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Federal Home Loan Bank Review

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SUBSCRIPTION PRICE OF REVIEW

THE FEDERAL HOME LOAN BANK REVIEW is the Board's medium of communication with member institutions of the Federal Home Loan Bank System and is the only official organ or periodical publication of the Board. The REVIEW will be sent to all member institutions without charge. To others the annual subscription price, which covers the cost of paper and printing, is \$1. Single copies will be sold at 10 cents. Outside of the United States, Canada, Mexico, and the insular possessions, subscription price is \$1.40; single copies, 15 cents. Subscriptions should be sent to and copies ordered from Superintendent of Documents, Government Printing Office, Washington, D. C.

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The New Legislation as It Affects Thrift, Home-Financing Institutions

AS this REVIEW goes to press, the Senate and House conferees have reached agreement on the act to provide additional home-mortgage relief, and to amend the Federal Home Loan Bank Act, the Home Owners' Loan Act of 1933, and the National Housing Act. This agreement presages speedy enactment of the bill. By this legislation, Congress completes and clarifies the program which it desires the Federal Home Loan Bank Board to carry out.

The provisions of the bill fall logically into two categories: (1) Those designed to adjust further the burden of debt that has been paralyzing the urban real-estate market; (2) those designed to strengthen and encourage private, thrift, home-financing institutions in order that they may resume their function of financing the Nation's homes.

ADDITIONAL FUNDS FOR THE HOME OWNERS' LOAN CORPORATION

THE bill authorizes the Home Owners' Loan Corporation to issue an additional \$1,750,000,000 in bonds, bringing the total to \$4,750,000,000. The major portion of these additional resources is to be used to refinance the mortgages of eligible distressed home owners, whose applications are already on file with the Corporation or who make application within 30 days from the date this amendment takes effect.

The Corporation has already refinanced some 860,000 homes, and these additional funds will permit it to extend its aid to a total of well over a million distressed home owners. The law requires, of course,

that the Corporation lend only to those who, without the Corporation's aid, would lose their homes by foreclosure or tax sale. All applicants whose mortgages can be carried by the present mortgagees or refinanced by other private mortgagees must be declared ineligible under the law. It is obviously to the interest of private lending institutions to stretch a point in carrying their own distressed borrowers in order that the Federal Government may not be compelled to remain in the home-financing field any longer than is absolutely necessary.

FEDERAL FUNDS TO BE INVESTED IN ASSOCIATIONS

THE removal by the Home Owners' Loan Corporation of many additional thousands of acutely distressed properties from the real-estate market should complete the task—already well started—of restoring property values and thus facilitate the revival of new home financing and home building with private funds. To encourage private institutions, particularly of the thrift, home-financing type, to resume active lending is the purpose of several major provisions of this bill. One such provision authorizes the Corporation to employ \$300,000,000 to purchase shares of Federal savings and loan associations, to purchase shares and investment certificates of and make deposits in State-chartered institutions that are members of a Federal Home Loan Bank or whose accounts are insured by the Federal Savings and Loan Insurance Corporation, and to purchase Federal Home Loan Bank bonds, debentures, or notes. This sum is, of course, in addition

to the \$50,000,000 originally available to the Secretary of the Treasury for the purchase of shares in Federal associations. This total of \$350,000,000 of direct Federal investment in savings, building and loan associations is equivalent to \$1 in every \$14 that those associations had invested in home mortgages at the end of 1934.

COST OF INSURANCE REDUCED

A SECOND group of provisions in this legislation to strengthen and encourage building and loan associations will probably do even more than direct Federal investment in their shares to increase their resources. These provisions reduce the cost of insurance of accounts by the Federal Savings and Loan Insurance Corporation. The annual premium charge is cut from $\frac{1}{4}$ to $\frac{1}{8}$ of 1 percent of the total amount of all accounts of the insured members plus any creditor obligations of an institution. The additional premium that may be levied in any one year is also cut from $\frac{1}{4}$ to $\frac{1}{8}$ of 1 percent, so that the maximum premium payment that any insured institution may be compelled to make in any one year is $\frac{1}{4}$ of 1 percent. Furthermore, under the new act insured institutions may be allowed 20 years to build up reserves to 5 percent of the insured accounts instead of 10 as under the earlier act. Finally, the former prohibition against the declaration of dividends in any year in which losses are chargeable to an institution's reserves has been altered to permit the declaration of dividends if the Insurance Corporation approves.

These amendments bring the cost of insurance of accounts within the means of every eligible institution. By so doing, they must clear the way for thousands of building and loan associations to provide their shareholders the protection of Federal insurance. Sufficient experience has been accumulated by State-chartered and Federal associations already insured to place beyond argument the value of insurance in recapturing public confidence and increasing the flow of savings to home-

financing institutions. As building and loan associations take advantage of this means of attracting the savings of the public, it is not over-optimistic to predict that the volume of funds available to them will be limited only by their capacity to employ such funds profitably.

MORE LIBERAL TERMS ON FEDERAL HOME LOAN BANK ADVANCES

A THIRD major category of provisions makes the loanable resources of Federal Home Loan Banks available to member institutions on more liberal terms. Thus, by eliminating the 2-percent cumulative dividend on stock in the Federal Home Loan Banks held by the United States Treasury, the legislation will permit the Banks to make advances to member institutions at lower interest rates. In anticipation of this step, the Board has already authorized the 12 regional Banks to reduce the effective rate on all advances to 3 percent (see page 302 of this REVIEW). In addition, the term of amortized home-mortgage loans eligible as collateral for advances up to 65 percent of the unpaid principal is reduced from 8 to 6 years. Advances secured by obligations of the United States or by obligations fully guaranteed by the United States may be made up to the face value of such obligations. The definition of "home mortgage" is changed so as to permit mortgages on 4-family dwellings to be used as collateral for advances from the Banks. The term of mortgages eligible as collateral for advances from the Federal Home Loan Banks is extended from 15 years to 20 years and the former provision limiting the value of the property to \$20,000 has been replaced by one limiting the amount of the mortgage to \$20,000. Finally, the Federal Home Loan Banks are authorized to make advances on mortgages insured under Title II of the National Housing Act to nonmember institutions meeting certain requirements. Such advances may equal 90 percent of the unpaid principal of

the mortgage loan given as security. This last provision is a step toward giving insured mortgages the liquidity essential to create a national market for them.

MISCELLANEOUS PROVISIONS

IN addition to these major items, the legislation contains a number of provisions facilitating administration of the Board's agencies or which are of special interest to home-financing institutions. The funds of the Home Owners' Loan Corporation available for reconditioning of refinanced or distressed properties are increased from \$300,000,000 to \$400,000,000. The appropriation for the development of savings and loan associations is raised from \$500,000 to \$700,000 and is to be used impartially in the promotion of local, thrift, and home-financing institutions, whether under State or Federal charter. Associations converting from State to Federal charter are authorized to continue making loans in the same territory in which they made loans while operating under State charter. The directors of each Federal Home Loan Bank are increased from 11 to 12. Four directors are to be appointed by the Board and 8 are to be elected by the member institutions—2 at large and 2 representing each of the class A, B, and C institutions. Finally, a Federal Savings and Loan Advisory Council is created to confer, advise with, and make recommendations to the Federal Home Loan Bank Board. The directors of each regional Bank shall elect one member

and the Board shall appoint six to this council.

SUMMARY

THIS legislation cannot be properly evaluated apart from that which has preceded it and which it is designed to round out and perfect. It completes the major details of a program for organizing and strengthening the Nation's thrift and home-financing institutions which has developed over a period of years. Its contribution to that program from the point of view of the lending institution may be briefly summarized.

1. It gives additional protection to real-estate values and so justifies the resumption of lending by private institutions.
2. It will relieve mortgagees of additional quantities of slow assets and thus increase their liquidity.
3. It makes available \$300,000,000 of Federal funds for investment in building and loan associations and in Federal Home Loan Bank bonds, notes, or debentures.
4. It increases the potential line of credit of member institutions with Federal Home Loan Banks and makes possible lower interest rates on advances.
5. It brings insurance within the means of all eligible associations, thus enabling them to recapture public confidence and attract savings.
6. It gives thrift, home-financing institutions in an increased degree the prestige of Federal approval.

A Method of Adjusting Interest Rate to Risk Developed by a Middle-Western Association

FACED with the necessity of reducing interest rates to meet competition, a Federal savings and loan association in a Middle Western State has attempted a solution by the adjustment of rates to risk. The association reports that this solution has satisfied its borrowers and enabled it to get its share of new business. In the thought that the experiment will be of interest to all institutions engaged in making long-term loans on homes, the REVIEW has obtained permission to publish an adaptation of the method and an analysis of the principles involved.

In explaining the origin of the plan, the association reports that it had been charging the same rate on all loans. To have made a flat cut in this rate on all loans would have made necessary the charging of a commission. This was undesirable because, the association writes, "it is very unpopular with the borrower." The practice followed by fire-insurance companies of charging different rates for different policies according to the variation in risk suggested an alternative.

In principle, the method involves the setting of a minimum interest rate, which should be the lowest rate possible consistent with the cost of money to the institution and with the cost of servicing the highest quality loan. In addition to this minimum rate the institution established a series of 4 other rates each one-half percent per year higher than the preceding rate. Thus, with 5 rates the spread between the minimum and the maximum is 2 percent.

Next, the method involves a procedure for measuring risk in order to determine which of these 5 rates a borrower shall pay.

This procedure is illustrated in the accompanying interest rate sheet, which was worked out by the association in question. The sheet lists 10 specific tests to be applied to a borrower and his property, ranging from the type and occupancy of his dwelling to the liens on his income. Under each of these tests, he may receive a number of "deficiency points" ranging from 0 to 18 as the risk increases. Thus, under No. 1, an owner-occupied home gets 0 deficiency points because experience has shown that an owner occupying his own home makes a greater effort to keep up his payments than an owner who rents his property. Also, as the risk is greatest on a building for three or more families, this gets a higher number of deficiency points than any other type of dwelling.

The total number of deficiency points determines the interest rate according to a fixed schedule. Thus 6 or fewer deficiency points mean that the loan will be made at the minimum rate. Each increase of 3 or less deficiency points causes an increase of one-half of 1 percent in the rate. The relationship between rate and deficiency points is, therefore, as follows:

	1	2	3	4	5
Rate of interest.....	Minimum	+ ½%	+1%	+1½%	+2%
Deficiency points.....	6	9	12	15	18

Interest Rate Sheet of Savings and Loan Association

Name

Property address

Amount of loan	Date	Interest rate			
Rate of interest:	Minimum	+½%	+1%	+1½%	+2%
Deficiency Points:	6	9	12	15	18

	Points	Charge
No. 1:		
Owner occupancy.....	0	.....
Tenant occupancy.....	2	.....
Duplex, two families.....	4	.....
Apartments, three or more.....	6	.....
No. 2—Design and construction:		
Fireproof and modern.....	0	.....
Brick and modern.....	1	.....
Frame and modern.....	2	.....
Frame but not modern.....	6	.....
Residence combined with business.....	8	.....
No. 3—Location of property:		
Restricted.....	0	.....
Not restricted but protected.....	2	.....
Not restricted and not protected.....	8	.....
No. 4—Certain income:		
5 to 1 of monthly payment.....	0	.....
4 to 1 of monthly payment.....	2	.....
3 to 1 of monthly payment.....	4	.....
2 to 1 of monthly payment.....	6	.....
No. 5:		
A home not more than 5 years old.....	0	.....
A home 6 to 10 years old.....	2	.....
A home 11 to 15 years old.....	4	.....
A home over 15 years old.....	6	.....
No. 6—Ratio to value:		
Loan less than 50%.....	0	.....
50% to 60%.....	2	.....
60% to 70%.....	4	.....
70% to 80%.....	6	.....
No. 7:		
Loan to pay out in 12 years.....	0	.....
Loan to pay out in 16 years.....	2	.....
Loan to pay out in 20 years.....	4	.....
No. 8—Record of Credit:		
Credit Bureau A-1.....	0	.....
Credit Bureau B.....	2	.....
Credit Bureau C.....	4	.....
No. 9—Life insurance:		
Amount assigned for loan.....	0	.....
Amount carried to loan but not assigned.....	2	.....
No life insurance.....	4	.....
No. 10—Amount of income pledged on installment other than loan:		
None pledged.....	0	.....
25% pledged.....	2	.....
35% pledged.....	4	.....

Total deficiency points:

Final rate percent.

THE 10 tests on the interest rate sheet require little additional explanation. They comprise the factors that in the opinion of this particular association combine to measure the degree of risk involved in any particular loan. Another association might eliminate some and add others.

Under *design and construction* (No. 2), a "fireproof" dwelling is defined as one in which the walls, roof, and floors are of fireproof materials. A "modern" home is one equipped with central heat, electricity, gas, bathroom, and interior finish of hardwood.

The term "restricted", under *location of property* (No. 3), means a subdivision in which the type and cost of permissible design and construction are restricted when the plat is filed or by zoning ordinances. "Not restricted but protected" means an area without restrictions as to cost or type of home but with ample fire protection. "Not restricted and not protected" designates an outlying district lacking fire protection.

The relation of the borrower's income to the monthly payments on his loan is considered vital in determining his ability to pay and so explains test No. 4. The ratio of the loan to assessed valuation (No. 6) is used not only to fix the original risk but also as a measuring rod by which to reduce interest rates as payments on the loan decrease the risk. Thus, if a borrower obtains a 75-percent loan he gets 6 deficiency points. When he reduces this to 60 percent, he is entitled to a cut of one-half point in interest rate and when he reduces it to 50 percent, to a whole point. It is suggested that this practice will encourage the borrower to keep up his payments so as to reduce the cost of his loan. It seems that this procedure would also permit the association to grant a sufficiently large first mortgage to eliminate the need for a second mortgage.

The association adopted test No. 7, under which deficiency points increase as the

term of loan lengthens, to permit the granting of 16- or 20-year loans with relative safety to borrowers who cannot make the higher monthly payments under the 12-year plan.

The borrower's past record in paying his bills in the community (test No. 8) takes care of the personal risk factor. The theory that a loan protected by life insurance merits a lower interest rate explains test No. 9. The association reports that the offering of a lower interest rate overcomes the objection of many people to assigning life insurance and that this item has been of much assistance in securing such assignments. It suggests the advisability of giving a 3-point credit instead of 2, which would immediately make one-half percent difference in interest rate to those who assign their insurance.

The last item—*amount of income pledged on instalment purchases*, such as for automobile, radio, and furniture—is said to be essential to round out the picture of the borrower's capacity to pay obtained under test No. 4, on the relation of mortgage payments to income.

The association reports that it has applied this rating system to all the loans on its books without receiving a single objection from a borrower. It states that the observable hazard in the loan tends to fix the rate so that it is fair not only to the association but to the borrower.

METHOD OF ESTABLISHING DEFICIENCY POINTS

THE association established the deficiency points in such manner as to give it an average income of 1 percent above the minimum rate on all its loans. That is, it knew from experience that the majority of loans on its books would represent an average risk, and that there would be a number of loans representing a lesser risk at one end and a number representing a greater risk at the other. It, therefore, fixed the number of deficiency points to be given for each of the conditions under the 10 tests so that

most of its loans would qualify for the middle interest rate and the number qualifying for the two lowest rates would about balance those qualifying for the two highest rates.

The proponents of this plan claim that aside from its success in adjusting interest rates to risk and meeting competition, it has one advantage capable of doing a great

service to the improvement of housing in this country. It puts a premium on good design and construction and on city planning and zoning. The theory is that the opportunity to obtain lower financing costs will lead home owners to have more care for the quality of construction and for the protection of neighborhood amenities.

Advertising by State-Chartered Insured Associations

STATE-CHARTERED building and loan associations are using advertising to make the most of insurance of their accounts. They are recognizing that actual insurance is only the first step; that it is equally essential to inform the public about this assurance of safety. Only when this is done can an association hope to reap the full reward of insurance in regaining public confidence, reducing withdrawals and repurchases, and attracting new investments. Failure to call the insurance feature promptly to general public attention is to restrict its productive value at the very time when it is most needed.

Experience has proved that letters and newspaper are efficient and economical media for informing the public of insurance of accounts. As many State-chartered institutions have asked the Federal Savings and Loan Insurance Corporation for advice on how they can best advertise the safety feature, a number of insurance advertisements are reproduced in the accompanying pages. It should be emphasized that the effectiveness of these advertisements has been tested. Several of the associations submitting them report that the use of one or two such advertisements immediately brought in so large a volume of new savings as to make further advertising unnecessary for the time being. The first notice frequently brought in new funds faster than the association could place them in loans.

The diversity of methods employed by these comparatively few associations in calling attention to insurance is worthy of note. It indicates that the Corporation's

regulations concerning the advertisement of share insurance are sufficiently flexible to permit any association to retain its own distinctive form of advertising.

As the good will of present members is the most valuable asset of any association, it would seem profitable to write every member a letter informing him that his account is insured up to \$5,000. For an association with a withdrawal list such a letter seems absolutely essential. For all institutions, it will tend to tighten the bonds between the association and its members and enlist them as active promoters both of new investments and new loans. A draft of such a letter which an association may adapt to local condition is given herewith:

DEAR MEMBER:

Your association takes pride in informing you that it has insured the safety of your account up to \$5,000 with the Federal Savings and Loan Insurance Corporation, Washington, D. C. This means that your investment with us up to \$5,000 is protected 100 percent against loss or depreciation. This is the most complete protection ever offered investors in home-financing institutions.

We hope that you will take increasing advantage of this protection and call the desirability of investment in this association to the attention of your friends.

You will be interested to know, also, that your association has funds available for loans in sound first mortgages. No doubt you have friends and acquaintances who would like to buy or build or refinance their present mortgages. We know that if you recommend these friends to us, they will be the kind of people whom we will want to serve.

Very truly yours,

ASSOCIATION,
By _____,
Secretary.

Federal Home Loan Bank Review

This Savings Institution Makes NO UNSECURED LOANS

The wise provisions of the State law under which this Association operates provide that no loans can be made except upon first mortgages on improved real estate. — No loans can be made to officers or directors. Real estate loans are among the earliest forms of money loaning known to man, and experience through the centuries has proved their value and safety, if proper safeguards and appraisals are made. This mutual savings society offers investors a safe place for their investment at a profitable rate of return. The safety of amounts up to \$5,000.00 each is insured by the Federal Savings & Loan Insurance Corporation, an instrumentality of the Federal government.

Lewis County Savings & Loan Association
Chehalis, Washington



Our Amortized Loan Plan "Kills off" the Mortgage

We have \$150,000 to loan on good urban homes for refinancing—remodeling—new construction, or to help you purchase your own home, under a plan that is easy to handle and fair to the borrower. Applicants must have a good credit standing and the ability to make monthly payments.

Another Step Forward!

● **First . . .**

Conservative Policies

From its beginning this company held to sound, conservative policies keeping our overhead low, restricting loans to Santa Cruz county, emphasizing small home loans in preference to large commercial risks.

● **Then . . .**

Federal Home Loan Bank

Through membership in the Federal Home Loan Bank System we establish a background of resources that provide greater safety to our investors, and facilities for our borrowers.

● **Now . . .**

Federal Insurance of Every Investment Account

Through our affiliation with the Federal Savings and Loan Insurance Corporation every savings-investment account in Santa Cruz County Building and Loan Association is now insured up to \$500,000—the strongest assurance of safety ever to building and loan investors.



Santa Cruz County Building & Loan Association

88 PACIFIC AVE.

PHONE 525

Announcing

A NEW LOAN POLICY

—THE MOST ATTRACTIVE ever offered by Building and Loan in Imperial Valley.

- No loan fees
- No agent's commission
- No appraisal fee
- Monthly interest reduction

We are prepared to refinance your present mortgage on this new basis.

Loans Made Without Delay

A home institution for home people. Your savings with us are insured up to \$5,000.00 by Federal Savings and Loan Insurance Corporation.

IMPERIAL VALLEY BUILDING AND LOAN ASSOCIATION

146 SOUTH 6TH ST. EL CENTRO

Now is a good time

to buy your own home. Real estate value is rising, and rents are going up. Home ownership is a warranty of safety and self-reliance. It assures independence.

Ownership and regular monthly savings are a basis of great as well as modest fortune. Start a savings account with us today.

Security of Your Investment in **IMPERIAL VALLEY BUILDING AND LOAN ASSOCIATION**, Great Falls, Montana. Insured up to \$5,000 by the Federal Savings and Loan Insurance Corporation, Washington, D. C.



SAFETY OF YOUR INVESTMENT INSURED UP TO \$5,000.
Federal Savings & Loan Insurance Corporation

Your "Eagle" deposits are invested in first mortgage real estate loans for buying building or remodeling homes and will aid in increasing local employment.



EAGLE SAVINGS & LOAN ASSN.
MAIN AT COURT - CINCINNATI
ORGANIZED 1882



INVEST YOUR SAVINGS

In Shares of This Association

Why?

The safety of your investment fully insured up to \$5000.00 by the

FEDERAL SAVINGS & LOAN INSURANCE CORPORATION, WASHINGTON, D. C.

Monthly Savings Especially Solicited.
One Dollar and Up.

The CAPITAL BUILDING & LOAN ASSOCIATION

Corner Church and Florida Streets Phone 3915
Baton Rouge, Louisiana Established 1909
J. H. Percy, Pres.; O. M. Thompson, V. Pres. and Sec. Treas.
Taylor, Porter & Brooks, Attorneys.

MEMBER FEDERAL HOME LOAN BANK SYSTEM
Approved Mortgage Under
FEDERAL HOUSING ACT

Announcement

The undersigned Associations of this city take pleasure in announcing to their many shareholders and the public generally that, effective March 7th, the

SAFETY OF YOUR INVESTMENTS

in These Institutions Have Been

INSURED 100% UP TO \$5,000

By The

FEDERAL SAVINGS & LOAN INSURANCE CORPORATION

Washington, D. C.

Baton Rouge Building & Loan Association

The Capital Building & Loan Association

The Citizens Building & Loan Association

Jefferson Homestead Association



AN ASSET To This Community



This splendid Association has operated solely for the benefit of the entire people of this vicinity since its organization.

It has no selfish motive in its operation. No inside coterie profits by its success. Everyone shares in its success alike according to the stock he holds. It's record for

SAFETY AND SERVICE IS SECOND TO NONE

We now announce another forward step

SAFETY OF YOUR INVESTMENT INSURED UP TO \$5,000.00

By the Federal Savings & Loan Insurance Corporation, Washington, D.

This step, together with our

NEW DIRECT REDUCTION LOAN PLAN at GREATLY REDUCED INTEREST RATES

with all the best features of the latest loan plans make this Association the last word in

HOME FINANCING

It will pay anyone who is interested to call at our office and get the details of this plan.

Fayetteville Building & Loan Association

Member Federal Home Loan Banking System

The officers and directors of this Association are pleased to announce that the shares of our many stockholders and friends are now insured against capital loss up to \$5,000.00 for each individual account by the Federal Savings and Loan Insurance Corporation, an agency of the United States Government.

To the investor who is interested in a sound investment we offer our Full Paid Stock and Installment Stock.

Our dividends, predicated on earnings, have never been less than 4% per annum.

Lafayette Building Association

Lafayette, La.

W. A. Montgomery
President

L. Gankendorff
Secretary

Member Federal Home Loan Bank System

Premiums

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

IN many parts of the country, the distress of the last 5 years has crystallized a strong public opposition to premiums of any kind on home-mortgage loans. The extra burden imposed by these charges has been insupportable for some, distressing for many home-owner borrowers. Naturally, they and their neighbors, who have profited by their experience, are in future going to prefer the institutions that do not charge a premium. Several associations in widely separated sections of the country have already adapted their plans to take advantage of this situation. They are advertising the fact that they charge no premium. Some of them announce, also, that they are charging neither commission nor service fee. It seems inevitable that such associations will get the cream of the home-mortgage business in their communities.

In the following discussion, premiums are carefully distinguished from commissions, bonuses, and discounts, to which the next article in the series will be devoted. Service charges and loan-closing fees were dealt with in the April issue of the *REVIEW* and should not be confused with the subject matter of the present article.

In the building and loan movement, the premium is a relic of a condition that has long since ceased to exist. When the building and loan association was a strictly mutual neighborhood society in which all investors were potential borrowers, there were not enough funds to meet the demand for loans. Consequently, associations resorted to bidding to determine the allocation of what funds were available. The

premium was, in short, a price for priority in the use of funds, and as nearly every member sooner or later became a borrower, the burden and the returns alike were shared equally by all.

As soon, however, as the supply of funds equaled or exceeded the demand for them, the justification for the premium charge disappeared. Many associations today claim to be possessed of more funds than they can place in well-secured loans, and the Federal Home Loan Bank System provides a national credit pool on which all communities can draw to meet their home-financing needs. In such circumstances, the exaction of a premium would have appeared incomprehensible to pioneer building and loan men.

However, on the basis of its original use the premium has found protection in the laws of many States. It has been permitted in nearly all States; in approximately half the States it has been exempted from the operation of the State usury laws, on the theory that in a strictly mutual association, members may ask of and pay to each other whatever sum they choose for the use of the common funds. Taking advantage of this legal indulgence, associations in many sections of the country have clung to the premium. The amount is no longer set by actual bidding, which has practically disappeared, but by arbitrary action of the directors.

MISCONCEPTIONS REGARDING THE PREMIUM

In some quarters, the retention of the premiums has been justified on the theory

that it hastens the maturity of shares so that what the borrower pays out in such additional charges, he gets back by having his loan paid up more quickly. In fact, of course, such a condition could only be true where all investors were borrowers. Under present conditions, in which investors in building and loan associations outnumber borrowers roughly in the proportion of 5 to 1, it is evident that the borrower's gains in dividends represent but a small portion of the excess charges he is compelled to pay. In essence, what the premium means is taxation of the borrowing members for the profit of the investing members. It is nothing more nor less than a means of increasing the effective rate of interest.

It should be noted here that as a means of increasing the effective interest rate, the premium has in the past served a useful purpose in certain States. These are States in which the maximum legal rate of interest did not permit associations to meet their expenses and pay the dividends necessary to attract investors. Consequently, the lending institutions needed the additional income provided by the premium, which, as has been pointed out, was generally exempt from the operation of State usury laws.

Two general types of premiums are in use today—the gross or lump-sum premium and the instalment premium. The lump-sum premium is deducted from the amount of the loan at the time it is made. This means that the borrower has the use of the net amount of the loan but pays interest on and amortizes the gross amount. The gross premiums commonly charged range from \$1 to \$5 per \$100 share. With a nominal interest rate of 6 percent compounded monthly on a loan amortizing in 139 months, the charging of a gross premium of \$2 per \$100 share brings the effective interest rate to 6.4 percent. When a gross premium of \$5 is charged on such a loan, the effective rate is 7 percent.

The instalment premium is paid each month and varies from 5 cents to 50 cents

per \$100 share. The amounts most commonly charged—varying between associations and between communities—are 10 cents, 15 cents, and 20 cents per share.

The following table indicates the effect of gross and instalment premiums of varying magnitude on the real cost of the loan to the borrower when the nominal interest rate and the loan is amortized in 139 months.

Table for ascertaining the effect of premium charges on the cost of the loan to the borrower when the nominal interest rate is 6 percent and the loan is amortized in 139 months

Gross premium per \$100 loaned		Monthly instalment premium per \$100 loaned	
Amount of premium	Income rate (compounded monthly)	Amount of premium	Income rate (compounded monthly)
	<i>Percent</i>		<i>Percent</i>
\$0.50	6.10	\$0.01	6.20
1.00	6.20	.02	6.40
1.50	6.31	.03	6.59
2.00	6.41	.04	6.78
2.50	6.51	.05	6.96
3.00	6.61	.06	7.15
3.50	6.71	.07	7.34
4.00	6.81	.08	7.52
4.50	6.91	.09	7.71
5.00	7.01	.10	7.89
5.50	7.12	.11	8.08
6.00	7.22	.12	8.27
6.50	7.33	.13	8.45
7.00	7.44	.14	8.63
7.50	7.54	.15	8.81
8.00	7.66	.16	8.99
8.50	7.77	.17	9.17
9.00	7.88	.18	9.35
9.50	7.99	.19	9.54
10.00	8.10	.20	9.71
		.25	10.57
		.30	11.43
		.35	12.26
		.40	13.09
		.45	13.90
		.50	14.69

MAJOR OBJECTIONS TO THE USE OF PREMIUMS

BOTH types of premiums have been made the agencies for various conscious or unconscious abuses which combine with weaknesses inherent in the premium itself to condemn it. The objections to the

use of the premium may be listed under 4 heads:

1. It leads to abuses:
 - a. Nonreturnable lump-sum premiums.
 - b. Immediate distribution to earnings.
2. It tends to obscure the real cost of the loan and permit unjustifiably heavy charges.
3. It tends to deprive associations of the best home securities.
4. It increases the risk of default and foreclosure.

To discuss these objections in some detail, a common abuse of the gross premium has been to make it nonreturnable. If a loan is repaid before maturity, a portion of the premium is obviously unearned. Some associations do not refund this unearned portion, or refund only a part of it. The effective cost of the loan is thus a second time increased and the saving which should accrue to the borrower from early repayment is in part abolished. A related abuse is the crediting of gross premiums to earnings at the time they are received. If there is any justification for premiums it is to provide an additional cushion of protection against borrower default. They should, therefore, be held as reserves and prorated to earnings over the life of the loan. The practice of applying gross premiums to earnings in a lump sum led in boom days, when new loans were constantly being made, to large dividends to shareholders. When the crash came and new investments and new loans stopped, the practice left associations with depleted reserves. Those who profited were the investors whose shares had matured before the crash; those who suffered were the remaining shareholders and particularly the borrowers whose profits were recaptured or whose dividends decreased.

A second major objection is that the premium is almost inevitably confusing to the borrower and sometimes even to the lending institution. When the premium is charged, the borrower rarely knows how much he is really paying for his loan. It is to be suspected that some associations do not know what effect their premium

charges have on the cost of the loan. To illustrate this situation, a building and loan association in an eastern State which charged 6 percent nominal interest, habitually gave the borrower the choice between paying a gross premium of \$5 or a monthly instalment premium of 16 cents per \$100 borrowed. The borrower imagined that he was making a choice between small monthly payments and a large lump-sum initial payment. As a matter of fact, he was making a choice between paying 7-percent effective interest rate under the gross-premium plan and 9 percent under the instalment-premium plan.

With such possibilities for misunderstanding and error, it is but human to make the premium as lucrative a source of income as possible. Yet in succumbing to this temptation, the building and loan association is increasing the risks of its own business and inviting eventual difficulties which may well cancel the temporary profit earned and turn the premium into a boomerang. For it is obvious that the best risk will not submit to paying a premium in addition to interest. It is an axiom that in a normally competitive market, the better the security the less a man is willing to pay for a loan. The imposition of a premium, then, may very well mean that an association will get only the less desirable securities. In any event, the additional burden of the premium weakens the borrower's capacity to pay and increases the risk of default and foreclosure.

RESTRICTION ON THE USE OF PREMIUMS BY FEDERAL ASSOCIATIONS

FROM the point of view of the lending institution as well as of the borrower, premiums are, therefore, of questionable wisdom. Because of the strong public reaction against them and because they handicap institutions in the market for the best class of borrowers, the Federal Home Loan Bank Board recommends that wherever possible Federal savings and loan associations eliminate them entirely. The ideal

aimed at for Federal associations is to consolidate all charges in the interest rate and thus make the nominal rate the effective rate. To charge a premium on all loans as an additional protection against default of some borrowers is to penalize the best risk. It is far more practical to adjust interest rates to risk, thereby inviting the best class of borrowers to the association, as indicated in a preceding article in this REVIEW.

It is recognized that existing laws in some States may make complete elimination of the premium difficult or impossible for the time being. The ideal solution would, of course, be the amendment of such laws. Meanwhile, the charter of Federal savings and loan associations states:

It may make such charges for the use of its money or for the privilege of an advance or both as are permitted by special or general law of the State where it is located to be made by building and loan associations, savings and loan associations, cooperative banks, or similar institutions; such charges, however, shall not exceed those permitted under sections 4 and 5 of the Federal Home Loan Bank Act.

The pertinent part of section 5 of the Federal Home Loan Bank Act reads as follows:

No institution shall be admitted to or retained in membership, or granted the privileges of non-member borrowers, if the combined total of the amounts paid to it for interest, commission, bonus, discount, premium, and other similar charges, less a proper deduction for all dividends, refunds, and cash credits of all kinds, creates an actual net cost to the home owner in excess of the maximum legal rate of interest or, in case there is a lawful contract rate of interest applicable to such transactions, in excess of such rate (regardless of any exemption from usury laws), or, in case there is no legal rate of interest or lawful contract rate of interest applicable to such transactions, in excess of 8 per centum per annum in the State where such property is located.

The effect of this clause is to limit the amount of combined interest and premium

that may be charged not only by Federal savings and loan associations but also by all other member institutions of the Federal Home Loan Bank System. In other words this law applies to the national field the spirit of some State laws which define and restrict the premium.

In applying these regulations affecting premiums to Federal savings and loan associations, the Board comes to an agreement with each association compelled to impose a premium as to the amount it may justifiably charge in view of local conditions. Nonreturnable lump-sum premiums and the crediting of lump-sum premiums to earnings at time of receipt are alike forbidden. Such lump-sum premiums shall be carried as reserves and a proportionate amount applied to earnings each month.

At the same time, the lump-sum premium prorated to earnings over the life of the loan is strongly recommended to associations in preference to the instalment premium. In the first place, the gross premium affords less opportunity for overcharging and with it there is less chance of the borrower remaining in ignorance as to what he is really paying for his loan. It is imposed at the beginning of the transaction while there is still time for a borrower to make effective objection if he thinks it too burdensome.

Finally, in its efforts to make clear to the borrower just what he is undertaking to pay on his loan, the Board stipulates that the nature and amount of all charges shall be set forth clearly in the borrower's passbook. Confusion and misunderstanding are to be avoided by a frank statement of the contractual relationship between the borrower and the institution. These regulations are inspired by the conviction that borrower goodwill is essential to an association's success.

Residential Construction Activity in the United States

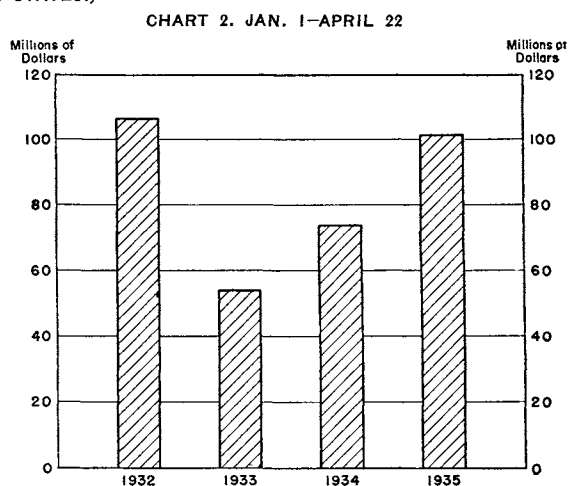
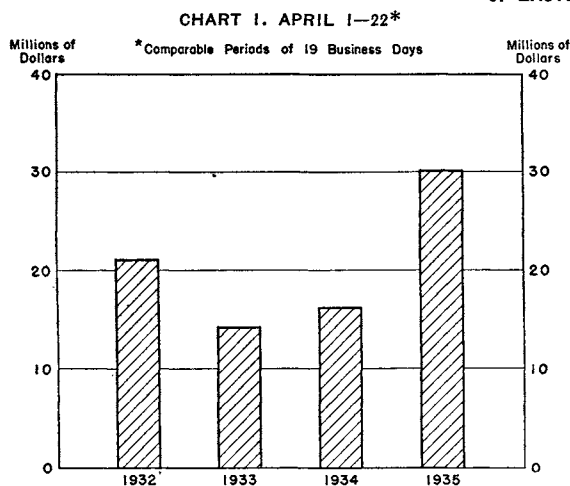
FOR the first time in three years residential building during the first 22 days of April exceeded that in the same period of 1932 (chart 1). Preliminary figures for the entire month of April indicate that residential building was the highest of any one month since November 1931 (chart 4). Furthermore, the preliminary figures on average daily construction for April were 28.2 percent higher than the daily average for March. The significance of this rise becomes apparent when it is realized that over the past three years, April construction exceeded that in March by only 2.4 percent.

The volume of contracts let in the period April 1-22 in 37 Eastern States, as reported by the F. W. Dodge Corporation, was \$30,185,000, which is more than double the volume for the same period in 1933 and nearly twice the 1934 volume. Residential building for the full period January 1 to April 22 of the present year is nearly equal to the 1932 like-period total, and consid-

erably exceeds the building activity up to April 22 in 1933 and 1934 (chart 2).

Notwithstanding this encouraging improvement in the first four months of 1935, the construction of dwellings has still a long distance to go before it equals the average for the past ten years (chart 3). There are, it is true, many evidences of a stronger real estate market and of an increasing demand for homes and home building. Thus, whereas the cost of building index (as constructed by the Federal Reserve Bank of New York) has not changed perceptibly in seven months, the National Industrial Conference Board's rental index has advanced steadily. In March the rental index was 65.6 compared with 65.1 in February. However, as the cost of building index was 88.5 in March, it is evident that the spread between these two factors must continue to decrease if building activity is to accelerate. Both indexes are based in 1923-25 as 100.

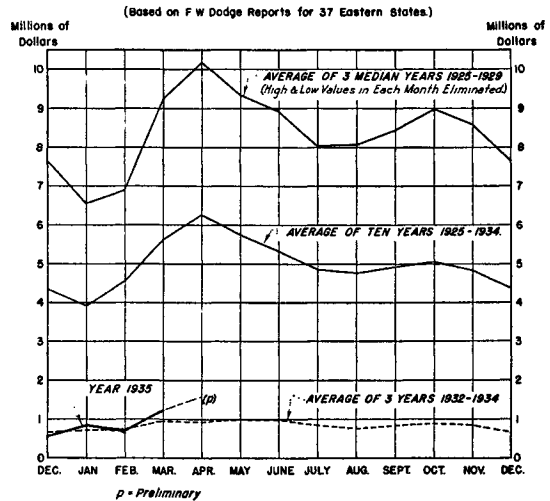
VALUE OF RESIDENTIAL CONSTRUCTION CONTRACTS AWARDED IN 1932-35. (BASED ON F. W. DODGE REPORTS FOR 37 EASTERN STATES.)



Other signs pointing to an increase in residential building are rises in real-estate prices and increasing absorption of vacancies reported by many communities. These factors, coupled with the growing volume of funds for home financing being made available at low cost by the Federal Home Loan Banks and other agencies, seem bound to result in a revival of home building.

Nonresidential construction, which includes both commercial and Governmental building, continues to run below the level of 1934. This is due to the falling off in the volume of Governmental contracts let. For the year up to April 22, this type of construction is almost 41 percent below 1934. This sharp recession in nonresidential contracts let was more than sufficient to offset the improvement in residential construction so that total construction of all types in 1935 was below 1934, both in the current April period as well as for the year to date (table 1).

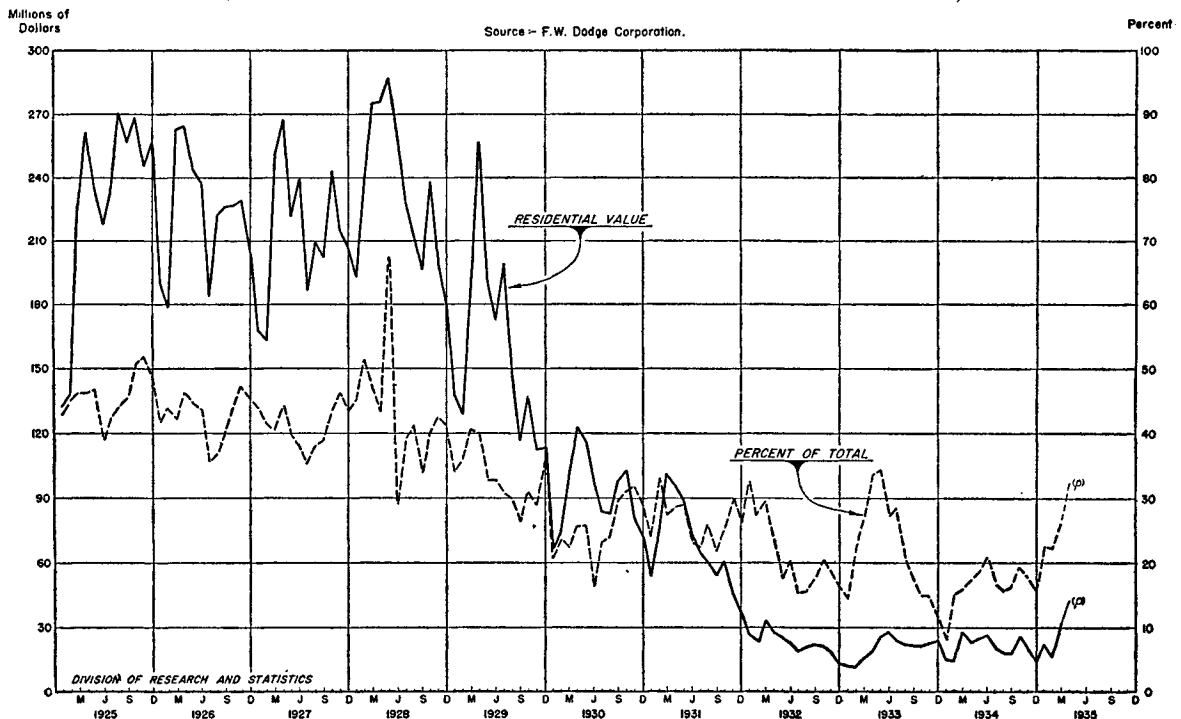
CHART 3.—AVERAGE DAILY VALUE OF RESIDENTIAL CONSTRUCTION CONTRACTS AWARDED IN 1935 COMPARED WITH SELECTED PERIODS



NUMBER OF FAMILIES FOR WHICH NEW DWELLING UNITS WERE PROVIDED IN MARCH

HOMES were provided for more than twice as many families in March 1935 as in March 1934, according to data on building

CHART 4.—VALUE OF RESIDENTIAL CONSTRUCTION CONTRACTS AWARDED IN 37 EASTERN STATES 1925-35. (DATA ALSO EXPRESSED AS A PERCENT OF TOTAL CONTRACTS AWARDED.)



permits collected by the Bureau of Labor Statistics (table 2). Total housekeeping dwelling units for which permits were granted in March 1935 numbered 6,156 as compared with 2,523 in March 1934. The 3,965 units provided in 1- and 2-family dwellings represented slightly less than two-thirds of all units. It is significant to note that although the number of units provided increased in all types of dwellings, the greatest increase took place in multi-

family units provided. The increase here was 177.7 percent as compared with 144 percent in 1-family dwellings.

The average unit-value of both 1- and 2-family dwellings for which permits were granted was considerably lower in March 1935 than in March 1934. The average value of 1-family dwellings fell from \$4,380 in 1934 to \$3,794 in 1935, and the average value for each unit in 2-family dwellings fell from \$3,090 to \$2,553.

TABLE 1.—Value of construction contracts awarded in 37 Eastern States⁷ and percentage changes for comparative periods

[Source: F. W. Dodge Corporation]

Type	Total for the period						Average daily ¹					
	April 1-22			January 1-April 22			(000 omitted)			Percent change		
	(000 omitted)		Per- cent change	(000 omitted)		Per- cent change	April 1935 ²	March 1935	April 1934	April 1935 from March 1935	April from March, 3-year aver- age ³	April 1935 from April 1934
	1935	1934		1935	1934							
Residential	30, 185	15, 456	+95. 3	101, 420	73, 163	+38. 6	1, 589	1, 239	905	+28. 2	+2. 4	+75. 6
Nonresidential ⁴	63, 151	84, 848	-25. 6	289, 781	488, 667	-40. 7	3, 323	3, 494	4, 341	-4. 9	-2. 6	-23. 5
Total	93, 336	100, 304	-6. 9	391, 201	561, 830	-30. 4	4, 912	4, 733	5, 246	+3. 8	-2. 0	-6. 4

¹ Based on the following number of business days: April 1935—19, March 1935—26, April 1934—25.

² Based on preliminary reports for the first 22 days (19 business days).

³ Represents the average of the percent change in April from March for the 3 years 1932-34.

⁴ Includes contracts for commercial buildings, public works, and utilities.

TABLE 2.—Number of families provided for and estimated value of new building permits issued in all cities of 10,000 population or over in the United States¹

[Source: Federal Home Loan Bank Board. Compiled from reports to U. S. Department of Labor]

Type of dwelling	Number of families provided for by permits issued			Value of building permits issued (000 omitted)		
	March 1935	March 1934	Percent change ²	March 1935	March 1934	Percent change ²
All housekeeping dwellings	6, 156	2, 523	+144. 0	.....	.....	.....
1-family dwellings	3, 599	1, 530	+135. 2	\$13, 655. 1	\$6, 702. 9	+103. 7
2-family dwellings	342	184	+85. 9	873. 2	568. 6	+53. 6
Joint home and business ³	24	20	+20. 0	101. 8	76. 2	+33. 6
Multifamily dwellings	2, 191	789	+177. 7	.....	.....	.....

¹ Estimate is based on reports from communities having approximately 95 percent of the population of cities with more than 10,000 population.

² Percentage change March 1935 from March 1934.

³ Includes 1- and 2-family dwellings with business property attached.

NEW RESIDENTIAL CONSTRUCTION IN THE
FEDERAL HOME LOAN BANK DISTRICTS AND
BY STATES

In table 3 member institutions will find figures on the value of all new residential building and on the value of 1- and 2-family dwelling units in their respective States

and Federal Home Loan Bank Districts. Great expansion in new residential construction was evidenced in each Bank District with all but two Districts increasing more than 50 percent over February building activity. Large gains were also made in each District in comparison with March of last year.

TABLE 3.—*Estimated value of new residential building permits issued in all cities of 10,000 population or over by Federal Home Loan Bank Districts and by States*¹

[Source: Federal Home Loan Bank Board. Compiled from Reports to U. S. Department of Labor]

District and State	Value of all new residential building permits (000 omitted)			Value of all new 1- and 2-family dwelling permits ² (000 omitted)		
	March 1935	March 1934	Percent change ³	March 1935	March 1934	Percent change ³
UNITED STATES.....	\$21,788.2	\$9,426.1	+131.1	\$14,630.1	\$7,347.7	+99.1
No. 1—Boston.....	1,183.8	1,007.4	+17.5	1,183.8	932.4	+27.0
Connecticut.....	299.7	163.3	+83.5	299.7	163.3	+83.5
Maine.....	11.0	9.9	+11.1	11.0	9.9	+11.1
Massachusetts.....	731.8	604.9	+21.0	731.8	529.9	+38.1
New Hampshire.....	14.4	5.3	+171.7	14.4	5.3	+171.7
Rhode Island.....	126.9	208.0	-39.0	126.9	208.0	-39.0
Vermont.....	0	16.0	-100.0	0	16.0	-100.0
No. 2—Newark.....	6,017.0	2,439.0	+146.7	2,414.3	960.0	+151.5
New Jersey.....	570.8	421.9	+35.3	507.1	421.9	+20.2
New York.....	5,446.2	2,017.1	+170.0	1,907.2	538.1	+254.4
No. 3—Pittsburgh.....	1,508.3	947.3	+59.2	1,307.3	827.3	+58.0
Delaware.....	49.0	50.5	-3.0	49.0	30.5	+60.7
Pennsylvania.....	1,400.9	886.3	+58.1	1,215.9	786.3	+54.6
West Virginia.....	58.4	10.5	+456.2	42.4	10.5	+303.8
No. 4—Winston-Salem.....	4,901.1	707.3	+592.9	2,053.0	707.3	+190.3
Alabama.....	56.8	17.1	+232.2	25.8	17.1	+50.9
District of Columbia.....	1,393.4	298.8	+366.3	883.4	298.8	+195.6
Florida.....	578.9	141.8	+308.3	395.5	141.8	+178.9
Georgia.....	2,240.7	30.0	+7,369.0	131.3	30.0	+337.7
Maryland.....	136.9	21.8	+528.0	136.9	21.8	+528.0
North Carolina.....	176.8	101.3	+74.5	166.5	101.3	+64.4
South Carolina.....	99.9	22.8	+338.2	95.9	22.8	+320.6
Virginia.....	217.7	73.7	+195.4	217.7	73.7	+195.4
No. 5—Cincinnati.....	934.6	383.4	+143.8	899.6	360.8	+149.3
Kentucky.....	189.7	58.4	+224.8	189.7	58.4	+224.8
Ohio.....	673.1	275.7	+144.1	638.1	254.6	+150.6
Tennessee.....	71.8	49.3	+45.6	71.8	47.8	+50.2

¹ Estimate is based on reports from communities having approximately 95 percent of the population of all cities with more than 10,000 population.

² Includes 1- and 2-family dwellings with business property attached.

³ Percent change of March 1935, from March 1934. When the number of permits is small in two compared periods the percentage change has little significance as a measure of the course of recovery or decline in the volume of construction.

TABLE 3.—Estimated value of new residential building permits issued in all cities of 10,000 population or over by Federal Home Loan Districts and by States—Continued

[Source: Federal Home Loan Bank Board. Compiled from Reports to U. S. Department of Labor]

District and State	Value of all new residential building permits (000 omitted)			Value of all new 1- and 2-family dwelling permits (000 omitted)		
	March 1935	March 1934	Percent change	March 1935	March 1934	Percent change
UNITED STATES—Continued.						
No. 6—Indianapolis.....	\$828.6	\$277.7	+198.4	\$828.6	\$277.7	+198.4
Indiana.....	129.2	11.2	+1,053.6	129.2	11.2	+1,053.6
Michigan.....	699.4	266.5	+162.4	699.4	266.5	+162.4
No. 7—Chicago.....	436.9	258.2	+69.2	436.9	258.2	+69.2
Illinois.....	251.9	190.2	+32.4	251.9	190.2	+32.4
Wisconsin.....	185.0	68.0	+172.1	185.0	68.0	+172.1
No. 8—Des Moines.....	1,106.3	638.0	+73.4	1,078.3	638.0	+69.0
Iowa.....	205.4	155.3	+32.3	205.4	155.3	+32.3
Minnesota.....	218.0	124.7	+74.8	218.0	124.7	+74.8
Missouri.....	625.4	353.3	+77.0	597.4	353.3	+69.1
North Dakota.....	25.5	3.0	+750.0	25.5	3.0	+750.0
South Dakota.....	32.0	1.7	+1,782.4	32.0	1.7	+1,782.4
No. 9—Little Rock.....	1,059.9	543.1	+95.2	1,002.6	533.2	+88.0
Arkansas.....	13.4	2.7	+396.3	6.4	2.7	+137.0
Louisiana.....	53.5	74.5	-28.2	53.5	74.5	-28.2
Mississippi.....	61.6	10.4	+492.3	61.6	10.4	+492.3
New Mexico.....	4.0	4.5	-11.1	0	4.5	-100.0
Texas.....	927.4	451.0	+105.6	881.1	441.1	+99.8
No. 10—Topeka.....	579.1	377.7	+53.3	528.5	252.7	+109.1
Colorado.....	139.5	76.5	+82.4	132.3	76.5	+72.9
Kansas.....	186.5	46.8	+298.5	150.4	46.8	+221.4
Nebraska.....	72.1	65.0	+10.9	72.1	65.0	+10.9
Oklahoma.....	181.0	189.4	-4.4	173.7	64.4	+169.7
No. 11—Portland.....	507.3	187.0	+171.3	497.4	153.0	+225.1
Idaho.....	37.1	4.6	+706.5	37.1	4.6	+706.5
Montana.....	48.3	19.4	+149.0	48.3	19.4	+149.0
Oregon.....	79.9	88.8	-10.0	79.9	54.8	+45.8
Utah.....	53.5	17.2	+211.0	53.5	17.2	+211.0
Washington.....	201.4	57.0	+253.3	191.5	57.0	+236.0
Wyoming.....	87.1	0	(4)	87.1	0	(4)
No. 12—Los Angeles.....	2,725.3	1,660.0	+64.2	2,399.8	1,447.1	+65.8
Arizona.....	6.8	2.8	+142.9	6.8	2.8	+142.9
California.....	2,709.5	1,655.2	+63.7	2,384.0	1,442.3	+65.3
Nevada.....	9.0	2.0	+350.0	9.0	2.0	+350.0

⁴ Represents an infinite amount of change due to comparison with zero in the particular period.

FEDERAL HOME

Combined statement of

	Combined	Boston	Newark	Pittsburgh	Winston-Salem
ASSETS					
Cash on hand in banks and U. S. Treasury	\$33, 611, 300. 16	\$3, 942, 068. 45	\$1, 549, 784. 86	\$469, 155. 01	\$2, 787, 801. 39
Loans outstanding:					
Members	72, 632, 407. 17	2, 275, 996. 37	13, 247, 333. 87	10, 465, 937. 01	4, 891, 749. 08
Other	4, 258. 95	0	0	0	0
Total loans	72, 636, 666. 12	2, 275, 996. 37	13, 247, 333. 87	10, 465, 937. 01	4, 891, 749. 08
Accrued interest receivable	384, 345. 18	17, 665. 42	63, 130. 67	66, 904. 83	29, 222. 09
Investments, U. S. Government	4, 262, 828. 89	1, 102, 156. 25	109, 293. 75	137, 900. 00	0
Other assets	38, 568. 09	2, 894. 18	3, 155. 27	2, 805. 94	6, 014. 00
Total assets	110, 933, 708. 44	7, 340, 780. 67	14, 972, 698. 42	11, 142, 702. 79	7, 714, 786. 56
LIABILITIES AND CAPITAL					
Liabilities:					
Current	4, 219, 236. 51	275, 272. 60	25, 900. 00	723, 986. 64	0
Fixed	0	0	0	0	0
Total liabilities	4, 219, 236. 51	275, 272. 60	25, 900. 00	723, 986. 64	0
Capital:					
Capital stock, fully paid, issued and outstanding:					
Members	21, 229, 700. 00	1, 955, 300. 00	2, 783, 000. 00	1, 573, 500. 00	1, 853, 000. 00
U. S. Government	81, 645, 700. 00	5, 000, 000. 00	11, 500, 000. 00	8, 500, 000. 00	5, 700, 000. 00
Total	102, 875, 400. 00	6, 955, 300. 00	14, 283, 000. 00	10, 073, 500. 00	7, 553, 000. 00
Subscription to capital stock:					
Members and applicants	2, 354, 300. 00	25, 400. 00	642, 800. 00	194, 200. 00	89, 000. 00
Less balance due	1, 041, 178. 13	13, 275. 00	264, 075. 13	101, 675. 00	36, 550. 00
Total	1, 313, 121. 87	12, 125. 00	378, 724. 87	92, 525. 00	52, 450. 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
Surplus:					
Reserves:					
As required under section no. 16 of act	882, 682. 77	42, 745. 44	105, 902. 92	92, 399. 09	61, 700. 44
U. S. Government 2-percent dividend	683, 618. 62	24, 657. 54	56, 712. 33	41, 917. 82	28, 109. 58
Surplus, unallocated	959, 648. 67	30, 680. 09	122, 458. 30	118, 374. 24	19, 526. 54
Total surplus	2, 525, 950. 06	98, 083. 07	285, 073. 55	252, 691. 15	109, 336. 56
Total capital	106, 714, 471. 93	7, 065, 508. 07	14, 946, 798. 42	10, 418, 716. 15	7, 714, 786. 56
Total liabilities and capital	110, 933, 708. 44	7, 340, 780. 67	14, 972, 698. 42	11, 142, 702. 79	7, 714, 786. 56

LOAN BANK SYSTEM

condition as at March 31, 1935

Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	Portland	Los Angeles
\$4, 419, 316. 76	\$3,428,758.04	\$2,660,201.06	\$2, 605, 589. 01	\$4, 074, 540. 13	\$3, 196, 987. 19	\$2, 329, 189. 63	\$2, 147, 908. 63
14, 044, 077. 96 0	4, 354, 743. 20 0	10,543,117.56 0	3, 193, 623. 11 0	2, 900, 928. 51 0	2, 613, 464. 87 0	1, 563, 968. 71 0	2, 537, 466. 92 4, 258. 95
14, 044, 077. 96	4, 354, 743. 20	10,543,117.56	3, 193, 623. 11	2, 900, 928. 51	2, 613, 464. 87	1, 563, 968. 71	2, 541, 725. 87
74, 659. 26 512, 090. 20 410. 15	10, 595. 33 490, 263. 02 3, 151. 29	42, 479. 18 456, 686. 65 2, 911. 14	20, 046. 22 63, 567. 28 2, 066. 77	18, 215. 91 1, 077, 000. 00 1, 677. 00	20, 842. 92 50, 000. 00 2, 831. 63	10, 083. 40 213, 871. 74 1, 339. 32	10, 499. 95 50, 000. 00 9, 311. 40
19, 050, 554. 33	8, 287, 510. 88	13,705,395.59	5, 884, 892. 39	8, 072, 361. 55	5, 884, 126. 61	4, 118, 452. 80	4, 759, 445. 85
774, 407. 79 0	117, 764. 36 0	1, 376, 035. 98 0	295, 322. 24 0	463, 812. 32 0	496. 25 0	154, 738. 33 0	11, 500. 00 0
774, 407. 79	117, 764. 36	1, 376, 035. 98	295, 322. 24	463, 812. 32	496. 25	154, 738. 33	11, 500. 00
4, 528, 700. 00 12, 775, 700. 00	1, 972, 400. 00 6, 000, 000. 00	1, 957, 400. 00 10,000,000.00	945, 200. 00 4, 500, 000. 00	1, 245, 600. 00 6, 100, 000. 00	944, 000. 00 4, 700, 000. 00	490, 600. 00 3, 310, 000. 00	981, 000. 00 3, 560, 000. 00
17, 304, 400. 00	7, 972, 400. 00	11,957,400.00	5, 445, 200. 00	7, 345, 600. 00	5, 644, 000. 00	3, 800, 600. 00	4, 541, 000. 00
683, 600. 00 250, 193. 00	70, 300. 00 38, 275. 00	159, 200. 00 99, 415. 00	83, 000. 00 39, 175. 00	192, 700. 00 121, 045. 00	76, 800. 00 28, 100. 00	42, 200. 00 20, 525. 00	95, 100. 00 28, 875. 00
433, 407. 00	32, 025. 00	59, 785. 00	43, 825. 00	71, 655. 00	48, 700. 00	21, 675. 00	66, 225. 00
0 0	577, 400. 00 577, 400. 00	4, 173, 900. 00 4, 173, 900. 00	2, 894, 900. 00 2, 894, 900. 00	2, 672, 400. 00 2, 672, 400. 00	2, 633, 600. 00 2, 633, 600. 00	2, 650, 000. 00 2, 650, 000. 00	6, 407, 900. 00 6, 407, 900. 00
189, 598. 81 63, 003. 45 285, 737. 28	75, 743. 41 29, 589. 04 59, 989. 07	120, 917. 40 49, 315. 07 141, 942. 14	43, 781. 64 22, 191. 79 34, 571. 72	67, 243. 19 30, 082. 18 93, 968. 86	30, 951. 21 146, 120. 54 13, 858. 61	24, 952. 88 103, 278. 24 13, 208. 35	26, 746. 34 88, 641. 04 25, 333. 47
538, 339. 54	165, 321. 52	312, 174. 61	100, 545. 15	191, 294. 23	190, 930. 36	141, 439. 47	140, 720. 85
18, 276, 146. 54	8, 169, 746. 52	12,329,359.61	5, 589, 570. 15	7, 608, 549. 23	5, 883, 630. 36	3, 963, 714. 47	4, 747, 945. 85
19, 050, 554. 33	8, 287, 510. 88	13,705,395.59	5, 884, 892. 39	8, 072, 361. 55	5, 884, 126. 61	4, 118, 452. 80	4, 759, 445. 85

Growth and Lending Operations of the Federal Home Loan Bank System

INFORMATION received as this REVIEW goes to press indicates that net outstanding advances of the twelve regional Federal Home Loan Banks at the end of April showed an increase for the first time since December 1934. The balance outstanding as of April 30 was reported to be \$74,010,805.06, representing an increase of approximately \$1,373,000 over March 31.

This reversal of the sharp downward trend of the three preceding months is encouraging evidence of increased lending activity by member institutions. It reflects the growing demand from home owners for loans for new construction, reconditioning, and refinancing. Undoubtedly, also, many associations are awakening to the profitable business which the low rates on long-term advances from the Federal Home Loan Banks permit them to do.

The tendency to consider advances from the Federal Home Loan Banks in the same category as loans from a commercial bank is disappearing. Because of this confusion many member institutions have hesitated to use funds obtained from the Bank System to make new loans to home owners. But Bank advances, especially when granted for a ten-year period, are in reality investments and so may be legitimately used for loans. They may not be called in advance of maturity and they are amortized on nearly the same terms as the loans they enable associations to make to home owners.

As a matter of fact Bank System advances are not fundamentally different from United States Treasury investments

in the shares of a Federal savings and loan association. Both classes of funds are intended to strengthen the nation's long-term home-financing structure. Both come wholly or mainly from the Federal Government. Both are controlled largely by the same Federal agency. Both are intended to encourage the flow of private funds to the home-financing field.

In an effort to get this essential oneness of the two sources of funds recognized by Federal savings and loan associations the Board on April 4 authorized the following letter to be sent to all Federals. The fourth paragraph might very well be addressed to all non-Federal members of the Bank System.

It is the Board's judgment that Federal savings and loan associations that have assets of \$100,000 or more should make "reasonable use" of funds available from the Federal Home Loan Banks before requesting subscriptions to shares by the Secretary of the Treasury.

The term "reasonable use" is interpreted to mean not less than 30 percent of an association's line of credit at its Federal Home Loan Bank.

Experience has shown that each case presents problems and circumstances peculiar to the institution and the community. It is, therefore, not the Board's intention to place a blanket restriction upon approval of Treasury calls. It will be expected, however, that Federal savings and loan associations that have not made reasonable use of Federal Home Loan Bank credit make a substantial showing of any special reasons why a Treasury call should be approved.

The Federal Home Loan Banks are *your* Banks. They have already served, and are now serving, you in many respects. They are in position to advance funds for all legitimate purposes upon terms and conditions that are conducive to the safe, profitable, and expanded operation of your

institution. You are urged to make continuous use of all facilities thus available at *your* Federal Home Loan Bank—including the “reasonable use” of short- or long-term advances.

The Board is cognizant of the practical restrictions upon Federal Home Loan Bank advances to smaller institutions. These associations are also being encouraged, however, to extend their operations by means of such advances wherever the circumstances warrant.

One of the reasons why building and loan associations hesitate to obtain long-term funds from the Bank System in order to meet the demand for home loans is, of course, their fear that the advances will raise public suspicion of their soundness. This danger can be easily avoided and the

situation even turned to profit. Let the association advertise prominently that it has obtained long-term funds from the Federal Home Loan Bank System in order to meet the needs of its community. Let it emphasize the fact that the acquisition of such funds is proof both of the Federal Government’s confidence in the association and of its sound condition. Let it play up the fact that such Federal funds enable the association to serve the community’s home-financing needs more fully and at lower cost. The response in increased public confidence will not be long in manifesting itself.

TABLE 1.—*Growth, trend of lending operations, line of credit, and unused credit of the Federal Home Loan Bank System*

Month	Members		Line of credit (cumulative) (000 omitted)	Loans advanced ¹ (cumulative) (000 omitted)	Loans advanced ¹ (monthly) (000 omitted)	Repayments ¹ (monthly) (000 omitted)	Balance outstanding at end of month ¹ (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	\$270	47, 600	99, 249
December	2, 086	2, 607, 307	211, 224	90, 835	7, 102	859	85, 442	125, 782
1934								
June	2, 579	3, 027, 999	232, 926	111, 767	2, 950	3, 143	85, 148	147, 778
December	3, 072	3, 305, 088	254, 085	129, 545	2, 904	3, 360	86, 658	167, 426
1935								
January	3, 131	3, 320, 975	254, 930	131, 778	2, 232	6, 905	81, 985	172, 945
February	3, 161	3, 332, 545	255, 836	133, 103	1, 326	6, 741	76, 570	179, 266
March	3, 203	3, 339, 977	256, 343	135, 219	2, 116	6, 049	72, 637	183, 706

¹ Hitherto loans between Banks have been included in the columns headed loans advanced (cumulative and monthly), repayments, and balance outstanding. As the purpose of this table is to record only advances to member institutions, these interbank loans have been subtracted, so that these columns differ from those in previous reports.

² Derived by deducting the balance outstanding from the line of credit.

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

Federal Home Loan Banks Authorized to Lower Rates on Advances to Members

ON MAY 1, the Board authorized the Federal Home Loan Banks, in their discretion, to reduce their rates on advances to member institutions to a new low of 3 percent. This represents a further step in the Board's program to shift the major burden of financing homes back to the Nation's private thrift, home-financing institutions. If and as the Regional Banks take advantage of this permission to lower their rates, there seems no question but that member institutions will be able to meet competition for loans from any source, and also to attract a vast number of desirable borrowers.

Many sections have reported to the Board that prospective home builders and buyers have been postponing action in anticipation of lower financing costs. In fact so insistent is this demand for lower interest rates in some areas that several building and loan associations have adjusted their rates to the demand in order to get their large cash reserves profitably invested. Thus in one State where the predominating nominal rate charged by building and loan associations in 1934 was 8 percent, one leading association is now advertising "new construction loans at 5½-percent interest on monthly reducing balances without any form of commission, service charge, or premium." In elaboration of this offer, the advertisement states:

Believing that the stimulation of new home building in this city, now, is the major step still to be taken in promoting complete business recovery, this association makes this offer:

For the next six months we will make loans to finance the building of new homes at 5½-percent interest on monthly reducing balances. No discount, commission, service charge, or premium

of any kind will be charged on these loans. The 5½-percent rate will prevail throughout the entire term of the loan.

PRINCIPAL AND INTEREST PAYMENTS \$6.88 A MONTH
PER THOUSAND

Loans at the 5½-percent interest rate will be made for 20-year terms with monthly principal and interest payments of only \$6.88 per \$1,000 of original loans. Up to 75 percent of the appraised value of the property may be borrowed. This offer is made *only for the next six months* to stimulate new business and employment in this city at the time it is most needed.

It is in order to permit all member institutions to take advantage of the present opportunity in a similar manner that the Board has authorized a further cut in rates on Bank advances.

The new 3-percent rate may be granted only on advances for one year or less. However, so long as the rate remains in effect on short-term loans the Banks are authorized to collect the same rate on long-term advances. 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 3 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 borrowers on notes in excess of one year be charged 3 percent so long as the 3-percent rate is effective on short-term advances; and

Be it further resolved that any action heretofore taken by the Board in conflict with this resolution is hereby repealed.

INDIANAPOLIS AND DES MOINES LOWER RATES DURING April, two Banks—those at Indianapolis and Des Moines—announced reductions in their rates. The Indianapolis Bank lowered the rate on secured advances made for a period of one year or less from 4 percent to 3½ percent. On unsecured advances, the Bank dropped the rate from 5 percent to 4 percent, but stipulated that no unsecured advance shall be made for a period of more than six months.

The Des Moines Bank, whose rates had ranged from 4 percent to 4½ percent, established a 3½-percent rate on loans made for one year or less. On longer-term advances, the interest rate for the first year is set at 3½ percent and for subsequent years at 4

percent. However, the rate of interest collectible quarterly in these subsequent years shall be the same as the then effective rate on short-term advances.

To permit existing loans written at 4½ percent to benefit by these reductions, only 4 percent will be collected after May 1, 1935, so long as the lower rates remain in effect. Further, all advances outstanding at May 1, 1935, written in excess of 3½ percent will, on December 31, 1935, and semiannually thereafter, receive a refund of such portion of the interest collected above 3½ percent as the Board of Directors shall deem justifiable. Such refund will be granted only on loans on which no payments in advance of maturity are made.

TABLE 2.—Interest rates, Federal Home Loan Banks; rates on advances to member institutions

Federal Home Loan Bank	Rate in effect on May 1	Type of loan
	<i>Percent</i>	
1. Boston	3½	All advances written for 1 year or less. All advances for more than 1 year are to be written at 4 percent, but billed at 3½ percent during the period in which short-term advances carry this rate.
2. Newark	4	All advances.
3. Pittsburgh	4	All advances for 1 year or less. All advances 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 4 percent per annum.
4. Winston-Salem	4	All advances secured by H. O. L. C. bonds.
	4	All advances for 12 months or less. All advances for more than 1 year are written at 4½ percent, but interest collected at 4-percent rate.
5. Cincinnati	3½	All advances written for 1 year or less. All advances written for longer periods will be at 4 percent, but billed at 3½ percent during the period in which short-term advances carry this rate.
6. Indianapolis	3½	All secured advances for 1 year or less.
	4	All unsecured advances, none of which may be made for more than 6 months.
	4	All secured advances for more than 1 year.
7. Chicago	3½	All advances written for 1 year or less. All advances for more than 1 year are to be written at 4½ percent, but billed at 3½ percent during the period in which short-term advances carry this rate.
8. Des Moines	3½	All advances for 1 year or less.
	3½-4	All new advances for more than 1 year shall be written at 3½-percent interest rate for the first year and 4 percent for subsequent years. However the rate of interest collectible quarterly after the first year shall be the same as the then effective rate on short-term advances. On all existing advances written at 4½ percent only 4 percent will be collected on and after May 1, 1935 so long as these lower rates remain in effect. Further, all advances outstanding at May 1, 1935 written in excess of 3½ percent will, on Dec. 31, 1935, and semiannually thereafter, receive a refund of such portion of the interest collected above 3½ percent as the Board of Directors shall deem justifiable. Such refund will be granted only on loans on which no payments in advance of maturity are made.
9. Little Rock	4	All advances.
10. Topeka	4	Do.
11. Portland	4	All advances secured by H. O. L. C. bonds (limit 1 year).
	4½	All other advances.
12. Los Angeles	3½	Advances written for 1 year or less that are made for the express purpose of meeting maturities, paying withdrawals, or calling of higher-rate certificates.
	4½	All other advances.

Federal Savings and Loan Associations

DURING March the 565 Federal savings and loan associations reporting comparable figures made mortgage loans totaling \$5,608,330, an increase of \$1,513,471 or 37 percent over the February total (table 1). Of special significance is the fact that the net increase in loans outstanding of the 163 converted associations was 1.3 percent during March.

As usual refinancing leads the list of purposes for which loans were made, but the proportion of loans for new construction rose encouragingly to 16 percent of all loans made. Loans for reconditioning represented 9 percent and for purchase of homes 18 percent.

To help satisfy this increased demand for loans, the 565 associations obtained over \$3,000,000 in Treasury subscriptions to

shares. The 402 new associations also obtained an additional \$250,000 in advances from the Federal Home Loan Banks. But the 163 converted associations repaid to the Bank System during the month \$1,470,000 in excess of advances obtained from this source. In this connection attention is called to the letter to Federal associations reprinted on page 300 of this REVIEW.

Twenty-six Federal savings and loan associations, with combined assets of \$5,573,768, were chartered by the Federal Home Loan Bank Board during March (table 2). Nine of these were new associations and 17 were converted from State charters. The only Federal Home Loan Bank District in which no additions were made was District No. 1.

TABLE 1.—Federal savings and loan associations—Combined summary of operations for March 1935 compared with February 1935

	402 new associations			163 converted associations		
	March	February	Change February to March	March	February	Change February to March
Total subscriptions at end of month:			<i>Percent</i>			<i>Percent</i>
Private share accounts	41, 057	38, 764	+5. 9	151, 925	153, 895	-1. 3
Shares privately subscribed	409, 825	390, 251	+5. 0	2, 077, 432	2, 143, 123	-3. 0
Shares per account (average)	10	10	0	13. 7	13. 9	- . 1
Share liabilities at end of month:						
Paid on private subscriptions	\$10, 829, 919	\$9, 682, 772	+11. 8	\$108, 408, 850	\$110, 037, 951	-1. 6
Treasury subscriptions	11, 157, 600	9, 141, 800	+22. 0	8, 166, 600	7, 039, 600	+16. 0
Total	21, 987, 519	18, 824, 572	+16. 8	116, 575, 450	117, 077, 551	- . 4
Average paid on private subscriptions . . .	263	249	+5. 6	713. 5	715	- . 2
Repurchases during month	165, 858	215, 612	-23. 0	1, 869, 150	1, 854, 861	+ . 7
Mortgage loans made during month:						
a. Reconditioning	258, 568	208, 747	+23. 9	240, 486	173, 815	+38. 3
b. New construction	602, 543	446, 960	+34. 8	302, 785	194, 427	+55. 7
c. Refinancing	1, 580, 819	1, 243, 049	+27. 2	1, 617, 221	1, 199, 282	+34. 8
d. Purchase of homes	491, 597	257, 674	+90. 9	514, 311	370, 905	+38. 7
Total for month	2, 933, 527	2, 156, 430	+36. 0	2, 674, 803	1, 938, 429	+38. 0
Loans outstanding end of month	18,815, 386	15, 967, 181	+17. 8	93, 225, 930	92, 012, 903	+1. 3
Borrowed money from—						
Federal Home Loan Banks	995, 114	748, 527	+32. 9	6, 710, 367	8, 183, 999	-18. 0
Other sources	68, 014	136, 903	-50. 3	1, 862, 217	1, 668, 181	+11. 6
Total	1, 063, 128	885, 430	+20. 0	8, 572, 584	9, 852, 180	-13. 0

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

TABLE 2.—Progress in number and assets of Federal savings and loan associations

	Number					Assets
	Dec. 31, 1933	June 30, 1934	Dec. 31, 1934	Feb. 28, 1935	Mar. 31, 1935	Mar. 31, 1935
New	57	321	481	518	527	\$24, 856, 920
Converted	2	49	158	209	225	183, 768, 198
Total	59	370	639	727	752	208, 625, 118

Federal Savings and Loan Insurance Corporation

FOURTEEN State-chartered associations and 54 Federal savings and loan associations were insured during the period March 21 to April 20. This brought the total number of insured institutions on April 20 to 742, with combined assets of \$301,223,671. The number of insured shareholders in these associations rose to 470,922. This marks the second consecutive monthly period in which the number of State-chartered associations receiving insurance increased considerably, and reflects the Board's efforts to simplify examining and insurance procedure.

Applications from 22 State-chartered associations and 44 Federal savings and loan associations were received during the March-April period, bringing the total applications from the two groups to 169 and 774, respectively.

Further evidence that investors are willing to accept lower returns on their savings if they can have the protection of Federal insurance is contained in a letter from a building and loan association in

Ohio with assets approximating \$14,000,000. The letter reads in part as follows:

We notified our depositors . . . that interest rates on deposits¹ would be reduced on March 1st from 4 percent to 3½ percent. Notwithstanding that many associations are paying 5 percent, we received nearly 90 percent of consents to a 3½ percent insured basis . . .

While, since December 1934, we have paid all applications for withdrawal on demand, there has been a continuous increase in deposits over withdrawals. An average of ten new accounts are opened daily, amounting to an average total of \$2,500, and many of the old depositors who made withdrawals regularly every month are now redepositing with most gratifying results. There is a steady increase almost daily in our total deposits, and every one seems very well pleased, although this association is paying about the lowest interest rate in the city, where the average seems to be around 4½ percent . . .

(Signed) _____,
President.

P. S. Today we opened nineteen new accounts totaling \$17,000. Total increase for today \$32,000.

¹ Insured associations in Ohio are permitted to use this term.

Progress of the Federal Savings and Loan Insurance Corporation—Applications received and institutions insured

APPLICATIONS RECEIVED

	Number			Assets (as of date of insurance)		
	Dec. 31, 1934	Mar. 20, 1935	Apr. 20, 1935	Dec. 31, 1934	Mar. 20, 1935	Apr. 20, 1935
State-chartered associations.....	53	147	169	\$110, 681, 409	\$227, 715, 214	\$242, 124, 821
Converted F. S. and L. A.	134	265	290	128, 907, 073	266, 460, 586	306, 024, 403
New F. S. and L. A.	393	465	484	7, 578, 870	8, 207, 395	8, 464, 758
Total	580	877	943	247, 167, 352	502, 383, 195	556, 613, 982

INSTITUTIONS INSURED

	Number			Number of share-holders (as of date of insurance)	Share and creditor liabilities (as of date of insurance)	Assets (as of date of insurance)
	Dec. 31, 1934	Mar. 20, 1935	Apr. 20, 1935	Apr. 20, 1935	Apr. 20, 1935	Apr. 20, 1935
State-chartered associations.....	4	17	31	128, 180	\$63, 428, 499	\$71, 319, 648
New and converted F. S. and L. A.	447	657	711	342, 742	209, 186, 780	229, 904, 023
Total	451	674	742	470, 922	272, 615, 279	301, 223, 671

Home Owners' Loan Corporation

AN indication of the proportion of 1-, 2-, 3-, and 4-family dwellings in the New England States is given by a breakdown of Home Owners' Loan Corporation mortgages in that area. In the relatively rural

States of Maine, New Hampshire, and Vermont a larger portion of the mortgages are on single-family dwellings than in Massachusetts and Rhode Island—States with large urban centers.

Proportion of mortgages held by the Home Owners' Loan Corporation on 1-, 2-, 3-, and 4-family dwellings in New England

Type of dwelling	Maine	New Hampshire	Vermont	Massachusetts	Rhode Island
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
1-family	82	74	77	62½	56
2-family	13½	17¾	17	26½	26
3-family	3	6¾	4½	9½	15
4-family	1½	1½	1½	1½	3
Total number of loans.....	2, 756	1, 805	1, 442	20, 429	5, 770

OPERATIONS OF THE RECONDITIONING DIVISION

THE revision of forms for reporting reconditioning operations has brought to light duplications in earlier reports. The greatest adjustments have been made in the

number of applications received and in the number of contracts executed. Accordingly the preliminary tables published in previous issues of the REVIEW have been corrected and condensed into the following summary:

*Reconditioning Division—Summary of operations June 1, 1934, to Apr. 25, 1935*¹

Period	Number of applications received for reconditioning loans	Total contracts executed		Total jobs completed	
		Number	Amount	Number	Amount
June 1, 1934, to Mar. 27, 1935.....	506, 982	229, 552	\$40, 367, 797	164, 389	\$27, 705, 998
Mar. 28, 1935, to Apr. 25, 1935.....	21, 385	11, 151	2, 102, 064	10, 110	2, 168, 106
Grand total to Apr. 25, 1935.....	528, 367	240, 703	42, 469, 861	174, 499	29, 874, 104

¹ The report for this period includes all corrections to date.

*Home Owners' Loan Corporation—
Applications received and loans closed by months*

Month	Applica- tions 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 2, 312	54, 036	169, 018, 847
1935			
January.....		54, 990	166, 836, 150
February.....		36, 542	104, 919, 941
March.....		23, 140	70, 664, 400
Through Apr. 25.....		11, 862	33, 512, 588
Grand total to Apr. 25, 1935.....	1, 743, 286	852, 775	2, 572, 920, 887

¹ These figures are subject to adjustment.

² Receipt of applications stopped Nov. 13, 1934. The December figures are the result of various adjustments and audits of the number of applications received during the preceding months.

Resolutions of the Board

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

On April 5 the Board amended previous resolutions concerning charges for examination to permit billing on a flat per diem basis until June 30, 1935. The resolution reads:

Whereas reports received by the Board's Comptroller from the Examining Division indicate that more than 50 percent of the examinations made to date have been of the office-analysis type, in view of which it is believed that if institutions examined are billed for services rendered at the rate of \$25.00 per day for senior examiners and \$20.00 per day for junior examiners there should be enough margin between actual operating costs and the amount billed to absorb approximately all overhead expenses in the field and Washington offices;

Be it therefore resolved, That, effective April 1, 1935, and continuing through June 30, 1935, the cost, including travel expense, of all office and field examinations made by the Examining Division, as well as other reimbursable services rendered by them, shall be billed by the Board's Comptroller on a flat per diem basis of \$25.00 for senior examiners and \$20.00 for junior examiners.

II.—AUTHORIZING THE FEDERAL HOME LOAN BANKS TO ACT AS TRUSTEE IN ANY TRUST AFFECTING THE BUSINESS OF ANY MEMBER INSTITUTION OR NONMEMBER INSURED INSTITUTION

The following resolution was passed by the Board on April 5, 1935:

Whereas under certain circumstances it becomes necessary in the operation of members of Federal Home Loan Banks and in some cases in the operation of nonmember insured institutions of a similar character for a trustee to hold a portion of the property of such institution or to hold a portion of the capital or other evidence of investment therein in order that savers, investors, and borrowers may be fully protected and in order to promote sound and economical home financing, and

Whereas the accomplishment of the objects sought in such arrangements is the primary purpose of the Federal Home Loan Banks and is essential to their proper functioning to accomplish the purposes of the statute, therefore

Be it resolved by the Federal Home Loan Bank Board that the Federal Home Loan Banks be authorized to act as trustee in any trust affecting the business of any member institution or any nonmember insured institution or any institution making application for membership in a Federal Home Loan Bank or for insurance of its accounts, provided such trusts are limited to those which are created or which arise for the benefit of the institution as such or for the benefit of its savers, investors or borrowers, in the interest of the promotion of sound and economical home financing, and provided further that Federal Home Loan Banks shall cease to act as trustees in the case of applicants if the application is withdrawn or rejected.

Be it further resolved that the Federal Home Loan Banks be authorized to make reasonable charges for services rendered in connection with such trusts.

III.—AMENDING THE RULES AND REGULATIONS OF FEDERAL SAVINGS AND LOAN ASSOCIATIONS AFFECTING THE BONDING OF OFFICERS AND EMPLOYEES

Resolution extending the bonding of employees to cover collection agents who for any reason do not come under Section 11 of the Rules and Regulations for Federal savings and loan associations. This resolution was passed on April 18, 1935.

Be it resolved by the Federal Home Loan Bank Board that Section 11 of the Rules and Regulations for Federal Savings and Loan Associations be amended by the addition of the following:

"Associations which employ collection agents outside of their principal office or branch office, if any, who for any reason are not within the form of bond herein prescribed, shall provide for the bonding of such agents in an amount of at least twice the average monthly collections of such agents, and such agents shall be required to make settlement with the Association monthly. Such bonds shall be placed in the custody of the Federal Home Loan Bank of which the Association is a member and receipt therefor shall at all times be in the possession of the Association."

Directory of Member, Federal, and Insured Institutions

Added during March—April

I. INSTITUTIONS ADMITTED TO MEMBERSHIP IN THE FEDERAL HOME LOAN BANK SYSTEM BETWEEN MARCH 24, 1935, AND APRIL 27, 1935¹

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

DISTRICT NO. 1

MASSACHUSETTS:

Boston:

Uphams Corner Co-Operative Bank, 585 Columbia Road.

Dorchester:

Harvard Co-Operative Bank of Dorchester, 378 Washington Street.

DISTRICT NO. 2

NEW JERSEY:

West Orange:

Edison Building & Loan Association, Main Street & Lakeside Avenue.

NEW YORK:

Hastings-on-Hudson:

Hastings-on-Hudson Building Co-operative Savings & Loan Association, 541 Warburton Avenue.

DISTRICT NO. 3

PENNSYLVANIA:

Bustleton (Philadelphia):

Lower Dublin Building & Loan Association of Bustleton, Bustleton and Grant Avenue.

Pittsburgh:

Knoxville Building & Loan Association, 139 Bausman Street.

DISTRICT NO. 4

FLORIDA:

Pensacola:

Pensacola Home & Savings Association, 19 East Garden Street.

NORTH CAROLINA:

Whitakers:

Whitakers Building & Loan Association.

DISTRICT NO. 5

KENTUCKY:

Princeton:

Princeton Building & Loan Association, Harrison Street.

OHIO:

Bridgeport:

Bridgeport Savings, Loan & Building Association, 253 North Lincoln Avenue.

TENNESSEE:

Jackson:

Home Building & Loan Association, 503 First National Bank Building.

Maryville:

Mutual Building & Loan Association.

Morristown:

Morristown Building & Loan Association, 15 North Henry Street.

¹ During this period 21 Federal savings and loan associations were admitted to membership in the System.

DISTRICT NO. 6

INDIANA:

Hammond:

People's Mutual Savings & Loan Association, 544 Calumet Avenue.

DISTRICT NO. 7

ILLINOIS:

Belvidere:

Belvidere Building & Loan Association, 215 South State Street.

Chicago:

Arnoldsville Building & Loan Association, 6239 South Ashland Avenue.

Bessemer Building & Loan Association, 9036 Commercial Avenue.

Columbus Building & Loan Association, 2525 West Forty-seventh Street.

Peoples Savings & Loan Association of Roseland, 10956 South Michigan Avenue.

Russian National Building & Loan Association, 917 North Wood Street.

Warsaw Building & Loan Association, 953 West Thirty-first Street.

Chillicothe:

Chillicothe Loan & Homestead Association, 222 North Second Street.

Pawnee:

Pawnee Building & Loan Association.

Riverside:

Riverside Building & Loan & Homestead Association, 15 North Longcommon Road.

WISCONSIN:

Milwaukee:

Pioneer Building & Loan Association, 2510 South Kinnickinnic Avenue.

Wauwatosa:

Highland Park Building & Loan Association, 6018 West Vliet Street.

DISTRICT NO. 9

TEXAS:

Beaumont:

Beaumont Building & Loan Association, 801-802 San Jacinto Life Building.

DISTRICT NO. 10

COLORADO:

Greeley:

Northern Colorado Building & Loan Association, 202 Central Building.

DISTRICT NO. 12

CALIFORNIA:

Alhambra:

Mutual Building & Loan Association of Alhambra, 237 West Main Street.

WITHDRAWALS FROM THE FEDERAL HOME LOAN BANK SYSTEM BETWEEN MARCH 24, 1935, AND APRIL 27, 1935

MISSOURI:

St. Louis:

Croatian-American Building & Loan Association, 1443 Chouteau Avenue.

NEW HAMPSHIRE:
 Nashua:
 Citizens Guaranty Savings Bank.

NORTH CAROLINA:
 Black Mountain:
 Black Mountain Building & Loan Association.

SOUTH CAROLINA:
 Greenville:
 Mechanics Building & Loan Association, 23 West
 McBee Avenue.

II. FEDERAL SAVINGS AND LOAN ASSOCIATIONS CHARTERED BETWEEN APRIL 1, 1935, AND APRIL 30, 1935

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

DISTRICT NO. 2

NEW YORK:
 Dongan Hills (Staten Island):
 Dongan Hills-Grant City Federal Savings & Loan Association, 1565 Richmond Road (converted from Dongan Hills-Grant City Savings & Loan Association).

New York:
 New York Cooperative Federal Savings & Loan Association, 274 Lenox Avenue (converted from New York Cooperative Building & Loan Association).

DISTRICT NO. 3

PENNSYLVANIA:
 Philadelphia:
 Quaker City Federal Savings & Loan Association, 1614 Walnut Street.

DISTRICT NO. 4

MARYLAND:
 Baltimore:
 Loyola Federal Savings & Loan Association, North Charles Street at Preston (converted from Loyola Perpetual Building Association of Baltimore City).

NORTH CAROLINA:
 Rocky Mount:
 First Federal Savings & Loan Association of Rocky Mount, 201 Tarboro Street (converted from Rocky Mount Homestead & Loan Association).

SOUTH CAROLINA:
 Allendale:
 Mutual Federal Savings & Loan Association of Allendale.

Columbia:
 Security Federal Savings & Loan Association of Columbia, 1230 Washington Street (converted from Security Building & Loan Association).

DISTRICT NO. 5

KENTUCKY:
 Newport:
 Daylight Federal Savings & Loan Association of Newport, 335 York Street (converted from Daylight Building & Savings Association).

Monmouth Street Federal Savings & Loan Association of Newport, Corner Tenth & Monmouth Streets (converted from Monmouth Street Loan & Building Association of Newport, Kentucky).

OHIO:
 Columbus:
 Franklin Federal Savings & Loan Association of Columbus, High & Main Streets (converted from Franklin Loan & Savings Company).

OHIO—Continued.
 Springfield:
 Home City Federal Savings & Loan Association of Springfield, 32 West High Street (converted from Home City Building & Savings Company).
 Merchants & Mechanics Federal Savings & Loan Association of Springfield, Limestone at Main (converted from Merchants & Mechanics Savings & Loan Association of Springfield).

Youngstown:
 First Federal Savings & Loan Association of Youngstown, 124 West Federal Street (converted from Federal Savings & Loan Company).

DISTRICT NO. 6

MICHIGAN:
 Muskegon:
 Muskegon Federal Savings & Loan Association, 880 First Street (converted from Muskegon Building & Loan Association).

DISTRICT NO. 7

ILLINOIS:
 Galesburg:
 Fidelity Federal Savings & Loan Association, Main & Cherry Streets (converted from Fidelity Savings & Loan Association).

Streator:
 First Federal Savings & Loan Association of Streator, 123 East Main Street (converted from Union Building & Loan Association).

DISTRICT NO. 8

MINNESOTA:
 Breckenridge:
 Breckenridge Federal Savings & Loan Association.

MISSOURI:
 Joplin:
 Joplin Federal Savings & Loan Association, 1502 Main Street.

St. Louis:
 Cass Federal Savings & Loan Association of St. Louis, 1510 Cass Avenue (converted from Cass Savings & Loan Association).

DISTRICT NO. 9

TEXAS:
 Marshall:
 Marshall Federal Savings & Loan Association.

DISTRICT NO. 10

KANSAS:
 Clay Center:
 Northwestern Federal Savings & Loan Association of Clay Center, 820 Fifth Street (converted from Northwestern Savings & Loan Association).

NEBRASKA:
 Grand Island:
 Home Federal Savings & Loan Association of Grand Island, 212 North Locust Street.

DISTRICT NO. 11

WASHINGTON:
 Olympia:
 Thurston County Federal Savings & Loan Association of Olympia, Security Building (converted from Thurston County Savings & Loan Association).

Renton:
 First Federal Savings & Loan Association of Renton, 916 Third Avenue (converted from Renton Savings & Loan Association).

WASHINGTON—Continued.

Seattle:

Ballard Federal Savings & Loan Association of Seattle, 5301 Ballard Avenue (converted from Ballard Savings & Loan Association).

CANCELATIONS OF FEDERAL SAVINGS AND LOAN ASSOCIATION CHARTERS BETWEEN APRIL 1, 1935, AND APRIL 30, 1935

FLORIDA:

St. Augustine:

St. Augustine Federal Savings & Loan Association.

NEW YORK:

Rochester:

Equity Federal Savings & Loan Association, 92 Portland Avenue (consolidated with First Federal Savings & Loan Association of Rochester).

VIRGINIA:

Virginia Beach:

Princess Anne County Federal Savings & Loan Association.

III. INSTITUTIONS INSURED BY THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION BETWEEN MARCH 29, 1935, AND APRIL 30, 1935¹

DISTRICT NO. 4

GEORGIA:

Decatur:

Decatur Building & Loan Association, 107 Sycamore Street.

VIRGINIA:

Norfolk:

Mutual Building Association of Norfolk, Virginia, 121-23 West Tazewell Street.

DISTRICT NO. 5

OHIO:

Celina:

Mutual Savings & Loan Association, West Market Street.

DISTRICT NO. 7

WISCONSIN:

Madison:

Northwestern Savings, Building & Loan Association, 115 East Washington Avenue.

DISTRICT NO. 9

ARKANSAS:

Fayetteville:

Fayetteville Building & Loan Association.

Little Rock:

Commonwealth Building & Loan Association, 212 Louisiana Street.

LOUISIANA:

Lafayette:

Home Building & Loan Association, 521 Jefferson Street.

Lafayette Building Association, West Vermillion Street.

Lake Charles:

Calcasieu Building & Loan Association, 702 Ryan & Division Streets.

New Iberia:

Iberia Building Association, 127 West Main Street.

Opelousas:

St. Landry Homestead Association, 121 West Landry Street.

DISTRICT NO. 10

COLORADO:

Denver:

Empire Savings, Building & Loan Association, 1654 Welton Street.

DISTRICT NO. 12

CALIFORNIA:

El Centro:

Imperial Valley Building & Loan Association, 146 South Sixth Street.

¹ During this period 56 Federal savings and loan associations were insured.

BACK COPIES OF THE REVIEW REQUESTED

The demand for the first two issues of the REVIEW, published in October and November 1934, has exhausted our reserves. To permit the completion of sets for bind-

ing, those who have copies of Nos. 1 and 2 they do not plan to keep are requested to send them to the undersigned.

JOHN R. ELLINGSTON,
Editor, Federal Home Loan Bank Review,
Federal Home Loan Bank Board,
Washington, D. C.

FEDERAL HOME LOAN BANK DISTRICTS

