing institutions. Later, as the home-financing crisis grew more serious, it undertook to extend through the Home Owners' Loan Corporation, Federal credit directly to home owners. It is generally agreed and the results have demonstrated that none but the Federal Government could have met this gigantic financing problem.

However, what is particularly pertinent to this discussion is that in the same act in which Congress employed its constitutional authority to rescue the collapsing home-financing structure, it also made provision to forestall the recurrence of such a collapse in the future. It did this by authorizing, in the Home Owners' Loan Act of 1933, the establishment of thrift, home-financing institutions, under Federal charter and with all the safeguards and aids which Federal control and supervision makes possible. As with banks and agricultural credit corporations, Congress also authorized the conversion of State-chartered home-financing institutions into Federal corporations.

Thus, the sequence of thought and action on the part of Congress and the courts has followed the irresistible facts of national development. Beginning, in a simple agricultural society, with the constitutional power to control the currency, Congress has been forced to extend its control progressively from precious metals to bank notes, to banking credit, to farm and agricultural credit, and to home-mortgage credit as these types of credit became vital to a highly industrialized society. Usually a national necessity has thrust upon Congress the responsibility for extending its constitutional control over the fiscal system. Thus the Government's need of funds during the Civil War, the Nation's need of food during and after the World War, and the collapse of the home-financing structure in 1932 and 1933 have in turn forced Congress to extend the exercise of its regulatory powers over an ever-broadening fiscal field.

It appears, therefore, that Federal legislation governing the conversion of building and loan associations into Federal associations arises both logically and inevitably out of the constitutional power and duty of Congress. In this connection, a sound opinion has been rendered by the attorney general of the State of Texas (no. 153, dated Apr. 30, 1934), that " a so-called conversion of a Texas association into a Federal savings and loan association must be accomplished in accordance with the Federal statute."

A Bill for an act providing for the conversion of building and loan associations and other home-financing organizations into Federal savings and loan associations, prescribing the procedure therefor, defining the results thereof and providing for the indebtedness of such associations

Be it enacted that: (Use suitable enacting clause.)

Sec. 1. Any building and loan association or other home-financing organization by whatever name or style it may be designated, eligible to become a Federal savings and loan association may convert itself into a Federal savings and loan association by following the procedure hereinafter outlined.

A. At any regular meeting of the shareholders of any such association or at any special meeting of the shareholders of such association in either case called to consider such action and held in accordance with the laws governing such association, such shareholders by an affirmative vote of the majority of said shareholders present in person or by proxy may declare by resolution the determination to convert said association into a Federal savings and loan association.

B. A copy of the minutes of such meeting of the shareholders verified by the affidavit of the president or vice president and the secretary of the meeting shall be filed within ten days after said meeting, in the office or department of this State having supervision of such association. Such verified copy of the minutes of such meeting when so filed shall be presumptive evidence of the holding and of the action of such meeting.

C. Within a reasonable time and without any unnecessary delay after the adjournment of such meeting of shareholders, such association shall take such action as may be necessary to make it a Federal savings and loan association and within ten days after receipt of the Federal charter there shall be filed in the office or department of this State having supervision of such association a copy of said charter issued to such association by the Federal Home Loan Bank Board or a certificate showing the organization of such association as a Federal savings and loan association certified by, or on behalf of, the Federal Home Loan Bank Board. Upon the filing of such instrument such association shall cease to be a State association and shall thereafter be a Federal savings and loan association.

Sec. 2. At the time when such conversion becomes effective as hereinbefore provided, said association shall cease to be supervised by this State and all of the property of such association including all of its right, title, and interest in and to all property of every kind and character whether real, personal, or mixed shall immediately by operation of law and without any conveyance or transfer whatsoever and without any further act or deed, continue to be vested in said association under its new name and style as a Federal savings and loan association and under its new jurisdiction; and said Federal savings and loan association shall have, hold, and enjoy the same in its own right as fully and to the same extent as the same was possessed, held, and enjoyed by it as a State association and said Federal savings and loan association at the time of the taking effect of such conversion shall continue responsible for all of the obligations of said State association to the same extent as though said conversion had not taken place; it being expressly declared that the said Federal savings and loan association shall be merely a continuation of the said State association under a new name and new jurisdiction and such revision of its corporate structure as may be considered necessary for its proper operation under said new jurisdiction.

Sec. 3. If any provision in this act, or the application thereof to any person, corporation, or circumstance, is held invalid, the remainder of the act, and the application of such provision to other persons, corporations, or circumstances, shall not be affected thereby.

Sec. 4. Whereas an emergency exists for this legislation, this act shall take effect immediately upon its enactment. (Use suitable emergency clause.)

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Residential Construction Activity in the United States

FOR the first 9 weeks of 1935, ending February 28, residential building makes a showing considerably better than for the same period in either 1934 or 1933, but still below the 1932 level (chart 2). The low level of residential construction in all these years including 1935, however, is revealed by chart 1. This chart compares the average daily value of residential construction for the four periods 1925–29, 1925–34, 1932–34, and 1935. Averages for each month are charted on the vertical month lines. It shows at a glance that residential construction remains today, as it has been for 3 years, insignificant in comparison with the activity of earlier years. The purpose of charting the average for the 10-year period, 1925–34, is to arrive at something of a norm by the inclusion of both boom and depression years. If the cyclical extremes of building activity are to be avoided in the future, it would appear as much a cause for concern to rise far above this average in any year as it is undesirable to fall so far below it.

Analyzing the figures for residential construction so far this year, we find that the upturn recorded in January did not continue in February. Final figures for February, based on reports for the entire month, show that the average daily value of residential construction was almost 16 percent below the January level (table 1). This decline becomes more unfavorable when compared in chart 1 with the average increase of 4.1 percent in February over January for the preceding 3 years. In spite of this decrease, however, the value of residential contracts awarded from February 1 to 28 was still 14.4 percent greater than in the same period in 1934.

TABLE 1.—*Value of construction contracts awarded in 37 Eastern States and percentage changes for comparative periods*

[Source: F. W. Dodge Corporation]

Type of construction	Total for the period						Average daily					
	February 1 to 28			January 1 to February 28			(000 omitted)			Percent change		
	(000 omitted)		Percent change	(000 omitted)		Percent change	February 1935 [1]	January 1935	February 1934	February 1935 from January 1935	February from January 3-year average [2]	February 1935 from February 1934
	1935	1934		1935	1934							
Residential	$16, 617	$14, 520	+14. 4	$39, 027	$29, 646	+31. 6	$722	$862	$631	−16. 2	+4. 1	+14. 4
Nonresidential [3]	58, 467	82, 196	−28. 9	135, 830	257, 440	−47. 2	2, 542	2, 975	3, 574	−14. 6	−20. 3	−28. 9
Total	75, 084	96, 716	−22. 4	174, 857	287, 086	−39. 1	3, 264	3, 837	4, 205	−14. 9	−19. 5	−22. 4

[1] Based on reports for the entire month (23 working days).
[2] Represents the average of the percent change in February from January for the 3 years 1932–34.
[3] Includes contracts for commercial buildings, public works, and utilities.

CONSTRUCTION ACTIVITY IN JANUARY

Residential construction in January 1935 represented the highest percentage of total construction since July 1933 and reached a point well above any ratio in 1934 (chart 3). This advance resulted from an actual increase in the value of residential construction and from a drop in total construction, due to a smaller volume of Government-financed projects. The decline in total construction in January was a continuation of the recession which began in February 1934. The January construction level, as shown in chart 4, is 80 percent below the 1923–25 base. Meanwhile, industrial production had advanced to a point only about 12 percent lower than the 1923–25 production level. This wide divergence between production and construction activity accentuates the need for stimulating the building trades if employment and purchasing power are to be further increased.

CHART 1.—AVERAGE DAILY VALUE OF RESIDENTIAL CONSTRUCTION CONTRACTS AWARDED IN 1935 COMPARED WITH SELECTED PERIODS

(Based on F W Dodge Reports for 37 Eastern States.)

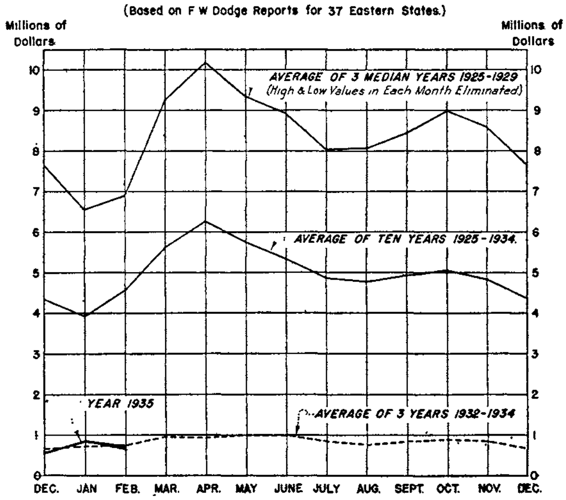


CHART 2.—VALUE OF RESIDENTIAL CONSTRUCTION CONTRACTS AWARDED IN 37 EASTERN STATES, YEARS 1932, 1933, 1934, AND 1935

Source: F.W. Dodge Corporation

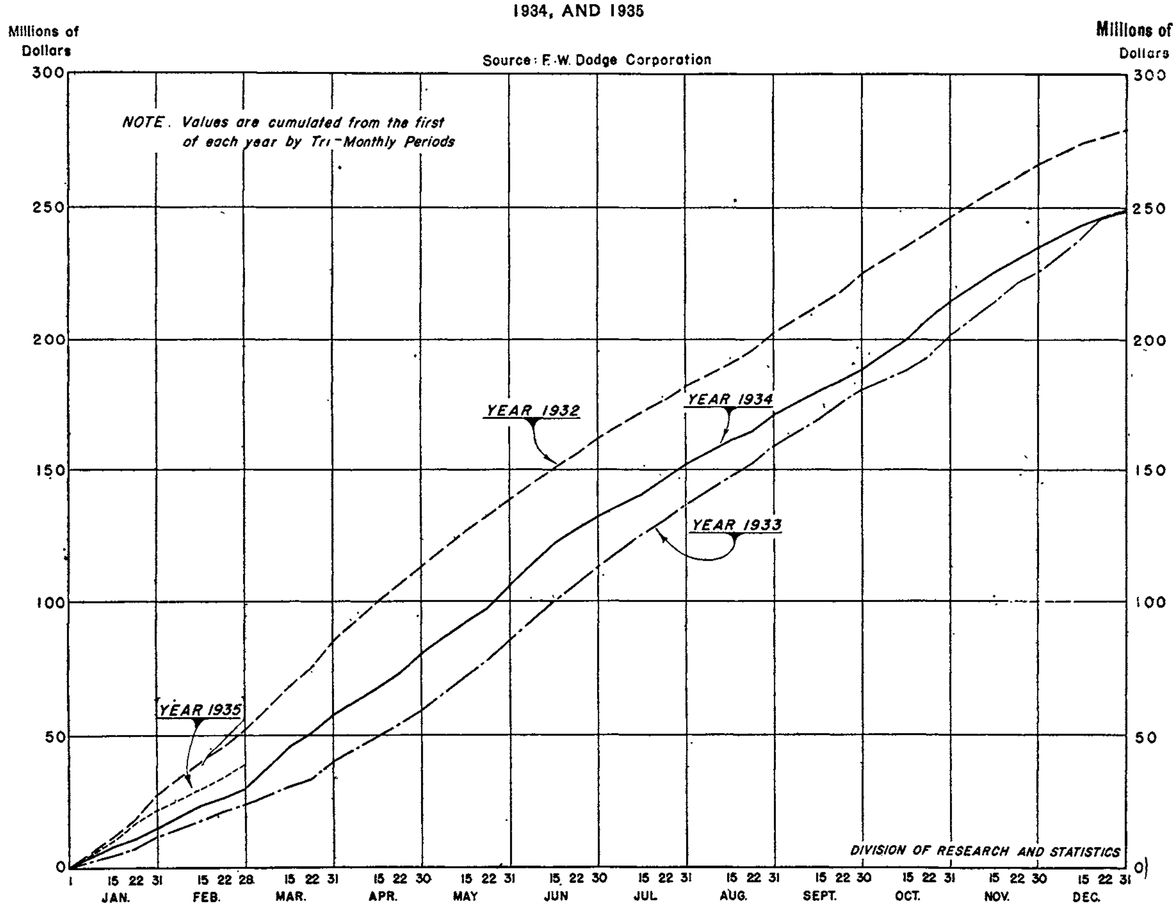


CHART 3.—VALUE OF RESIDENTIAL CONSTRUCTION CONTRACTS AWARDED IN 37 EASTERN STATES, 1925–34. (DATA ALSO EXPRESSED AS A PERCENT OF TOTAL CONTRACTS AWARDED)

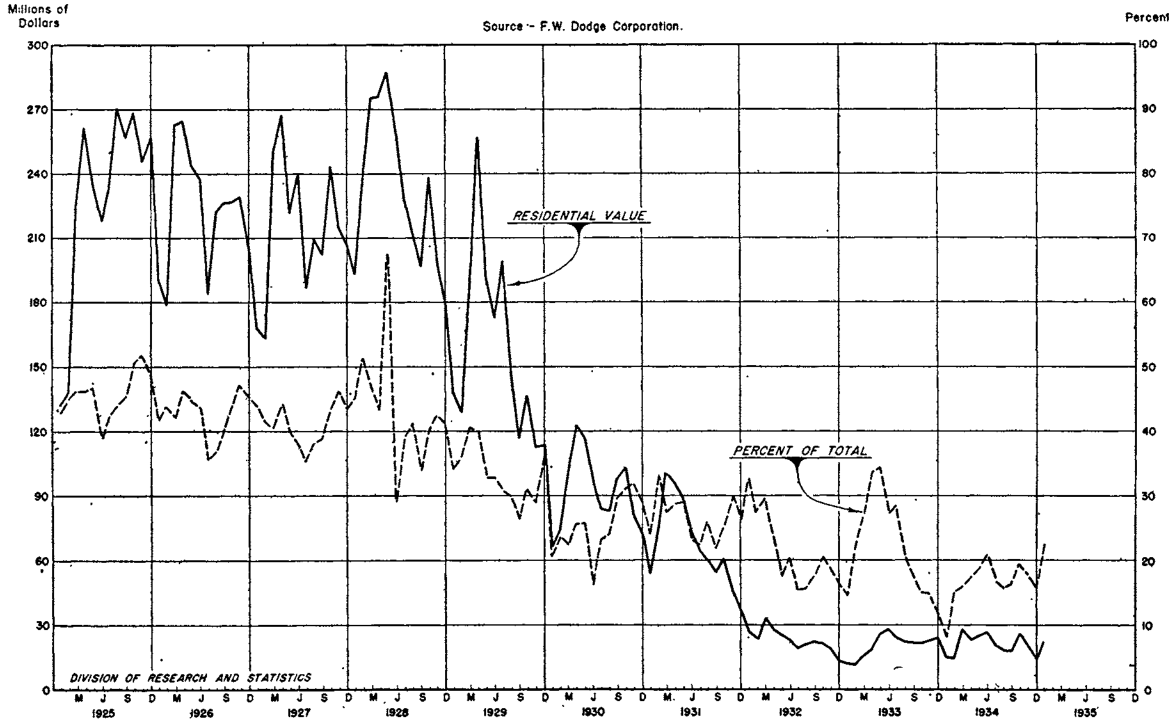


CHART 4.—INDEXES OF TOTAL CONSTRUCTION CONTRACTS AWARDED AND INDUSTRIAL PRODUCTION

Source: Federal Reserve Bulletin:— Years 1923–1925 = 100

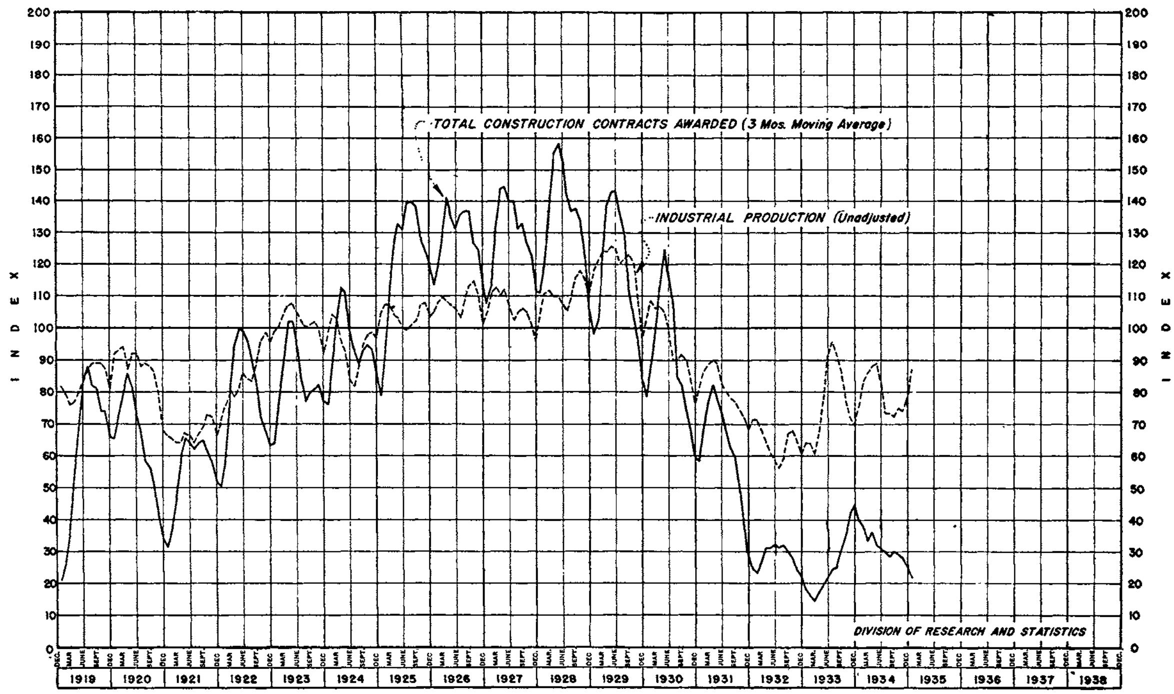


CHART 5.—INDEXES OF RESIDENTIAL CONSTRUCTION CONTRACTS AWARDED, COST OF BUILDING AND HOUSING RENTALS

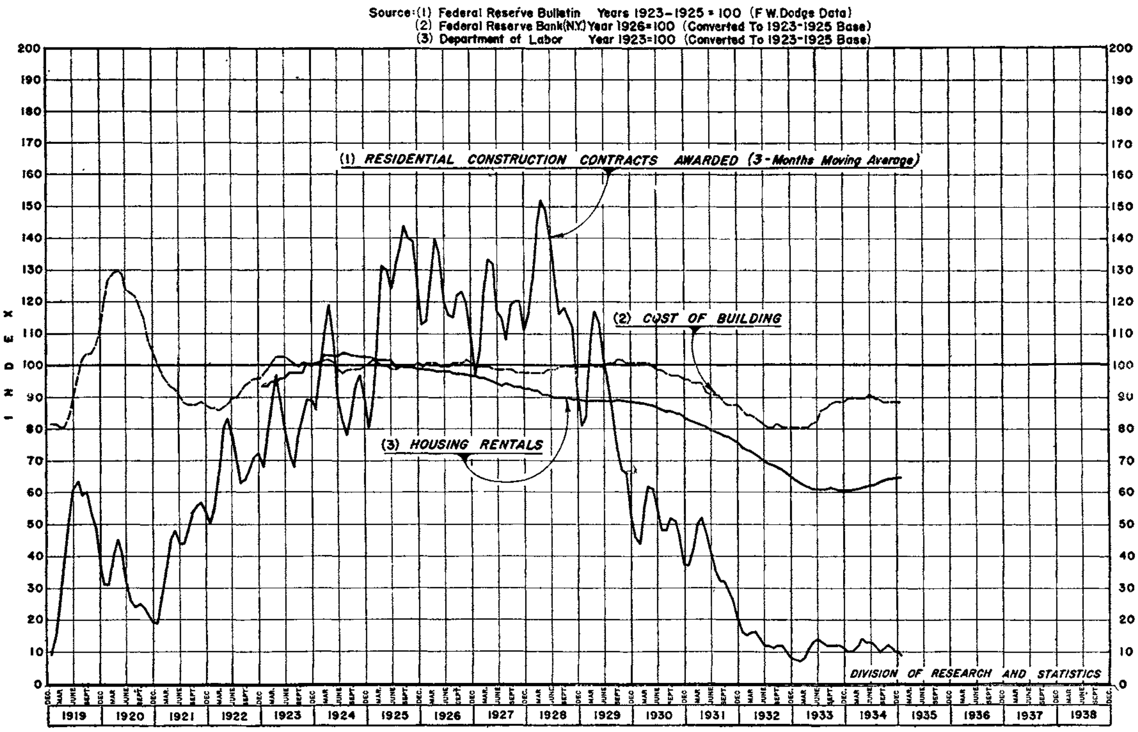
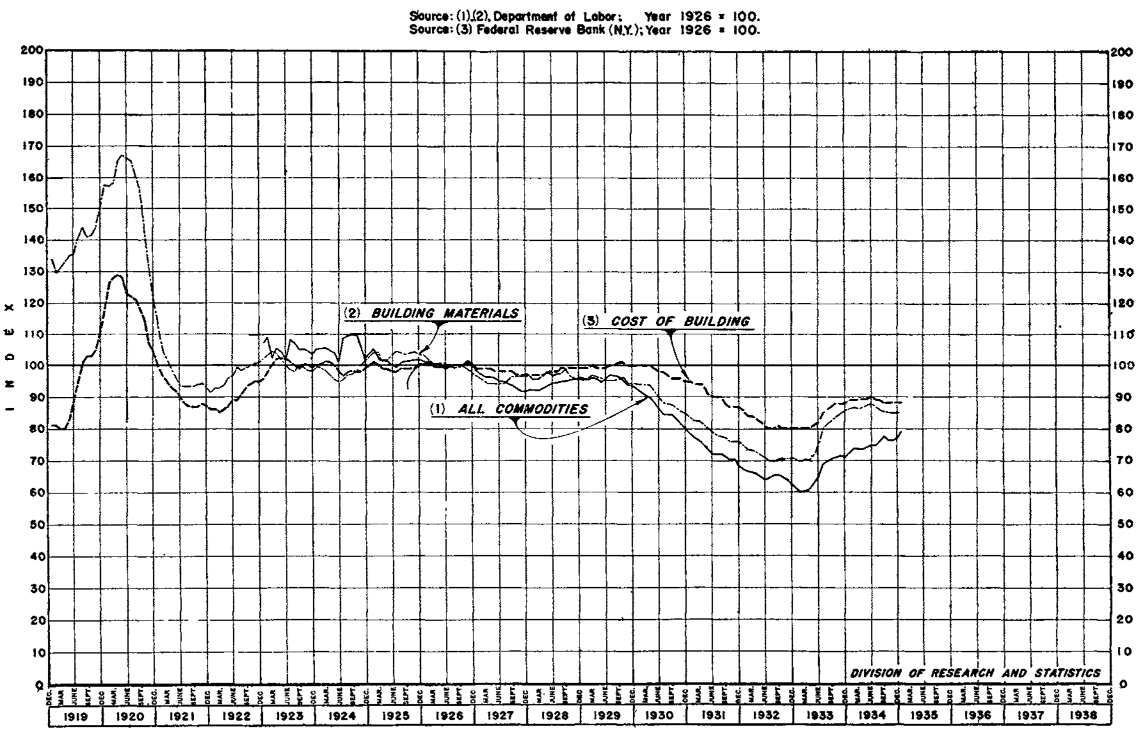


CHART 6.—INDEXES OF WHOLESALE PRICES AND COST OF BUILDING



RESIDENTIAL CONSTRUCTION IN RELATION TO RENTALS AND CONSTRUCTION COSTS

THE cost of building curve in charts 5 and 6 is based upon data compiled by the Federal Reserve Bank of New York and takes the place of construction cost index used in previous issues of the REVIEW. Chart 5 shows that from 1930 to the middle of 1932 the cost of building and housing rentals receded at a similar rate. Housing rentals continued to decline until the first of 1934 and then began a gradual rise. Building costs, after rising sharply in 1933, have remained relatively stable since early 1934. In January 1935 we find building costs were 12 percent below the 1923–25 level, whereas housing rentals were 25 percent below, and residential construction was 90 percent below this same level. The two curves of housing rentals and building costs must approximate each other more closely before any appreciable rise in construction will occur. Building materials and building costs (chart 6) remained steady in January, but all commodities advanced sharply, reflecting higher prices for farm products, food, hides and leather products, textile products, and chemicals and drugs.

RESIDENTIAL CONSTRUCTION CONTRACTS AWARDED IN 10 FEDERAL HOME LOAN BANK DISTRICTS

THE number of buildings and the value of residential construction contracts awarded in each of the 10 Federal Home Loan Bank districts, east of the Rocky Mountains during the month of January 1935, are shown in table 2. January construction is compared with activity in December 1934 and January 1934. Certain districts—notably numbers 2, 5, and 9—still reveal the effects of stimulated reconditioning activity in the disproportionate increase in the number of contracts awarded as compared with the increase in value.

RESIDENTIAL BUILDING PERMITS ISSUED IN ALL FEDERAL HOME LOAN BANK DISTRICTS BY STATES

TABLE 3 affords the opportunity for home-financing institutions in any State to ascertain the residential building activity in their own region. Every one of the Bank

TABLE 2.—*Number of buildings and value of residential construction contracts awarded by 10 Federal Home Loan Bank Districts*

[Source: F. W. Dodge Corporation]

Bank District	Number of buildings					Value (000 omitted)				
	January 1935	December 1934	Percent change [1]	January 1934	Percent change [2]	January 1935	December 1934	Percent change [1]	January 1934	Percent change [2]
Total of 37 Eastern States [3]	6, 103	3, 643	+67. 5	5, 139	+18. 8	$22, 410. 2	$19, 924. 7	+12. 5	$15, 110. 4	+48. 3
1	225	355	−36. 6	224	+. 4	1, 247. 3	2, 100. 0	−40. 6	1, 754. 4	−28. 9
2	[4] 1, 544	779	+98. 2	435	+254. 9	6, 327. 8	6, 179. 8	+2. 4	2, 660. 1	+137. 9
3	182	171	+6. 4	233	−21. 9	941. 9	1, 712. 5	−45. 0	2, 152. 4	−56. 2
4	1, 084	610	+77. 7	722	+50. 1	6, 853. 8	3, 166. 8	+116. 4	3, 305. 6	+107. 3
5	[4] 1, 813	883	+105. 3	320	+466. 6	1, 939. 7	1, 349. 7	+43. 7	1, 015. 0	+91. 1
6	173	151	+14. 6	[4] 2, 552	−93. 2	957. 6	720. 4	+32. 9	1, 058. 2	−9. 5
7	103	131	−21. 4	57	+80. 7	785. 0	1, 093. 9	−28. 2	300. 6	+161. 1
8	265	147	+80. 3	96	+176. 0	1, 129. 4	1, 516. 9	−25. 5	597. 3	+89. 1
9 [3]	[4] 612	329	+86. 0	204	+200. 0	1, 892. 9	1, 574. 7	+20. 2	1, 036. 3	+82. 7
10 [3]	102	87	+17. 2	96	+6. 3	334. 8	510. 0	−34. 4	1, 230. 5	−72. 8

[1] Percent change of January from December 1934.
[2] Percent change of January 1935 from January 1934.
[3] Report is for 37 Eastern States, which excludes New Mexico in Federal Home Loan Bank District No. 9, Colorado in No. 10, and all States in Districts Nos. 11 and 12. For States included in districts see map on p. 3 of cover of this REVIEW.
[4] These totals include a large number of H. O. L. C. improvement projects.

districts, except number 1, showed an increase in the value of residential building permits issued in January 1935, in comparison with January of last year, and all but three districts—namely, numbers 1, 4 and 6—showed an increase in January 1935 over December 1934. Reference to this table will enable member institutions to ascertain construction activity in any particular State.

TABLE 3.—*Estimated value of residential building permits issued in January 1935*

[Source: Bureau of Labor Statistics]

District and State	Population represented in reporting communities		Value of residential building permits issued (000 omitted)				
	Percent	Actual	January 1935	December 1934	Percent change [1]	January 1934	Percent change [2]
UNITED STATES	44.5	54,644,708	$9,047.9	$7,112.3	+27.2	$4,449.2	+103.4
District No. 1	65.5	5,349,024	511.7	982.3	−47.9	549.7	−6.9
Connecticut	68.2	1,096,668	147.0	283.1	−48.1	158.6	−7.3
Maine	16.4	130,405	6.0	4.2	+42.9	1.2	+400.0
Massachusetts	78.6	3,341,866	308.3	535.8	−42.5	363.8	−15.3
New Hampshire	32.3	150,369	3.5	20.8	−83.2	4.0	−12.5
Rhode Island	82.8	568,915	46.9	131.2	−64.3	22.1	+112.2
Vermont	16.9	60,801	0	7.2	−100.0	0	0
District No. 2	72.2	12,000,003	3,477.7	1,972.5	+76.3	1,488.2	+133.7
New Jersey	61.1	2,469,346	141.2	321.7	−56.1	207.9	−32.1
New York	75.7	9,530,657	3,336.5	1,650.8	+102.1	1,280.3	+160.6
District No. 3	45.2	5,241,011	286.0	225.4	+26.9	130.8	+118.7
Delaware	44.7	106,597	18.0	49.0	−63.3	37.5	−52.0
Pennsylvania	50.2	4,834,368	225.0	166.2	+35.4	82.6	+172.4
West Virginia	17.4	300,046	43.0	10.2	+321.6	10.7	+301.9
District No. 4	26.5	4,363,145	992.4	1,002.1	−1.0	514.8	+92.8
Alabama	20.0	529,948	10.5	27.5	−61.8	2.4	+337.5
District of Columbia	100.0	486,869	455.2	525.3	−13.3	234.1	+94.4
Florida	34.9	512,798	265.5	189.9	+35.1	91.6	+180.0
Georgia	18.8	546,533	56.1	23.8	+135.7	21.1	+165.9
Maryland	55.9	911,444	26.5	82.0	−67.7	24.0	+10.4
North Carolina	16.7	529,376	71.0	59.1	+20.1	76.8	−7.6
South Carolina	13.5	235,002	62.9	62.9	0	24.0	+162.1
Virginia	25.2	611,175	53.7	31.6	+69.9	40.8	+31.6
District No. 5	42.4	5,039,772	430.6	289.3	+48.8	215.3	+100.0
Kentucky	21.2	555,533	62.3	25.9	+140.5	29.5	+111.2
Ohio	57.1	3,792,464	342.7	251.9	+36.0	175.2	+95.6
Tennessee	26.4	691,775	25.6	11.5	+122.6	10.6	+141.5
District No. 6	51.7	4,178,421	221.9	341.8	−35.1	110.6	+100.6
Indiana	41.5	1,343,715	22.7	30.1	−24.6	27.9	−18.6
Michigan	58.5	2,834,706	199.2	311.7	−36.1	82.7	+140.9
District No. 7	56.4	5,958,601	234.6	221.7	+5.8	79.3	+195.8
Illinois	63.1	4,812,031	167.8	127.6	+31.5	54.8	+206.2
Wisconsin	39.0	1,146,570	66.8	94.1	−29.0	24.5	+172.7

[1] Percent change January 1935 from December 1934.
[2] Percent change January 1935 from January 1934.

TABLE 3.—*Estimated value of residential building permits issued in January 1935*—Continued

[Source: Bureau of Labor Statistics]

District and State	Population represented in reporting communities		Value of residential building permits issued (000 omitted)				
	Percent	Actual	January 1935	December 1934	Percent change [1]	January 1934	Percent change [2]
District No. 8	32.3	3,241,582	282.4	280.8	+.6	146.6	+92.6
Iowa	26.3	650,298	23.1	40.0	−42.3	18.2	+26.9
Minnesota	37.5	962,545	18.0	57.7	−68.8	32.5	−44.6
Missouri	41.7	1,511,831	235.6	171.8	+37.1	92.7	+154.2
North Dakota	6.7	45,731	0	0	0	0	0
South Dakota	10.3	71,177	5.7	11.3	−49.6	3.2	+78.1
District No. 9	20.4	2,492,828	864.9	434.3	+99.1	247.5	+249.5
Arkansas	8.1	149,767	4.4	0	[3]	1.5	+193.3
Louisiana	27.3	573,077	56.8	24.0	+136.7	22.6	+151.3
Mississippi	8.1	162,387	14.5	9.5	+52.6	1.3	+1,015.4
New Mexico	8.9	37,743	4.8	4.0	+20.0	1.5	+220.0
Texas	27.0	1,569,854	784.4	396.8	+97.7	220.6	+255.6
District No. 10	25.7	1,717,066	203.4	185.9	+9.4	106.2	+91.5
Colorado	39.2	406,109	97.3	48.9	+99.0	28.3	+243.8
Kansas	24.6	462,165	13.7	19.9	−31.2	28.8	−52.4
Nebraska	25.0	345,174	34.2	24.5	+39.6	16.8	+103.6
Oklahoma	21.0	503,618	58.2	92.6	−37.1	32.3	+80.2
District No. 11	34.9	1,478,207	115.9	92.6	+25.2	58.8	+97.1
Idaho	8.5	38.015	1.1	7.5	−85.3	0	[3]
Montana	23.0	123,688	.8	11.8	−93.2	10.5	−92.4
Oregon	37.6	358,165	28.1	25.7	+9.3	13.0	+116.2
Utah	38.5	195,305	11.8	3.2	+268.8	1.5	+686.7
Washington	47.4	745,673	64.1	40.1	+59.9	33.8	+89.6
Wyoming	7.7	17,361	10.0	4.3	+132.6	0	[3]
District No. 12	57.8	3,585,048	1,426.4	1,083.6	+31.6	801.4	+78.0
Arizona	11.0	48,118	13.4	0	[3]	4.5	+197.8
California	62.0	3,518,401	1,413.0	1,083.6	+30.4	796.9	+77.3
Nevada	20.3	18,529	0	0	0	0	0.0

[3] Increase from zero.

Federal Home Loan Banks Authorized to Reduce Interest Rates

AUTHORITY to make advances available to their member institutions at an effective rate of 3½ percent has been given to the 12 regional Banks by the Federal Home Loan Bank Board. By March 1, the Boston, Chicago, Cincinnati, and Los Angeles Banks had reported reductions of interest rates on some or all categories of loans under the new authorization. This rate marks a new low for one-year credit to home-financing institutions.

The 3½-percent rate is actually authorized only on loans up to 1 year, but the banks are given power to extend the benefits of the rate to long-term borrowers so long as the rate remains in effect on the short-term loans. The Board's resolution reads as follows:

Be it resolved, That the Federal Home Loan Banks be, and each of them is hereby, authorized to establish an interest rate of 3½ percent per annum on all loans made for not to exceed one year, and

Be it further resolved, That the rate of interest on all loans for longer periods than one year be fixed at not less than 4 percent per annum nor more than 5 percent per annum;

Provided, That, in the discretion of the board of directors of each bank, at the end of each calendar quarter or each half-year period borrowers on notes in excess of one year be charged 3½ percent so long as the 3½-percent rate is effective on short-term advances; and

Be it further resolved, That the resolution on this subject adopted by the Federal Home Loan Bank Board on January 26, 1935, is hereby repealed.

The Boston, Chicago, and Cincinnati Banks have reduced all their rates in accordance with the authority granted by the Board. That is, they have reduced the rate on short-term loans to 3½ percent and provided for the charging of 3½ percent on long-term loans whether written for 4 or 5 percent. The Boston Bank made the new rates effective on February 11, the Chicago Bank on March 1, and the Cincinnati Bank on April 1. The new rates will apply to loans outstanding from effective dates as well as to loans made subsequently.

The Los Angeles Bank has restricted the new 3½ percent rate to 1-year loans made for the purpose of meeting maturities, paying withdrawals, or the calling of higher-rate certificates. The peculiar situation in the twelfth District, where many associations have outstanding certificates bearing a rate as high as 6 percent on a definite term, made it seem desirable to encourage borrowing from the Los Angeles Federal Home Loan Bank for the special purpose of exchanging the 6 percent for 4 percent certificates. Also, the withdrawal problem in the twelfth District has seriously interfered with the return of public confidence to building and loan associations. For this reason, the Los Angeles Bank seeks to encourage borrowing by sound institutions to meet withdrawals. Though the 3½-percent rate is limited to 1-year advances, these advances are subject to the customary renewal privilege.

The major purpose of the Federal Home Loan Bank Board in authorizing the 3½-percent rate is, by making low-cost funds available to lending institutions, to enable home owners to borrow on economical terms. The Board feels that low money rates may help to stimulate much-needed activity in the home-building field.

TABLE 1.—*Interest rates, Federal Home Loan Banks; rates on advances to member institutions*

Federal Home Loan Bank	Rate in effect on Mar. 1	Type of loan
	Percent	
1. Boston	3½	All loans written for 1 year or less. All loans for more than 1 year are to be written at 4 percent, but billed at 3½ percent during the period in which short-term loans carry this rate.
2. Newark	4	All loans.
3. Pittsburgh	4¼	All loans for 1 year or less. All loans for more than 1 year are to be written at 5 percent, but on authorization from borrowing members, the Bank will credit the interest charged their accounts with the difference between 5 and 4¼ percent per annum.
4. Winston-Salem	4	All loans secured by H. O. L. C. bonds.
	4	All loans for 12 months or less.
	4½	All loans (not secured by H. O. L. C. bonds) for 1 to 10 years.
5. Cincinnati	[1] 4¼	All loans.
6. Indianapolis	4	All secured loans.
	5	All unsecured loans.
7. Chicago	3½	All loans written for 1 year or less. All loans for more than 1 year are to be written at 4½ percent, but billed at 3½ percent during the period in which short-term loans carry this rate.
8. Des Moines	4	All loans secured by H. O. L. C. bonds.
	4	That portion of any loan in excess of $250,000.
	4½	All other loans.
9. Little Rock	4	All loans.
10. Topeka	4	Do.
11. Portland	4	All loans secured by H. O. L. C. bonds (limit 1 year).
	4½	All other loans.
12. Los Angeles	3½	Loans written for 1 year or less that are made for the express purpose of meeting maturities, paying withdrawals, or the calling of higher-rate certificates.
	4½	All other loans.

[1] Effective Apr. 1, the Cincinnati Bank will reduce the rate on all loans written for 1 year or less to 3½ percent. All loans written for longer periods will be written at 4 percent, but billed at 3½ percent during the period in which short-term loans carry this rate.

TABLE 2.—*Growth, trend of loaning operations, line of credit, and unused credit of the Federal Home Loan Bank System*

Month	Members		Line of credit [1] (cumulative) (000 omitted)	Loans advanced (cumulative) (000 omitted)	Loans advanced (monthly) (000 omitted)	Repayments (monthly) (000 omitted)	Balance outstanding at end of month (000 omitted)	Unused line of credit [2] (000 omitted)
	Number	Assets (000 omitted)						
1932								
December	118	$216, 613	$23, 630	$837	$837	....	$837	$22, 793
1933								
June	1, 337	1, 846, 775	146, 849	48, 817	8, 825	$179	47, 579	99, 270
December	2, 086	2, 607, 307	211, 224	93, 865	8, 632	889	88, 442	122, 782
1934								
June	2, 579	3, 027, 999	232, 926	116, 467	3, 650	4, 243	86, 248	146, 678
December	3, 072	3, 305, 088	254, 085	133, 745	2, 904	3, 360	87, 258	166, 827
1935								
January	3, 131	3, 320, 975	254, 930	135, 978	2, 232	6, 905	82, 585	172, 345

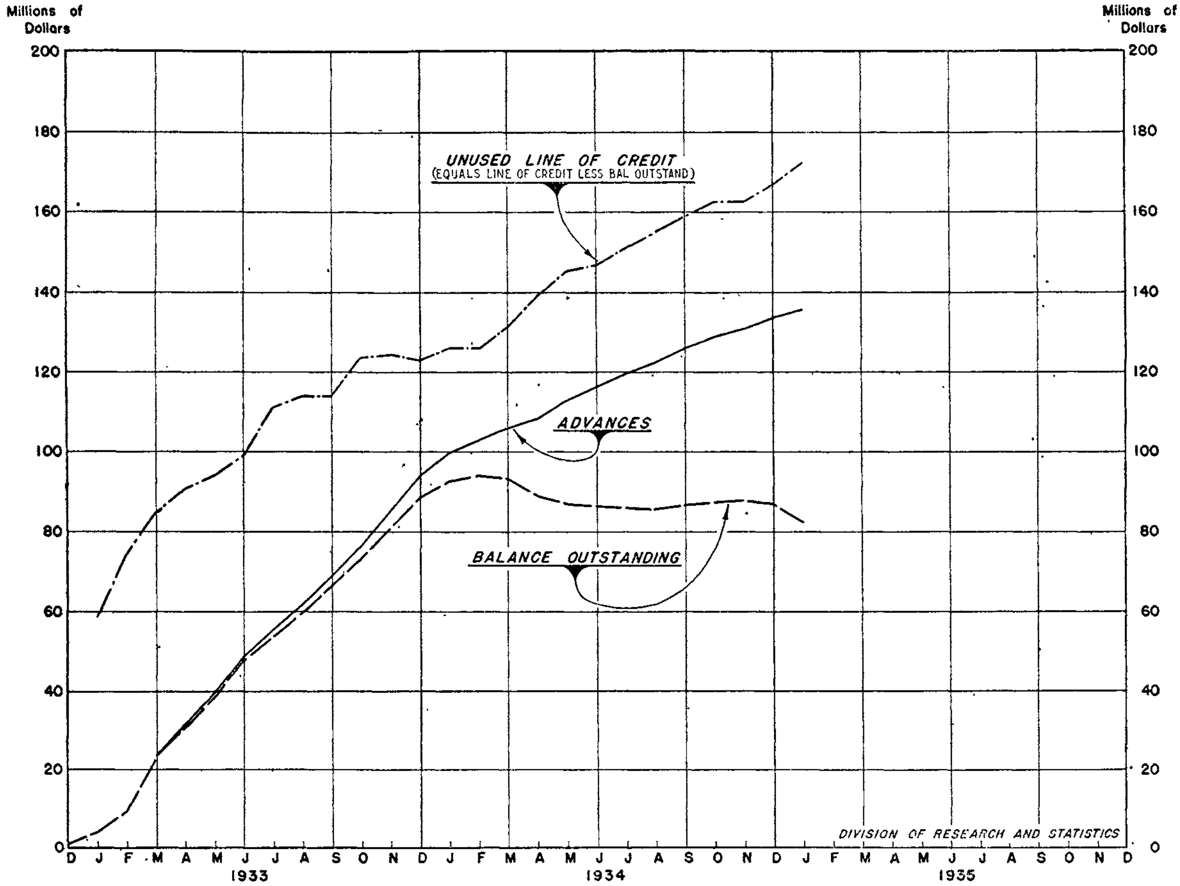
[1] Represents 12 times the paid-in subscription to the capital stock of the Bank.
[2] Derived by deducting the balance outstanding from the line of credit.

NOTE.—All figures, except loans advanced (monthly) and repayments, are as of end of month.

The balance of Federal Home Loan Bank loans outstanding to member institutions took the sharpest drop in the history of the System during the month of January, falling from $87,258,000 at the end of December to $82,585,000 at the end of January (table 2). As has been pointed out in previous issues of the REVIEW, this reflects an increase in the volume of private savings invested in member institutions, a decline in withdrawals, and a relative lack of demand for new loans among home-owner borrowers.

The number of member institutions added to the Federal Home Loan Bank System during January was 59, bringing the total membership to 3,131, with total assets of $3,320,975,000.

CUMULATIVE OPERATING SUMMARY OF THE FEDERAL HOME LOAN BANK SYSTEM



Condensed combined statement of

	Combined	Boston	Newark	Pittsburgh	Winston-Salem
ASSETS					
Cash on hand in banks and U. S. Treasury	$18, 153, 874. 45	$4, 085, 162. 74	$868, 288. 54	$264, 719. 55	$2, 071, 991. 47
Loans outstanding:					
Members	81, 978, 436. 86	2, 426, 520. 40	14, 075, 608. 37	11, 128, 431. 12	5, 626, 634. 19
Affiliated banks	600, 000. 00	600, 000. 00	0	0	0
Other	7, 040. 03	0	0	0	0
Total loans	82, 585, 476. 89	3, 026, 520. 40	14, 075, 608. 37	11, 128, 431. 12	5, 626, 634. 19
Accrued interest receivable	421, 982. 12	9, 378. 71	74, 011. 40	47, 107. 72	23, 288. 29
Investments, U. S. Government	8, 845, 514. 07	0	109, 293. 75	137, 900. 00	0
Other assets	89, 324. 87	3, 283. 48	2, 985. 93	5, 967. 26	7, 419. 16
Total assets	110, 096, 172. 40	7, 124, 345. 33	15, 130, 187. 99	11, 584, 125. 65	7, 729, 333. 11
LIABILITIES AND CAPITAL					
Liabilities:					
Current	4, 253, 432. 18	70, 000. 00	352, 836. 94	1, 240, 165. 94	55, 000. 00
Fixed	0	0	0	0	0
Total liabilities	4, 253, 432. 18	70, 000. 00	352, 836. 94	1, 240, 165. 94	55, 000. 00
Capital:					
Capital stock, fully paid, issued and outstanding:					
Members	20, 858, 600. 00	1, 942, 800. 00	2, 742, 900. 00	1, 543, 700. 00	1, 830, 100. 00
U. S. Government	81, 645, 700. 00	5, 000, 000. 00	11, 500, 000. 00	8, 500, 000. 00	5, 700, 000. 00
	102, 504, 300. 00	6, 942, 800. 00	14, 242, 900. 00	10, 043, 700. 00	7, 530, 100. 00
Subscription to capital stock:					
Members and applicants	2, 617, 700. 00	36, 800. 00	681, 700. 00	226, 100. 00	106, 800. 00
Less balance due	1, 357, 662. 88	15, 775. 00	364, 850. 13	127, 375. 00	52, 425. 00
	1, 260, 037. 12	21, 025. 00	316, 849. 87	98, 725. 00	54, 375. 00
U. S. Government	43, 095, 300. 00	7, 467, 500. 00	7, 463, 200. 00	2, 646, 300. 00	3, 508, 200. 00
Less balance due	43, 095, 300. 00	7, 467, 500. 00	7, 463, 200. 00	2, 646, 300. 00	3, 508, 200. 00
	0	0	0	0	0
Surplus:					
Reserves:					
As required under sec. 16 of act	882, 745. 24	42, 745. 44	105, 902. 92	92, 399. 09	61, 762. 91
U. S. Government 2-percent dividend	419, 668. 15	8, 493. 15	19, 534. 24	14, 438. 36	9, 682. 19
Other	0	0	0	0	0
Surplus, unallocated	775, 989. 71	39, 281. 74	92, 164. 02	94, 697. 26	18, 413. 01
Total surplus	2, 078, 403. 10	90, 520. 33	217, 601. 18	201, 534. 71	89, 858. 11
Total capital	105, 842, 740. 22	7, 054, 345. 33	14, 777, 351. 05	10, 343, 959. 71	7, 674, 333. 11
Total liabilities and capital	110, 096, 172. 40	7, 124, 345. 33	15, 130, 187. 99	11, 584, 125. 65	7, 729, 333. 11

condition as at Jan. 31, 1935

Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	Portland	Los Angeles
$2, 679, 949. 59	$2, 321, 505. 60	$1, 510, 128. 86	$729, 480. 03	$638, 993. 37	$309, 199. 00	$1, 532, 551. 45	$1, 141, 904. 25
15, 354, 824. 93	5, 317, 960. 66	11, 291, 270. 86	3, 775, 727. 71	4, 002, 424. 02	4, 253, 008. 50	1, 918, 439. 10	2, 807, 587. 00
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	7, 040. 03
15, 354, 824. 93	5, 317, 960. 66	11, 291, 270. 86	3, 775, 727. 71	4, 002, 424. 02	4, 253, 008. 50	1, 918, 439. 10	2, 814, 627. 03
91, 057. 68	21, 510. 68	41, 405. 75	24, 433. 50	42, 348. 32	20, 449. 04	13, 193. 20	13, 797. 83
513, 342. 60	490, 291. 66	456, 686. 65	1, 349, 072. 54	3, 277, 000. 00	1, 262, 664. 50	516, 871. 74	732, 390. 63
40, 350. 23	5, 423. 37	6, 554. 67	2, 924. 44	2, 208. 13	3, 491. 57	1, 533. 90	7, 182. 73
18, 679, 525. 03	8, 156, 691. 97	13, 306, 046. 79	5, 881, 638. 22	7, 962, 973. 84	5, 848, 812. 61	3, 982, 589. 39	4, 709, 902. 47
623, 779. 36	24, 787. 77	1, 062, 762. 16	326, 494. 55	438, 080. 34	2, 996. 25	35, 028. 87	21, 500. 00
0	0	0	0	0	0	0	0
623, 779. 36	24, 787. 77	1, 062, 762. 16	326, 494. 55	438, 080. 34	2, 996. 25	35, 028. 87	21, 500. 00
4, 449, 800. 00	1, 945, 300. 00	1, 908, 300. 00	921, 400. 00	1, 232, 400. 00	919, 200. 00	482, 200. 00	940, 500. 00
12, 775, 700. 00	6, 000, 000. 00	10, 000, 000. 00	4, 500, 000. 00	6, 100, 000. 00	4, 700, 000. 00	3, 310, 000. 00	3, 560, 000. 00
17, 225, 500. 00	7, 945, 300. 00	11, 908, 300. 00	5, 421, 400. 00	7, 332, 400. 00	5, 619, 200. 00	3, 792, 200. 00	4, 500, 500. 00
687, 600. 00	91, 800. 00	203, 100. 00	109, 900. 00	198, 800. 00	100, 300. 00	47, 700. 00	127, 100. 00
319, 427. 75	46, 375. 00	133, 915. 00	50, 825. 00	127, 420. 00	41, 625. 00	25, 075. 00	52, 575. 00
368, 172. 25	45, 425. 00	69, 185. 00	59, 075. 00	71, 380. 00	58, 675. 00	22, 625. 00	74, 525. 00
0	577, 400. 00	4, 173, 900. 00	2, 894, 900. 00	2, 672, 400. 00	2, 633, 600. 00	2, 650, 000. 00	6, 407, 900. 00
0	577, 400. 00	4, 173, 900. 00	2, 894, 900. 00	2, 672, 400. 00	2, 633, 600. 00	2, 650, 000. 00	6, 407, 900. 00
0	0	0	0	0	0	0	0
189, 598. 81	75, 743. 41	120, 917. 40	43, 781. 64	67, 243. 19	30, 951. 21	24, 952. 88	26, 746. 34
21, 701. 19	10, 191. 78	16, 986. 30	7, 643. 84	10, 361. 64	130, 926. 02	92, 577. 43	77, 132. 01
0	0	0	0	0	0	0	0
250, 773. 42	55, 244. 01	127, 895. 93	23, 243. 19	43, 508. 67	6, 064. 13	15, 205. 21	9, 499. 12
462, 073. 42	141, 179. 20	265, 799. 63	74, 668. 67	121, 113. 50	167, 941. 36	132, 735. 52	113, 377. 47
18, 055, 745. 67	8, 131, 904. 20	12, 243, 284. 63	5, 555, 143. 67	7, 524, 893. 50	5, 845, 816. 36	3, 947, 560. 52	4, 688, 402. 47
18, 679, 525. 03	8, 156, 691. 97	13, 306, 046. 79	5, 881, 638. 22	7, 962, 973. 84	5, 848, 812. 61	3, 982, 589. 39	4, 709, 902. 47

Federal Savings and Loan Associations

OF THE 567 Federal savings and loan associations that had begun to operate sometime between August 1933 and December 31, 1934, 287 paid dividends during 1934 (table 1). In view of the fact that scarcely half of the 567 associations had actually been operating more than 6 months, the number of those paying dividends is most satisfactory.

The average annual rate of dividends paid by 176 new associations was 3.49 percent, while that of 111 converted associations was 3.64 percent. These rates are on the whole higher than the rates paid by other investments of comparable security.

TABLE 1.—*Dividends paid during 1934 by Federal savings and loan associations*

	Number charters issued	Number associations operating	Number paying dividends	Amount dividends paid	Average rate dividends
					Percent
New	481	438	176	$134, 900	3. 49
Converted	158	129	111	1, 652, 372	3. 64
Totals	639	567	287	1, 787, 272	[1] 3. 55

[1] This is a weighted average based on the number of institutions.

RECORDS OF 10 SELECTED FEDERAL ASSOCIATIONS

FROM the point of view of the lending institution, the ultimate measure of the value of a Federal charter is the increase in the volume of profitable business the charter makes possible. Table 2 shows the increase in investments in and in loans made by 10 associations, situated in widely separated States, between the time they began operating as Federals and January 31, 1935.

TABLE 2.—*Records of growth of 10 selected Federal savings and loan associations*

CONVERTED ASSOCIATIONS

	Private share payments	Treasury subscriptions	Mortgage loans outstanding
1. Missouri:			
June 8, 1934 [1]	$120, 337. 00	....	$128, 759. 00
Jan. 31, 1935	130, 111. 00	$25, 000	166, 050. 00
2. Georgia:			
Sept. 14, 1934 [1]	349, 636. 00	....	312, 027. 00
Jan. 31, 1935	417, 766. 00	100, 000	437, 970. 00
3. New York:			
Mar. 9, 1934 [1]	94, 760. 00	....	105, 665. 00
Jan. 31, 1935	101, 819. 00	200, 000	284, 961. 00

[1] At conversion.

TABLE 2.—*Records of growth of 10 selected Federal savings and loan associations*—Continued

NEW ASSOCIATIONS

	Private share payments	Treasury Subscriptions	Mortgage loans outstanding
4. Illinois:			
Feb. 28, 1934	18, 202. 00	....	....
Jan. 31, 1935	135, 626. 22	300, 000	398, 010. 45
5. Ohio:			
May 31, 1934	9, 469. 00	....	....
Jan. 31, 1935	124, 660. 80	181, 000	339, 256. 58
6. Florida:			
Apr. 4, 1934	9, 777. 69	7, 000	11, 305. 00
Jan. 31, 1935	125, 645. 98	107, 000	232, 451. 05
7. New York:			
May 25, 1934	8, 087. 00	....	....
Jan. 31, 1935	147, 773. 16	190, 000	252, 523. 21
8. Nebraska:			
Sept. 13, 1934	20, 000. 00	....	....
Jan. 31, 1935	172, 947. 10	....	129, 790. 20
9. Missouri:			
Feb. 26, 1934	5, 562. 00	....	4, 200. 00
Jan. 31, 1935	34, 347. 41	67, 500	120, 607. 97
10. North Carolina:			
Apr. 21, 1934	5, 690. 00	....	....
Jan. 31, 1935	118, 968. 81	162, 500	259, 765. 47

. The total amount of mortgage loans made by the 10 associations listed above and the purposes for which these loans have been allocated, from the time they received their Federal charters through January 31, 1935, are as follows:

Construction	$656, 217
Refinancing	1, 121, 445
Reconditioning	159, 228
Purchase of houses	133, 336
Other purposes	85, 300
Total	2, 155, 526

OPERATIONS OF FEDERALS DURING JANUARY

THE seasonal decline in mortgage activity customary at the beginning of the year is reflected in the smaller volume of new loans made in January by 125 converted associations as compared with December (table 3). The drop was 16.9 percent, most of which represented a falling off in reconditioning and new construction. Nevertheless, the $1,266,485 worth of new business done by these associations represented over 2 percent of the total loans outstanding during the month.

Not even the seasonal contraction was sufficient to halt the continued expansion of lending activities by the 330 newly organized Federals from which reports were received for both December and January. Their total volume of loans was 3.7 percent greater in January, reconditioning and refinancing showing large gains while new construction and purchase of homes registered drops. It is evidence both of the need for home-financing facilities in the communities served by these new Federals and of their vitality that the $1,922,191 worth of new loans made by them in January represented 15 percent of all loans outstanding at the end of the month.

Calls for Treasury subscriptions from both new and converted associations continued to reflect a general demand for loans for home financing. The Treasury subscriptions to new associations represented an increase of 15 percent in January and to converted associations an increase of 19 percent.

Repurchases of shares by new Federals increased one-third in January and by converted Federals nearly doubled. This is normal, due to the year-end declaration of dividends by Federals, which causes shareholders to wait until such declaration before withdrawing.

During the month of January, 49 new Federal savings and loan associations were approved by the Board. Of this number, 21 are new and 28 are converted associations, making a total of 688 associations up to the end of January, with assets of $181,908,484 (table 4).

TABLE 3.—*Federal savings and loan associations—Combined summary of operations for January 1935 compared with December 1934*

	330 new associations			125 converted associations		
ITEM	January	December	Change December to January	January	December	Change December to January
Number of subscriptions:			*Percent*			*Percent*
Private share accounts	30, 915	28, 069	+10. 1	100, 920	100, 949	−0
Shares subscribed	324, 040	287, 825	+12. 5	1, 178, 104	1, 193, 433	−1. 2
Shares per account (average)	10	10	0	12	12	−0
Share liabilities:						
Paid on private subscriptions	$7, 690, 939	$6, 324, 292	+21. 6	$69, 185, 236	$70, 024, 592	−1. 2
Treasury subscriptions	7, 204, 800	6, 243, 300	+15. 4	5, 158, 600	4, 334, 600	+19. 1
Total	14, 895, 739	12, 567, 592	+18. 5	74, 343, 836	74, 359, 192	−0
Average paid on private subscriptions	249	225	+10. 7	685	693	−1. 2
Repurchases during month	120, 660	90, 602	+33. 1	1, 822, 122	954, 494	+90. 9
Mortgage loans made during month:						
a. Reconditioning	208, 699	173, 877	+20. 0	88, 188	157, 216	−43. 9
b. New construction	376, 268	478, 567	−21. 3	152, 645	208, 314	−26. 7
c. Refinancing	1, 124, 391	915, 554	+22. 8	829, 381	931, 533	−11. 0
d. Purchase of homes	212, 833	285, 548	−25. 4	196, 269	227, 523	−13. 7
Total for month	1, 922, 191	1, 853, 546	+3. 7	1, 266, 485	1, 524, 586	−16. 9
Loans outstanding at end of month	[1] 13, 012, 580	10, 757, 917	+20. 9	59, 126, 806	58, 975, 852	+. 3
Borrowed money from—						
Federal Home Loan Banks	454, 426	500, 952	−9. 3	6, 246, 498	6, 552, 871	−4. 7
Other sources	64, 253	58, 950	+9. 0	1, 551, 460	1, 498, 716	+3. 5
Total	518, 679	559, 902	−7. 4	7, 797, 958	8, 051, 587	−3. 2

[1] This total includes loans made for purposes other than those listed.

TABLE 4.—*Number and assets of Federal savings and loan associations by Federal Home Loan Bank Districts and by States*

	Number						Assets		
	Dec. 31, 1933	June 30, 1934	Dec. 31, 1934	Jan. 31, 1935			Jan. 31, 1935		
				Total	New	Converted	Total	New	Converted
District No. 1:									
Connecticut	......	......	5	5	4	1	$180, 387	$32, 356	$148, 031
Maine	......	......	......	......	......	......	......	......	......
Massachusetts	......	......	......	......	......	......	......	......	......
New Hampshire	......	1	1	1	1	......	167, 612	167, 612	......
Rhode Island	......	......	......	......	......	......	......	......	......
Vermont	......	......	......	......	......	......	......	......	......
Total	......	1	6	6	5	1	347, 999	199, 968	148, 031
District No. 2:									
New Jersey	......	......	......	......	......	......	......	......	......
New York	......	10	23	24	4	20	19, 814, 783	353, 252	19, 461, 531
Puerto Rico	......	......	......	......	......	......	......	......	......
Virgin Islands	......	......	......	......	......	......	......	......	......
Total	......	10	23	24	4	20	19, 814, 783	353, 252	19, 461, 531
District No. 3:									
Delaware	......	......	......	......	......	......	......	......	......
Pennsylvania	......	10	15	15	14	1	724, 732	403, 448	321, 284
West Virginia	......	7	11	12	7	5	5, 636, 412	165, 351	5, 471, 061
Total	......	17	26	27	21	6	6, 361, 144	568, 799	5, 792, 345
District No. 4:									
Alabama	2	7	13	13	13	......	296, 529	296, 529	......
District of Columbia	......	......	......	......	......	......	......	......	......
Florida	8	27	43	44	42	2	1, 743, 950	1, 463, 270	280, 680
Georgia	3	7	19	21	16	5	1, 044, 720	300, 368	744, 352
Maryland	......	......	1	4	......	4	814, 134	......	814, 134
North Carolina	......	2	4	5	3	2	651, 699	362, 019	289, 680
South Carolina	3	9	15	19	14	5	1, 673, 469	394, 221	1, 279, 248
Virginia	2	4	7	8	6	2	808, 854	63, 301	745, 553
Total	18	56	102	114	94	20	7, 033, 355	2, 879, 708	4, 153, 647
District No. 5:									
Kentucky	1	10	18	19	13	6	19, 015, 885	158, 756	18, 857, 129
Tennessee	......	20	25	28	25	3	2, 247, 430	440, 721	1, 806, 709
Ohio	......	8	18	21	13	7	15, 450, 924	1, 761, 443	13, 689, 481
Total	1	38	61	67	51	16	36, 714, 239	2, 360, 920	34, 353, 319
District No. 6:									
Indiana	3	18	22	22	22	......	1, 283, 839	1, 283, 839	......
Michigan	2	6	9	9	9	......	347, 492	347, 492	......
Total	5	24	31	31	31	......	1, 631, 331	1, 631, 331	......
District No. 7:									
Illinois	2	21	49	50	15	35	10, 556, 050	878, 607	9, 677, 443
Wisconsin	......	13	21	22	20	2	1, 303, 369	417, 685	885, 684
Total	2	34	70	72	35	37	11, 859, 419	1, 296, 292	10, 563, 127

TABLE 4.—*Number and assets of Federal savings and loan associations by Federal Home Loan Bank Districts and by States*—continued

	Number						Assets		
	Dec. 31, 1933	June 30, 1934	Dec. 31, 1934	Jan. 31, 1935			Jan. 31, 1935		
				Total	New	Converted	Total	New	Converted
District No. 8:									
Iowa	2	16	23	23	18	5	$1, 014, 274	$335, 738	$678, 536
Minnesota	3	13	18	19	14	5	2, 634, 311	52, 821	2, 581, 490
Missouri	2	17	25	26	15	11	20, 038, 529	444, 953	19, 593, 576
North Dakota	...	3	3	3	3	...	88, 834	88, 834	...
South Dakota	...	1	3	3	2	1	729, 008	27, 304	701, 704
Total	7	50	72	74	52	22	24, 504, 956	949, 650	23, 555, 306
District No. 9:									
Arkansas	8	20	27	27	25	2	1, 998, 619	986, 023	1, 012, 596
Louisiana	6	8	11	12	9	3	10, 993, 839	127, 150	10, 866, 689
Mississippi	2	14	15	16	16	...	709, 446	709, 446	...
New Mexico	...	1	9	9	9	...	148, 522	148, 522	...
Texas	5	27	58	68	59	9	5, 750, 892	765, 735	4, 985, 157
Total	21	70	120	132	118	14	19, 601, 318	2, 736, 876	16, 864, 442
District No. 10:									
Colorado	1	12	17	19	14	5	2, 227, 333	251, 002	1, 976, 331
Kansas	...	7	15	16	12	4	943, 462	259, 506	683, 956
Nebraska	1	6	7	10	8	2	384, 829	150, 275	234, 554
Oklahoma	...	6	19	23	4	19	38, 470, 384	69, 084	38, 401, 300
Total	2	31	58	68	38	30	42, 026, 008	729, 867	41, 296, 141
District No. 11:									
Alaska	...	...	...	...	...	...	...	...	...
Idaho	...	...	2	2	...	2	477, 785	...	477, 785
Montana	...	...	...	...	...	...	...	...	...
Oregon	3	12	20	20	18	2	1, 786, 474	758, 587	1, 027, 887
Utah	...	...	1	1	1	...	12, 400	12, 400	...
Washington	...	16	22	23	10	13	7, 894, 598	636, 760	7, 257, 838
Wyoming	...	...	1	1	...	1	269, 874	...	269, 874
Total	3	28	46	47	29	18	10, 441, 131	1, 407, 747	9, 033, 384
District No. 12:									
Arizona	...	...	1	1	1	...	5, 265	5, 265	...
California	...	10	22	24	22	2	1, 547, 904	930, 258	617, 646
Hawaii	...	1	1	1	1	...	19, 632	19, 632	...
Nevada	...	...	...	...	...	...	...	...	...
Total	...	11	24	26	24	2	1, 572, 801	955, 155	617, 646
Total for system	59	370	639	688	502	186	181, 908, 484	16, 069, 565	165, 838, 919

Federal Savings and Loan Insurance Corporation

UP TO February 1, 1935, applications for insurance of shares had been received by the Federal Savings and Loan Insurance Corporation from thrift, home-financing institutions in 41 States and the Territory of Hawaii. By the same date, insurance certificates had actually been issued to institutions in 39 States and Hawaii. State-chartered associations in 22 States had applied for insurance.

The seven States from which no applications had come were Delaware, Maine, Massachusetts, Nevada, New Jersey, Rhode Island, and Vermont. To these must be added the District of Columbia, from which no institution had applied.

The accompanying table reveals that the number of institutions seeking to have their shares insured up to February 20 was 781, with share and creditor liabilities totaling $381,837,664. Of this number, 115 were State-chartered institutions and 666 were Federal savings and loan associations. The number insured was 609, with share and creditor liabilities of $177,058,033, representing the savings of 289,265 shareholders.

The reason that only 7 of the 115 applicant State-chartered institutions had actually been insured up to February 20 is due entirely to the time involved in approving applications from such institutions. This is evidenced by the fact that only one State-chartered institution had withdrawn its application and none had been rejected.

The Insurance Corporation exerts every effort to approve all types of applications with equal promptness, but applications from State-chartered institutions offer problems not presented by Federal associations. In the first place, all Federals have recently undergone a thorough examination in connection with the granting of their Federal charters, with the result that the corporation usually has available most of the necessary information required to pass on their applications for insurance. In the second place, there is the problem of size. The average assets of State-chartered institutions applying are $1,600,000, whereas those of converted Federals are $1,000,000 and of new Federals, $18,000. Thirdly, the variations in State laws, and in accounting practices, in types of loans, securities, and accounts, among State-chartered institutions all tend to make the problem of approval much harder.

The effect of insurance on investor confidence and new business is indicated by the following excerpts from a few of the letters and reports sent to the corporation by association executives in various parts of the country.

From an association in Georgia:

Certificate of insurance was received from the Federal Savings and Loan Insurance Corporation on November 30, 1934. Gross receipts from private investors only are as follows:

October 1934	$12, 196. 00
November 1934	16, 178. 81
December 1934	32, 894. 78
January 1935	74, 225. 44

From an association in West Virginia:

We also received $2,000 in new money the first day we had our insurance certificate. This money was received from absolutely new sources, for the people had never been in the old association.

From an association in Washington:

We received our insurance certificate on December 10 and immediately made this fact known through the newspapers and through mailing to all our shareholders the recent circular issued by the Federal Savings and Loan Insurance Corporation.

Its beneficial effect was noticeable almost immediately, and we are very happy to report to you that the first 11 days of January brought into our association a larger sum in savings of shareholders than was received in the entire first 6 months of 1934.

From an association in Pennsylvania:

The insurance has been of very great assistance to us, and it may interest you to know that we have obtained subscriptions to over 500 new shares so far this month, which is a much higher ratio than in any similar period previously.

From an association in California:

Have sold more shares in 30 days on insurance feature (for cash) than I did in the 8 months it took to organize. Conservative investment is what the retired wealthy of this city crave.

Federal Savings and Loan Insurance Corporation—Applications received and institutions insured by monthly periods

APPLICATIONS RECEIVED

Date	Number of applications				Total assets		
	Total	New F. S. and L. A.	Converted F. S. and L. A.	State-chartered associations	New F. S. and L. A.	Converted F. S. and L. A.	State-chartered associations
From date of opening to Nov. 20, 1934	456	320	102	34	$6, 913, 220	$75, 834, 632	$49, 728, 735
From Nov. 21 to Dec. 20	99	58	25	16	564, 269	39, 709, 824	19, 308, 688
From Dec. 21 to Jan. 22, 1935	113	29	34	50	183, 297	40, 536, 670	100, 003, 754
From Jan. 23 to Feb. 20	113	36	62	15	386, 528	73, 602, 038	16, 959, 195
Grand total to Feb. 20	781	443	223	115	8, 047, 314	229, 683, 164	186, 000, 372

INSTITUTIONS INSURED

Date	Number			Number of shareholders	Share and creditor liabilities			Total assets	
	Total	New and converted F. S. and L. A.	State-chartered associations		Total	New and converted F. S. and L. A.	State-chartered associations	New and converted F. S. and L. A.	State-chartered associations
From date of opening to Nov. 20, 1934	284	283	1		$50, 915, 834	$43, 434, 364	$7, 481, 470	$46, 783, 933	$8, 426, 127
From Nov. 21 to Dec. 20	143	141	2		32, 675, 224	26, 570, 291	6, 104, 933	29, 637, 522	6, 620, 059
From Dec. 21 to Jan. 22	100	96	4	[1] 240, 620	60, 398, 420	59, 157, 802	1, 240, 618	64, 554, 647	1, 353, 234
From Jan. 23 to Feb. 20	82	82	0	48, 645	33, 068, 555	33, 068, 555	0	36, 878, 051	0
Grand total to Feb. 20	609	602	7	289, 265	177, 058, 033	162, 231, 012	14, 827, 021	177, 854, 153	16, 399, 420

[1] Number of shareholders whose accounts were insured from date of opening to Jan. 22, 1935.

Home Owners' Loan Corporation

Applications received and loans closed by months

Month	Applications received (number)	Loans closed [1]	
		Number	Amount
1933			
From date of opening through Sept. 30	403, 114	593	$1, 688, 787
October	129, 504	3, 424	10, 164, 678
November	99, 232	10, 946	31, 445, 827
December	90, 946	22, 286	62, 621, 051
1934			
January	123, 189	30, 339	86, 143, 838
February	136, 132	32, 940	93, 499, 995
March	168, 273	52, 260	150, 213, 639
April	145, 772	56, 172	171, 490, 768
May	119, 791	64, 172	208, 293, 766
June	97, 679	71, 768	223, 440, 191
July	66, 157	78, 046	235, 467, 606
August	72, 022	69, 738	202, 442, 864
September	39, 317	59, 240	179, 299, 857
October	35, 675	65, 813	201, 211, 532
November	14, 171	54, 468	170, 544, 562
December	[2] −679	54, 036	169, 018, 847
1935			
January	....	54, 990	166, 836, 150
Grand total to Jan. 31, 1935	1, 740, 295	781, 231	2, 363, 823, 958

[1] These figures are subject to adjustment.
[2] Receipt of applications stopped Nov. 13, 1934. The negative December figures are the result of various adjustments and audits of the number of applications received during the preceding months.

Reconditioning Division—Summary of operations June 1, 1934, to Feb. 21, 1935 [1]

Period	Applications received for reconditioning loans	Total contracts executed		Total jobs completed	
		Number	Amount	Number	Amount
June 1, 1934, to Dec. 27, 1934	464, 836	185, 229	$32, 709, 701	134, 902	$20, 732, 554
Dec. 28, 1934, to Jan. 31, 1935	32, 673	44, 809	7, 904, 126	13, 717	2, 840, 677
Feb. 1, 1935, to Feb. 21, 1935	13, 593	19, 649	3, 760, 685	7, 898	1, 931, 850
Grand total to Feb. 21, 1935	511, 102	249, 687	44, 374, 512	156, 517	25, 505, 081

[1] These figures are subject to correction.

Resolutions of the Board and Opinion of the General Counsel

I.—CONCERNING THE CHARGES FOR ALL OFFICE AND FIELD EXAMINATIONS MADE BY THE EXAMINING DIVISION

A new basis for billing institutions to cover the cost of all office or field examinations made by the Examining Division is to take effect April 1, 1935. The resolution to that effect was passed by the Board March 6, 1935.

Be it resolved by the Federal Home Loan Bank Board as follows:

1. That the resolution of the Board dated February 13, 1935, with reference to the billing for the expense of all office and field examinations made by the Examining Division, be, and it is hereby repealed.

2. Effective as of April 1, 1935, the expense of all office and field examinations made by the Examining Division for the Bank Board, the Federal Savings and Loan Division, and the Federal Savings and Loan Insurance Corporation, shall be billed on a basis fixed by the Board. This basis shall include the complete cost of such examination, including a charge for overhead expense, as determined from time to time by the Board. This basis of billing shall not apply to associations whose applications for membership in the Bank System, for new Federal charter, for conversion from State charter to Federal charter and/or for insurance of its accounts is received in the Washington, D. C. office or in any one of the Federal Home Loan Banks on or before March 31, 1935, but the billing for all such examinations, if any, shall be on the basis heretofore followed.

3. This resolution shall be printed in the March 1935 issue of the Federal Home Loan Bank Review.

4. The General Manager of the Federal Savings and Loan Division is hereby directed to make the necessary changes in the blanks for preliminary application for conversion and in any other blanks used by his department, so that they will show clearly the changed regulations as to expense, and he is further directed to call in from the field the old forms and to supply his field men with the new forms as soon as they can be printed in order that, if possible, no applications on the old form may be filed after March 31, 1935.

5. The Chief Examiner, the Chairman of the Review Committee, and any other heads of departments or divisions connected with the examination or supervision of associations shall cause all information pertinent to billing such examination or supervision to be furnished the office of the Board's Comptroller as expeditiously as possible after such services have been rendered.

6. It shall be the responsibility of the Board's Comptroller on the basis of the information thus furnished to bill and collect the proper amounts, to maintain appropriate records thereof, and to render reports to the Board and other interested parties as may be directed by the Board.

7. The cost of the Washington office of the Examining Division and of the Review Committee, together with any deficits which may develop from time to time in connection with the operation of the district examining offices shall be considered overhead expense. Such part thereof as is not reimbursed by charges to associations served shall be charged to and collected from the Federal Home Loan Bank Board, the Federal Savings and Loan Division, and the Federal Savings and Loan Insurance Corporation. Such charges and collections and the apportionment to the institutions mentioned shall be made by the Board's comptroller upon the basis of reports to be furnished by the Chief Examiner and the Chairman of the Review Committee, and any other heads of departments or divisions concerned with examinations.

II.—AMENDING THE RULES AND REGULATIONS FOR INSURANCE OF SAVINGS AND LOAN ACCOUNTS AFFECTING THE EXPENSE OF EXAMINATION

Paragraph 5 (*b*) of the rules and regulations for insurance of savings and loan accounts as originally written provides that the expense of examination of an applicant institution shall be computed at the rate of $25 per day (including travel and subsistence) for senior examiners and $20 per day (including travel and subsistence) for examiners.

On February 13, the Board amended this paragraph to remove the specified rates and substitute the provision that the expense shall be computed by the Board to cover the entire cost of all such examinations. The resolution reads:

Be it resolved by the Board of Trustees of the Federal Savings and Loan Insurance Corporation as follows:

That paragraph 5 (*b*) of the rules and regulations for insurance of savings and loan accounts be amended so that it shall read as follows:

" Upon return to the Corporation of such forms properly authorized and executed, the applicant will be informed by the Corporation either (1) that such application for insurance is approved without further examination, or (2) that the Corporation rules that further examination is required before it can determine the eligibility of the applicant for insurance. Thereupon the Corporation shall cause such examination to be made at the expense of the applicant. Such expense, and the expense of all other office and field examinations, shall be computed by the Board to cover the entire cost of all such examinations, including overhead, per diem, and travel expense."

Be it further resolved that this resolution shall be effective on and after March 1, 1935.

On March 6 the Board amended the foregoing resolution, making the effective date April 1, 1935, instead of March 1, 1935.

Be it resolved by the Board of Trustees of the Federal Savings and Loan Insurance Corporation as follows:

1. That the resolution of the Board of February 13, 1935, with reference to the billing for the expense of all office and field examinations made by the Examining Division, be, and it is hereby repealed.

2. Beginning with April 1, 1935, the expense of all office and field examinations made by the Examining Division for the Federal Savings and Loan Insurance Corporation shall be billed by the Board's Comptroller pursuant to section 5 (b) of Rules and Regulations for Insurance of Savings and Loan Accounts of the Federal Savings and Loan Insurance Corporation, as amended by the resolution of the 13th day of February 1935.

3. That the effective date of the change in section 5 (b) of the Rules and Regulations for Insurance of Savings and Loan Accounts of the Federal Savings and Loan Insurance Corporation, as amended by the resolution of the 13th day of February 1935 be, and it is hereby made the 1st day of April 1935.

4. That all associations whose applications for insurance shall have been received by the Washington office, or by any of the Federal Home Loan Banks, on or before March 31, 1935, shall be billed pursuant to section 5 (b) of the Rules and Regulations for Insurance of Savings and Loan Accounts of the Federal Savings and Loan Insurance Corporation as existent prior to the amendment by resolution of February 13, 1935; that all applications received in the Washington, D. C., office or in any of the Federal Home Loan Banks on April 1, 1935, or subsequent thereto, shall be billed pursuant to section 5 (b) of the Rules and Regulations for Insurance of Savings and Loan Accounts of the Federal Savings and Loan Insurance Corporation as amended by resolution of the 13th day of February 1935.

5. This resolution shall be printed in the March 1935 issue of the Federal Home Loan Bank Review.

6. The Chief Examiner and the Chairman of the Review Committee, and all other heads of departments or divisions concerned with the examination or review or supervision of associations, shall cause all information pertinent to billing the associations for such services to be furnished the office of the Comptroller of the Federal Home Loan Bank Board as expeditiously as possible after such examination work has been completed.

7. It shall be the responsibility of the Comptroller of the Federal Home Loan Bank Board on the basis of the data thus furnished to bill and collect the proper amounts, to maintain appropriate records thereof, and render reports to the Board and other interested parties as may be directed by the Board.

III.—AMENDING THE RULES AND REGULATIONS FOR FEDERAL SAVINGS AND LOAN ASSOCIATIONS AFFECTING THE COST OF EXAMINATION OF APPLICANTS FOR CONVERSION

On March 6 the Board also passed the following resolution:

Be it resolved by the Federal Home Loan Bank Board that section 22 of the rules and regulations for Federal savings and loan associations be amended to read as follows:

Any such member desiring to so convert may make a preliminary application therefor to the Board after approval by the board of directors of the applicant. The applicant shall submit with its application form 700. After receipt by the Board of such form properly authorized and executed, the applicant will be informed by the Board either (*a*) that such preliminary application for conversion is approved without further examination, or, (*b*) that the Board rules that further examination and/or appraisal is necessary to determine the applicant's eligibility for conversion. In the latter event the applicant may either (*a*) withdraw its preliminary application, or (*b*) request such examination and/or appraisal as in the judgment of the Board may be necessary to determine such eligibility. The examination shall be made in such manner as may be prescribed by the Board. The entire cost of all examinations, including analysis of the preliminary application and/or reports, and/or appraisals, overhead, per diem and travel expense shall be charged to the applicant and paid by the applicant in the same manner as other debts.

IV.—TO EXPEDITE THE HANDLING OF APPLICATIONS FOR MEMBERSHIP, CONVERSION, AND/OR INSURANCE FROM INSTITUTIONS CERTAIN TO REQUIRE SEGREGATION OF THEIR ASSETS OR READJUSTMENT OF THEIR CAPITAL BEFORE APPLICATION CAN BE GRANTED

The Board adopted the following resotution on March 7, 1935:

Whereas the Federal Home Loan Bank Board desires to expedite the handling of all applications for membership and/or conversion and/or insurance, and to attain that objective has provided and desires that such applications be considered on the basis of information provided by the applicant in form 7 and/or revised form 700 (or similar forms as may hereafter be provided for such purposes), when the use of such forms will apparently serve this purpose; and

Whereas in some cases it seems desirable to make a field examination to determine whether or not an association should be admitted into membership and/or be converted into a Federal savings and loan association and/or be granted insurance of its accounts, upon 100 percent basis; and

Whereas in some cases an applicant for membership and/or conversion and/or insurance is aware of the fact that its financial condition will not permit it to qualify for membership and/or conversion and/or insurance of its accounts without a segregation of its assets or a readjustment of its capital; now

Therefore, be it resolved by the Federal Home Loan Bank Board that a field examination and appraisals may be made by the Examining Division in lieu of having the association file form 7 and/or revised form 700 (or similar forms as may hereafter be provided for such purposes) provided such examination and appraisals are formally requested by the applicant, and an executive officer of the regional Bank and the district examiner make a joint recommendation therefor supported by a brief statement of indicative facts and provided such recommendation is approved by the Chief Examiner and a member of the Board, and provided further that the association file the following with the regional bank:

1. The required number of copies of a duly executed preliminary or formal application for membership and/or conversion and/or insurance of accounts, as the case may be,
2. A certified copy of a resolution adopted by its Board of Directors requesting the Federal Home Loan Bank Board to make an examination and/or appraisal and agreeing to pay the complete cost thereof, as computed by the Board, when billed for the same.
3. The required number of executed copies of an agreement to reimburse the Board for the cost of such examination,

And be it further resolved that whenever an application for membership and/or conversion and/or insurance of accounts is supported by a copy of such field examination and an analysis thereof, it shall be considered the same as though form 7 and/or revised form 700 (or any similar form as may hereafter be provided for such purposes) had been submitted in support of such application.

V.—AMENDING THE RULES AND REGULATIONS FOR FEDERAL SAVINGS AND LOAN ASSOCIATIONS TO PERMIT THE TRANSFER OF ASSETS FROM A STATE-CHARTERED INSTITUTION TO A FEDERAL SAVINGS AND LOAN ASSOCIATION

On February 8, 1935, the Board adopted the following resolution:

Be it resolved by the Federal Home Loan Bank Board that the rules and regulations for the Federal savings and loan associations, revised October 1934, be amended by the insertion of a new section as follows:

5. 1. In the event a thrift and home-financing institution desires to transfer a substantial portion or all of its assets to a Federal savings and loan association, or in the event it is desirable to transfer a substantial portion or all of the assets formerly held by such an institution to a Federal savings and loan association, five citizens of the community where such assets are located may file a petition for a charter as a Federal savings and loan association and submit a statement of the assets proposed to be transferred to the association to be organized and the consideration to be given by the new association for such assets. If it appears to the Board that the incorporation of such association is within the intent of the statute, and if the assets to be so transferred are approved for transfer for the consideration proposed, the Board will grant a charter to such petitioners, their associates and assigns, in the form prescribed by the Board. Organization may be perfected under such charter by the legal transfer of such assets to such association, the issuance of shares, the holding of an organization meeting, directors' meeting, the bonding of officers and employees, and the completion of organization as in other cases. In all other respects, such association from the time of organization shall operate as other associations under the statute and rules and regulations made thereunder. In the case of the organization of a Federal savings and loan association by transfer of assets as is herein provided, the limitation as to time expressed in section 13 and the principles laid down in section 21 of these rules and regulations shall control.

VI.—OPINION OF THE GENERAL COUNSEL CONCERNING THE RATIO BETWEEN THE AMOUNT OF STOCK OWNED BY A MEMBER INSTITUTION IN A FEDERAL HOME LOAN BANK AND THE AMOUNT IT MAY BORROW ON A SHORT-TERM LOAN

The following letter from the General Counsel of the Federal Home Loan Bank Board to the president of the Federal Home Loan Bank of Pittsburgh was approved by the Board on February 18, 1935:

Mr. RALPH H. RICHARDS,
President Federal Home Loan Bank of Pittsburgh,
Corner Ninth and Liberty Sts.,
Pittsburgh, Pa.

DEAR MR. RICHARDS: I have your letter of January 25 in which you inquire whether or not the Federal Home Loan Bank Act requires its members to own in stock of the Bank one-twelfth as much as the total advances under section 10 of said act plus the total advances made under section 11 thereof.

The most careful consideration has been given to this question and I have discussed the matter with the members of the Board and am of the opinion that the intent of the statute is to prohibit long-term advances secured by mortgage collateral under section 10 of said act in excess of 12 times the stock ownership of the borrower of the Bank, and that it was not intended to require such stock ownership in connection with short-term advances made under section 11. The intent of the statute is to provide for long-term lending under section 10 secured by mortgage collateral for the expansion of the resources of member institutions and to provide the stock ownership in the Bank both as additional security for the Bank and to provide additional liquidity by providing a large amount of bank capital, and this method of operation is practicable and reasonable. Section 11 was intended to give the Banks power to invest funds in the so-called "liquidity pool" in bank deposits, Government obligations, or short-term advances, and it does not clearly appear that it was intended that such advances must be measured by stock ownership. This position in reference to section 11 is practicable and reasonable, whereas to hold that advances under this section would require stock adjustment would necessitate constant and rapid fluctuation of stock ownership in the Bank without any particular reason therefor.

Directory of Member, Federal, and Insured Institutions

Added During February

All Federal savings and loan associations are required to become members of the Federal Home Loan Bank System and to insure their accounts with the Federal Savings and Loan Insurance Corporation. As the time lag between the receiving of a charter and admission to membership in the System and insurance of accounts will, in the future, be very short, the Review will list the Federal savings and loan associations *only* when they get their charters. It may be taken for granted that membership in the System and insurance of accounts will follow shortly.

I. INSTITUTIONS ADMITTED TO MEMBERSHIP IN THE FEDERAL HOME LOAN BANK SYSTEM BETWEEN FEBRUARY 1, 1935, AND MARCH 1, 1935 [1]

(Listed by Federal Home Loan Bank Districts, States, and cities)

DISTRICT NO. 2

NEW JERSEY:
- Garfield:
  - Haller Building & Loan Association, 145 Main Street.
- Newark:
  - North Newark Building & Loan Association, 46 West Market Street.

NEW YORK:
- Albany:
  - West End Savings & Loan Association, 854 Madison Avenue.

DISTRICT NO. 4

GEORGIA:
- Pelham:
  - Mitchell County Building & Loan Association, West Railroad Street.

DISTRICT NO. 5

OHIO:
- Dayton:
  - State Savings & Loan Association, 405–406 Callahan Bank Building.
- Ripley:
  - Ripley Building, Loan & Savings Company, 109 Main Street.

[1] During this period 25 Federal savings and loan associations were admitted to membership in the System.

TENNESSEE:
- Paris:
  - Paris Building and Loan Association, First Trust & Savings Bank Building.

DISTRICT NO. 7

ILLINOIS:
- Aurora:
  - Improvement Building & Loan Association, 1218 Downer Place.
- Chicago:
  - Lithuanian News Loan & Building Association, 1739 South Halsted Street.

WISCONSIN:
- Milwaukee:
  - Milwaukee Mutual Loan & Building Association, 135 West Wells Street.

DISTRICT NO. 8

IOWA:
- Mason City:
  - Mason City Building & Loan Association, 19½ East State Street.

DISTRICT NO. 10

KANSAS:
- Kansas City:
  - Central Avenue Savings & Loan Association, 1004 Central Avenue.

NEBRASKA:
- Lincoln:
  - First Building & Loan Association of University Place, Nebr., 4802 Baldwin Street.

DISTRICT NO. 12

NEVADA:
- Las Vegas:
  - Mutual Building & Loan Association of Las Vegas.

WITHDRAWALS FROM THE FEDERAL HOME LOAN BANK SYSTEM BETWEEN FEBRUARY 1, 1935, AND MARCH 1, 1935

CONNECTICUT:
- Norwalk:
  - Norwalk Building, Loan & Investment Association, 115 Washington Street.

GEORGIA:
- Augusta:
  - Peoples Building & Loan Association, 705 Broad Street.

MARYLAND:
- Baltimore:
  - Mozart Building & Loan Association, 2727 East Madison Street.
  - Suburban Building & Loan Association, 3316 Woodland Avenue.

NORTH DAKOTA:
- Fargo:
  - Home Savings & Loan Association.

OHIO:
Cleveland:
Custodian Savings & Loan Company, 15619 Waterloo Road.
Covington:
Covington Building & Loan Association, 117 North High Street.
PENNSYLVANIA:
Philadelphia:
Ryers Building & Loan Association, 7326 Oxford Avenue.
TEXAS:
Amarillo:
Texas Plains Building & Loan Association, 406 South Polk Street.

II. FEDERAL SAVINGS AND LOAN ASSOCIATIONS CHARTERED BETWEEN FEBRUARY 1, 1935, AND MARCH 1, 1935

(Listed by Federal Home Loan Bank Districts, States, and cities)

DISTRICT NO. 1

MASSACHUSETTS:
Roxbury, Boston:
First Federal Savings & Loan Association of Boston, 53 Warren Street (converted from Dudley Cooperative Bank).

DISTRICT NO. 2

NEW YORK:
Lynbrook:
Lynbrook Federal Savings & Loan Association, 391 Sunrise Highway (converted from Lynbrook Savings & Loan Association).
New York:
Ninth Federal Savings & Loan Association of New York City, 551 Fifth Avenue.

DISTRICT NO. 3

PENNSYLVANIA:
Johnstown:
Cambria Federal Savings & Loan Association of Johnstown.
Pittston:
First Federal Savings & Loan Association of Pittston.
Vandergrift:
Vandergrift Federal Savings & Loan Association, 134 East Adams Avenue.
WEST VIRGINIA:
Wellsburg:
Advance Federal Savings & Loan Association of Wellsburg.

DISTRICT NO. 4

ALABAMA:
Jasper:
First Federal Savings & Loan Association of Jasper.
GEORGIA:
Dublin:
First Federal Savings & Loan Association of Dublin.
Griffin:
First Federal Savings & Loan Association of Griffin, 507 Professional Building (converted from Griffin Building & Loan Association).
Waycross:
First Federal Savings & Loan Association of Waycross, 208 Parker Street (converted from Waycross Building & Loan Association).
SOUTH CAROLINA:
Florence:
Peoples Federal Savings & Loan Association (converted from Peoples Building & Loan Association of Florence).
VIRGINIA:
Norfolk:
First Federal Savings & Loan Association of Norfolk, Bank of Commerce Building (converted from Princess Anne & Norfolk Mutual Building & Loan Association, Inc.).
Richmond:
First Federal Savings & Loan Association of Richmond, 302 East Grace Street.

DISTRICT NO. 5

OHIO:
Hamilton:
Columbia Federal Savings & Loan Association of Hamilton, 127 South Third Street (converted from Columbia Savings & Loan Co.).
Lakewood:
First Federal Savings & Loan Association of Lakewood, 1101 West Forest Road.
Medina:
First Federal Savings & Loan Association of Medina.
TENNESSEE:
Memphis:
Home Federal Savings & Loan Association of Memphis, 44 South Second Street (converted from Home Building & Loan Association).

DISTRICT NO. 7

ILLINOIS:
Chicago:
Slovenian Home Federal Savings & Loan Association of Chicago, 1824 West 22nd Place (converted from Slovenian Home Building & Loan Association).
Peoria:
Peoples Federal Savings & Loan Association of Peoria, 101 South Adams Street (converted from Peoples Loan & Homestead Association).
Springfield:
Security Federal Savings & Loan Association of Springfield, 518 East Monroe Street (converted from Security Improvement & Loan Association).

DISTRICT NO. 8

MINNESOTA:
Worthington:
Worthington Federal Savings & Loan Association.
MISSOURI:
St. Joseph:
First Federal Savings & Loan Association of St. Joseph, 302 Corby Building.
St. Louis:
Roosevelt Federal Savings & Loan Association of St. Louis, 3607 North Broadway (converted from Roosevelt Savings & Loan Association).

DISTRICT NO. 9

ARKANSAS:
Fort Smith:
Standard Federal Savings & Loan Association.
Helena:
First Federal Savings & Loan Association of Helena, 317 York Street (converted from Investment & Home Building Association of Helena).
Helena Federal Savings & Loan Association, 520 Cherry Street (converted from Helena Building & Loan Association).

ARKANSAS—Continued.

Pocahontas:

Pocahontas Federal Savings & Loan Association.

TEXAS:

Amarillo:

First Federal Savings & Loan Association of Amarillo, 406 South Polk Street (converted from Great Plains Building & Loan Association).

Brownsville:

Brownsville Federal Savings & Loan Association.

Waco:

First Federal Savings & Loan Association of Waco, 506 Franklin Street (converted from Waco Building & Loan Association).

DISTRICT NO. 10

KANSAS:

Beloit:

First Federal Savings & Loan Association of Beloit, 107 East Main Street (converted from Solomon Valley Building & Loan Association).

OKLAHOMA:

Enid:

Liberty Federal Savings & Loan Association of Enid, Masonic Temple (converted from Liberty Savings & Loan Association).

DISTRICT NO. 11

IDAHO:

Lewiston:

First Federal Savings & Loan Association of Lewiston, Room 222, New Idaho Trust Building (converted from Lewiston Savings & Loan Co.).

Twin Falls:

First Federal Savings & Loan Association of Twin Falls (converted from Mutual Building & Loan Association).

WASHINGTON:

Tacoma:

Pacific First Federal Savings & Loan Association of Tacoma, 204 South 11th Street (converted from Pacific Savings & Loan Association).

DISTRICT NO. 12

CALIFORNIA:

San Bernardino:

First Federal Savings & Loan Association of San Bernardino, 455 Fourth Street (converted from San Bernardino Building & Loan Association).

Cancelations of Federal Savings and Loan Association Charters February 1, 1935, March 1, 1935

ALABAMA:

Troy:

Troy Federal Savings & Loan Association.

III. INSTITUTIONS INSURED BY THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATON BETWEEN FEBRUARY 1, 1935, AND MARCH 1, 1935 [1]

DISTRICT NO. 12

CALIFORNIA:

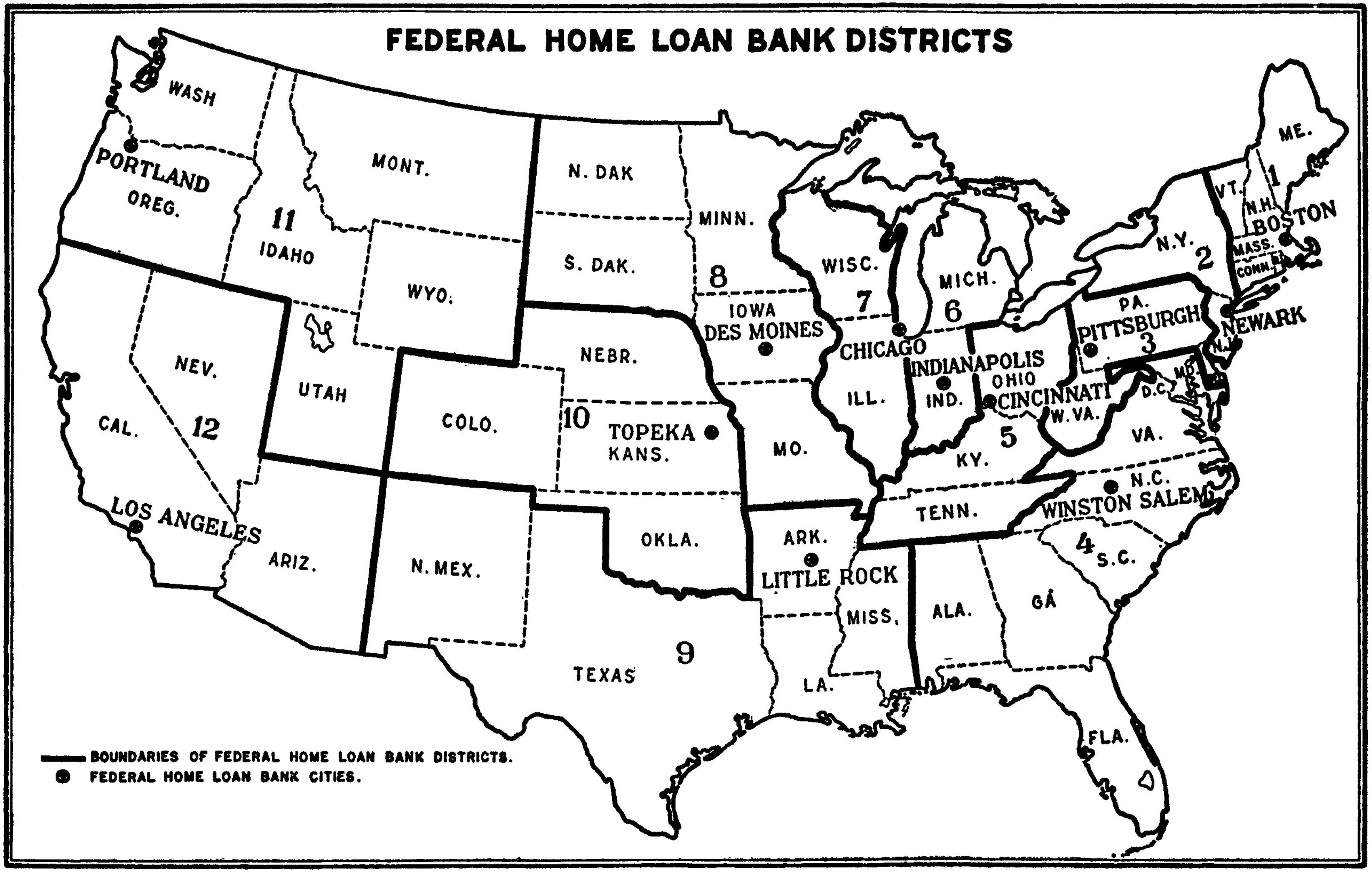
San Jose:

Independent Building-Loan Association, 16 East San Antonio Street.

Surety Building & Loan Association, 285 South First Street.

[1] During this period 70 Federal savings and loan associations were insured.

U. S. GOVERNMENT PRINTING OFFICE: 1935


FEDERAL HOME LOAN BANK DISTRICTS
WASH
PORTLAND
OREG.
11
IDAHO
MONT.
WYO.
N. DAK
S. DAK.
MINN.
8
IOWA
DES MOINES
NEBR.
10
TOPEKA
KANS.
COLO.
UTAH
NEV.
12
CAL.
LOS ANGELES
ARIZ.
N. MEX.
OKLA.
TEXAS
9
ARK.
LITTLE ROCK
MO.
WISC.
7
CHICAGO
ILL.
MICH.
6
INDIANAPOLIS
IND.
OHIO
CINCINNATI
KY.
5
W. VA.
TENN.
MISS.
LA.
ALA.
GA.
FLA.
S.C.
4
N.C.
WINSTON SALEM
VA.
D.C.
MD.
PA.
PITTSBURGH
3
N.J.
NEWARK
N.Y.
2
VT.
N.H.
ME.
1
BOSTON
MASS.
CONN.
R.I.
BOUNDARIES OF FEDERAL HOME LOAN BANK DISTRICTS.
FEDERAL HOME LOAN BANK CITIES.