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# FEDERAL HOME LOAN BANK REVIEW

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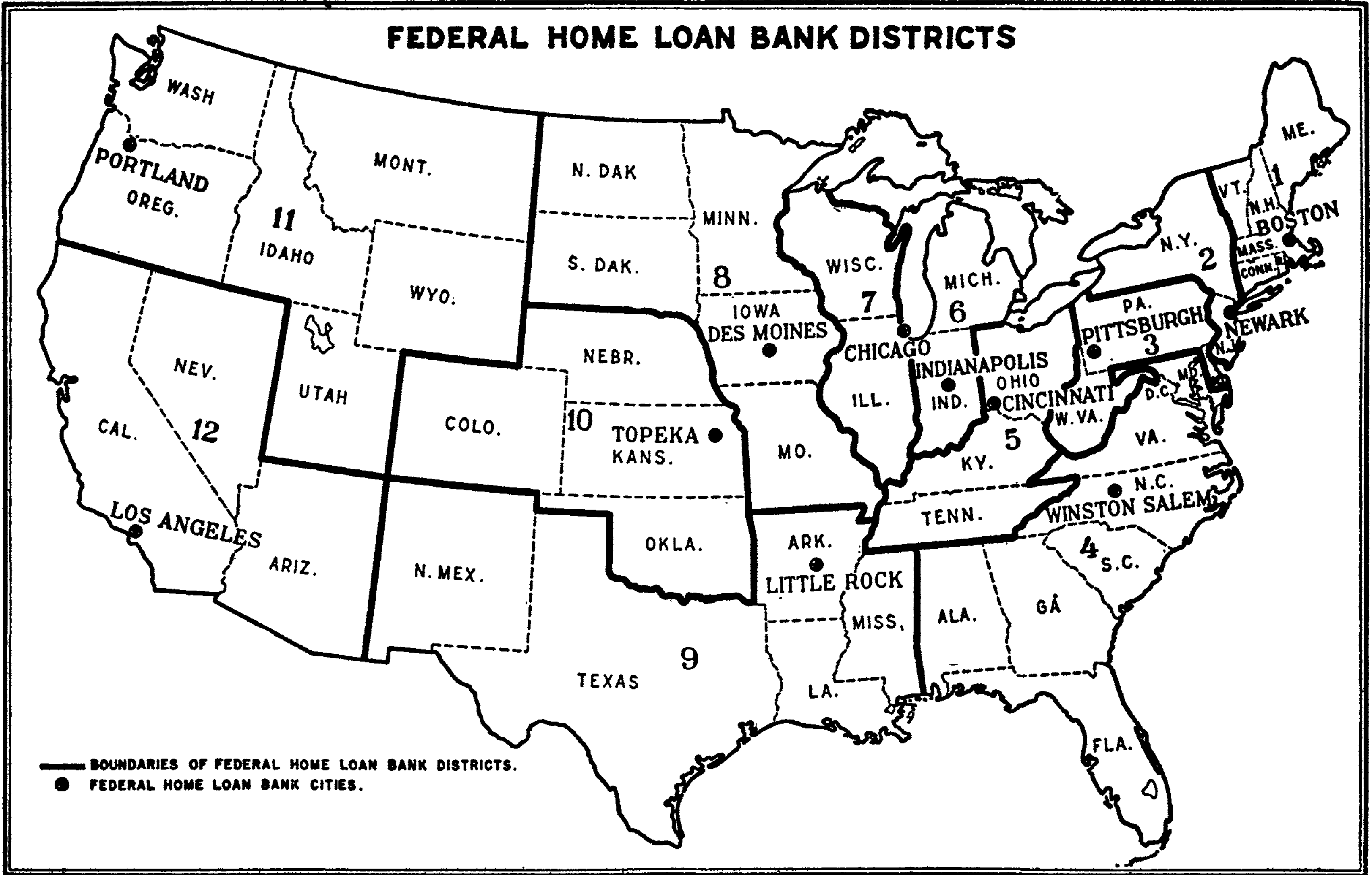


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# FEDERAL HOME LOAN BANK REVIEW

## TABLE OF CONTENTS

| | Page |
|---|---|
| The future of private mortgage financing | 3 |
| What can be done with frozen assets? | 7 |
| Economic information as an aid to home financing | 11 |
| Interest rates charged by building and loan associations | 17 |
| Combined statement of condition of Federal Home Loan Banks | 22 |
| Growth of the Federal Home Loan Bank System | 24 |
| New Federal savings and loan associations show marked growth | 28 |
| Insurance of investments in building and loan associations begins | 30 |
| Applications to Home Owners' Loan Corporation decrease | 32 |
| Centralized examining division | 33 |
| Resolution of the Board affecting conversion | 34 |
| Printed material available from the Federal Home Loan Bank Board | 36 |

## SUBSCRIPTION PRICE OF REVIEW

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# THE FUTURE OF PRIVATE MORTGAGE FINANCING

What is the future for private mortgage financing and for the men engaged in it? The extent to which this question is exercising mortgage men everywhere reflects the complete breakdown of our customary system of mortgage financing. Those engaged in the field recognize that a fresh approach to the whole problem is inescapable. They are harassed by uncertainty as to where they personally will fit into the picture. This uncertainty can be most easily dispelled by an analysis of just what has happened to the mortgage market, of what the Government has been forced to do, and of what the trend for the future may be.

In 1932, the real-estate mortgage debt in the United States as a whole was estimated at approximately $43,000,000,000, of which $21,000,000,000 represented individual mortgages on urban homes; $8,000,000,000 mortgages on farms; $14,000,000,000 mortgages on commercial property. The first fact of importance about this volume of indebtedness was its size. It was more than three times as large as the total railroad debt, four times as large as the industrial long-term debt, and nearly as large as the present combined total of National, State, county, and municipal debt. In other words, any threat to its solvency was a threat to the entire financial and economic structure of the Nation.

The second fact of importance about this volume of real-estate debt was the complete lack of organization of the system which extended and serviced it and the lack of a reserve to protect it.

The third salient point was the unsound basis on which much of it was extended. Part of it represented overfinancing. A portion of the outstanding farm-mortgage indebtedness was created during the boom conditions of the war when agricultural land was appraised and financed at amounts greatly in excess of its long-term value, although some of the worst mortgages already had resulted in foreclosure or debt compromise. Much of the urban home and commercial debt was created during the boom period from 1922 to 1929 and under the unsound mortgage-finance practices that prevailed.

### STEPS IN THE COLLAPSE

Before 1930 the inherent weaknesses in our mortgage-financing structure, especially in urban centers, escaped general notice, but they quickly revealed themselves when business volume dropped and values under the impulse of a fear psychology shrank from the overoptimistic to the less than real. When millions lost their jobs and their incomes they could not carry the burden of this boom-time indebtedness. Estimated foreclosures on urban homes, based on reports received from county officials by the Division of Research and Statistics of the Federal Home Loan Bank Board, soared from an annual average of about 78,000 a year to 273,000 in 1932 and 271,000 in 1933. In June 1933 all previous records for a single month were broken when over 26,000 foreclosures were reported.

Depriving our citizens, to the number of approximately a million a year, of their homes and life savings was but the most immediate of the disasters of such a foreclosure situation. Almost simultaneously these sheriffs' sales drove down all other property values. The real-estate market went into a tailspin, distress sales constituting practically its only activity. With



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existing property purchasable at far less than the cost of new construction, with incomes and rents declining, with a surplus of urban housing and of commercial structures, building came almost to a standstill. The value of all construction, including public works and highways, fell off to less than one-third of the former annual average, and dwelling construction dropped to one-tenth. This put out of work more than a million people employed in construction and the industries which supply and service it.

Naturally, new mortgage credit disappeared both because of the inability to liquidate mortgages, and, in many instances, to collect interest. Banks and mortgage institutions with billions in frozen-mortgage assets closed. Every foreclosure and resulting drop in values threatened the soundness of other mortgage-financing institutions. The huge investment (which, we must not forget, represents the savings of an army of workers and savers) was seriously impaired. Had the undermining of this investment been allowed to continue unchecked, it would have brought disaster not only to the lending institutions holding the mortgages but to the entire banking structure as well. The efforts of the Reconstruction Finance Corporation and of the Federal Deposit Insurance Corporation would have gone for naught if the Government had not come to the rescue of real-estate values.

No agency less powerful than the Federal Government could provide the drastic emergency action necessary. The flood of foreclosures had to be stemmed. With the downward spiral in real-estate values once started, private agencies had neither the funds nor the ability to take the risks required for refinancing distressed mortgages. The Farm Credit Administration stepped in to arrest farm foreclosures; the Home Owners' Loan Corporation to arrest urban-home foreclosures.

IS THE GOVERNMENT TO TAKE OVER ALL MORTGAGE FINANCING?

The Home Owners' Loan Corporation, the Farm Credit Administration, and the Reconstruction Finance Corporation have succeeded in their major purpose. Mortgage institutions, bankers, and the public generally are beginning to appreciate both the necessity for their creation and the effectiveness of their activities. What bewilders mortgage men, however, is the number and variety of permanent governmental agencies created to deal with the problem of mortgage financing. First, the Federal Home Loan Bank System, next, the Federal savings and loan associations, and now, under the National Housing Act, the Mutual Mortgage Insurance Fund, the national mortgage associations, and the Federal Savings and Loan Insurance Corporation. Mortgage men are asking whether the creation of these agencies means that the Government is planning to take over all mortgage business in the future.

The answer is "No." The creation of these agencies meant only that the Government viewing the situation in national perspective saw the magnitude of the permanent danger inherent in our unorganized home-financing system. It recognized the necessity for preventing a recurrence of the disastrous collapse. It saw also that to check the collapse of the mortgage structure was but half of the immediate task. The other half was to revive the mortgage market and reopen general investment channels to mortgages. This could be accomplished only by correcting the weaknesses that lie at the roots of the mortgage system.

RECOVERY OF MORTGAGE FINANCING DEPENDENT ON REFORM

The major defects in our mortgage structure and practices that must be removed, and the manner in which the permanent



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agencies under the Federal Home Loan Bank Board and the Federal Housing Administration are intended to make their removal possible were analyzed in detail by Chairman Fahey in the preceding issue of this Review. It cannot be too frequently repeated, however, that the principal faults are:

1. Lack of regular amortization.
2. Prevalence of second-trust financing.
3. Shoestring equities.
4. High interest rates.
5. High service charges.
6. Faulty appraisals.
7. Lack of national mortgage market and of liquidity for mortgage paper.

The fundamental fact for mortgage men to keep in mind is that the removal of these faults is more than a matter of reform. It is essential to the revival of the mortgage market and the reopening of general investment channels to mortgages. The embittered millions who have lost their homes and properties, and their neighbors who have witnessed their losses and have escaped similar distress themselves only by immense sacrifices, have lost faith alike in home ownership and in mortgage investments. They will not resume the buying of homes nor invest their savings in mortgages even when their incomes permit, unless some agency has made it safe for private capital to invest and private citizens to undertake home ownership.

The truth of this statement is thrown into bold relief by the Nation-wide survey recently made by the American Savings, Building and Loan Institute. Of the citizens interviewed in the course of this survey, 76 percent preferred the long-term amortized loan over the short-term straight loan; 90 percent preferred a governmental guaranty with a lower rate of return on their savings over no guaranty and a higher return. No agency less powerful than the Federal Government can remove the evils which must be removed to restore public confidence. The whole purpose of the Government's program is to do just that. That program is not intended to put the Government into the business of financing homes. Except in its slum-clearance and subsistence-homestead aspects, which are aimed to reach groups that never have constituted an attractive market for private mortgage money, the Government's permanent program makes no credit available directly to home owners. Its major purpose is by providing adequate safeguards to stimulate a flow of private funds under terms fair to the lender and to the borrower.

#### THE OPPORTUNITY FOR MORTGAGE MEN

What, then, is the outlook for private funds for mortgage financing and for experienced mortgage men? It seems unquestionably that more is to be done than ever before. In the first place, the volume of mortgages awaiting renewal is probably larger than at any time in the history of the country. Much of that part of urban-home mortgages which is now in short-term, straight loans, must be rewritten on a long-term amortized basis. There are in closed banks alone many good mortgages, current as to taxes and interest, that have matured or are maturing, which if refinanced on an amortization basis, would attract long-term investment funds. In addition, many commercial buildings—apartments, hotels, office buildings, stores, warehouses, factories—covered by mortgage bonds and now in receivership, can be reorganized, both in the interest of the bondholders and the equity holders. All of the qualified mortgage talent available and more will be required in recasting this huge volume of mortgage indebtedness into long-term form which again will command the confidence of investment markets. With the existing situation rationalized in the light of present values, the groundwork will be laid for a revival of building construction and of new mortgage financing. In this connection



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it must be remembered that the Nation's need for new housing is not permanently reduced by temporary periods of depressed incomes. There is now in the making a real housing shortage. The drop that has occurred during the last 4 years in the number of new dwelling units constructed is indicated by the Department of Labor's statistics on building permits granted in 257 cities.

*Building permits granted in 257 cities showing decrease in dwelling units built since 1929*

| Year | Dwelling units |
|---|---|
| 1921-29 (annual average) | 388,000 |
| 1930 | 125,000 |
| 1931 | 98,000 |
| 1932 | 27,000 |
| 1933 | 26,000 |

At the same time abnormal neglect of housing has increased the customary percentage of dwellings that annually become unfit for habitation. When new building begins to pick up, as it must if we are not to have a permanently lowered standard of living in respect to housing, the necessary financing will constitute an immense operation.

Neither mortgage men nor private capital need have any fear for the future. It is incumbent upon them, however, to make that future. The Government cannot go beyond a certain point in making it for them. It can provide them the tools. It already has made large reserves of credit available to mortgage institutions through the Federal Home Loan Banks. Additional credit resources will be made available as the program of the Federal Housing Administration develops. The national market already is being stimulated by the modernization credit plan of the Housing Administration. The opportunity is open to mortgage men and their institutions to capitalize the situation.



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# WHAT CAN BE DONE WITH FROZEN ASSETS?

Much is said today about the frozen assets of mortgage finance institutions. As a matter of fact, most of the assets of such institutions, even at the period of normal operations, are frozen in the sense that they are nonliquid. It is not intended that the assets of a mortgage finance institution (including for the purposes of this article building and loan, savings and loan, and homestead associations, and cooperative banks) shall be as liquid as those of commercial banks. The latter invest their deposits in types of securities that can be turned into cash at a moment's notice. The former invest funds entrusted to them in long-time real-estate mortgages which, by their very nature, are frozen assets. The thawing-out process is a gradual one, enabling the finance institution under normal circumstances to repay its investors as it in turn collects from its borrowers. Hence, the term "frozen assets" is not a new phenomenon and gives no occasion for alarm.

The prolonged depression, however, has resulted in giving a somewhat different meaning to the term "frozen assets" as applied to mortgage finance institutions. The assets are not only frozen but the normal thawing process through the repayment of the loans has been seriously interfered with. In consequence, the congealing process has produced, in many institutions, a type of solidification that baffles solution. With incomes reduced so that they are unable to pay principal installments contracted for, many borrowers have made temporary adjustments, paying carrying charges only. Often this is with the complete cooperation of the lenders. In distress cases even carrying charges have been too heavy a burden. As a result, our mortgage finance institutions are loaded up not only with delinquent loans but with real estate which produces inadequate income to permit the amortization of the principal investment therein. Consequently, the former degree of liquidity of these institutions tends to disappear and the normal freezing and thawing process changes to continuous and prolonged freezing with little thawing to permit either new investments or the repayment of existing commitments.

This process is not only disastrous to the normal plans of mortgage finance institutions but it is apt to be cumulative in its effects and become continuously worse. Borrowers who can pay their obligations, fearful of the future in times like these, tend to take advantage of the weakened condition of their lenders and offer in payment less than they are able to pay.

This situation has become grave in many sections of the country. Everybody connected with the mortgage finance business recognizes the dangers involved therein and extreme caution dominates the managers in their financial policies. The net result is that in a great many instances mortgage finance companies have ceased to perform their normal functions. They are attracting no new capital; they are making no new loans; they have become merely liquidating institutions. Because of inexperience, they are not always very successful in their attempts to become liquid quickly. Their delinquent loans and their real-estate holdings are increasing; their collections are declining. They are unable to meet anything more than starvation demands from their investors. As a consequence, the investors' goodwill has decreased to the point where serious discussions are being waged about the subject "Is there any future for existing mortgage finance institutions?"



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Serious conditions call for heroic remedies. In times like these, business men must be realists. We may not like this or that proposed remedy but it is more pertinent to ask: "What is the alternative?" If the normal processes of thawing out frozen assets have ceased temporarily to operate, we must look for a new method of accomplishing this result. It appears that there is an alternative to continued liquidation of mortgage finance institutions. At present many institutions are classified as 100-percent frozen in spite of the fact that some part of the assets are income-producing as well as of sound value. In any given institution all of the assets may be appraised at their book value and yet only part of them may be carrying themselves in such manner as to be properly classed as income-producing.

It is frequently recommended that we appraise all assets of mortgage-finance institutions as of today's sacrifice values and write down book values to such ridiculous figures. Many do not concur in that recommendation. Even if we do this, we have not increased the income of the institution. It is the belief of those interested in home-financing institutions that, with the return of better times, with increased employment and its consequent increase in purchasing power, more and more people will seek to own their homes. Such an increased demand for homes will raise values from the distressed levels of today, and many of the delinquencies now existing will disappear. Real estate now held by mortgage-finance institutions can then be disposed of at prices that will justify holding it instead of dumping it into a market which will not absorb it at anything like its reproduction cost.

Meantime, mortgage-finance institutions should put themselves in a position to resume as much of their normal functioning as possible. They should put themselves in condition to attract new money and to make new loans. There seems to be one effective means by which these desired results may be accomplished. We cannot hope to thaw out 100 percent of the assets at once, but why not thaw out 50 percent or 60 percent or 75 percent immediately and proceed from that basis to use our resources to thaw out the remainder of the frozen assets?

We are attempting to operate at the present time two different and inconsistent institutions under the same roof and by the same management. One is a mortgage-finance institution, the other is a real-estate holding company. Would it not be better to separate these two institutions in such a way that we could take out the income-producing assets, build upon them a virile financial institution which can immediately start to serve the investors and the borrowers of the community, and leave the completely frozen assets—those which are not income-producing—by themselves to be liquidated in an orderly fashion under the most economical management we can provide? If they are segregated from the income-producing assets, they will not act as a drag upon the latter.

At the present time there is a great deal of investable surplus in the United States, most of which is "scared" money. Those who possess it hesitate to make any investment or indeed any commitment other than to keep it in the safety deposit box or to put it in banks in which deposits are insured by the Federal Deposit Insurance Corporation. The banks of this country are tremendously embarrassed by the plethora of resources at their command and the absence of any effective demand for such resources. Other financial institutions are embarrassed by the tremendous demand for the withdrawal of investors' commitments to them when they do not have available resources with which to meet such demand. There ought to be a way to balance this situation. Mortgage



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finance institutions cannot hope to attract new money until they can demonstrate the earning power of existing resources and their capacity to meet reasonable demands for withdrawal consistent with the nature of their own investments. The segregation of assets suggested above seems to offer a solution to this problem. If income-producing assets are separated from non-income-producing real estate and delinquent loans, earning capacity should be evident immediately. If to this is added insurance of investors' accounts, provided for by the Federal Savings and Loan Insurance Corporation, investors can readily be convinced of the safety of their investments. If, after such segregation takes place, the institution should desire to convert its income-producing assets into a Federal savings and loan association, it is reasonable to expect that financial assistance from the United States through Treasury investment in its shares would immediately afford new capital to help induce the investment of local private capital.

It should require little argument to convince managers of mortgage-finance institutions of the desirability of using their income-producing assets to build for the future. More difficult questions may be raised about the disposition of the assets segregated for liquidation. Liquidation carries the connotation of eventual sale for cash. Considering the present state of mind of investors, such a desirable end seems a long way off. However, let us review the possibilities. It is true that we hope to be able to dispose of a part of these assets for cash. Probably other media of exchange will be more commonly employed. Let us assume an institution with $1,000,000 worth of assets on its books. Let us assume that 60 percent, or $600,000, represents income-producing assets, while the remainder represents assets which cannot at present pay a fair return upon the investment. Now, if we take the $600,000 of income-producing assets and form a new Federal savings and loan association or a new State-chartered institution, particularly if we insure the shares of the latter, we can give to the old investor 60 cents of his investment dollar in such form that he may reasonably expect both safety and satisfactory income. We need not write down the 40 percent. Instead, we give the holders 40-cent investment claims against such assets. Existing investors own all that they owned before. They still have a dollar of claim against a dollar of investment. The new investor is induced to put his dollar of cash into the new State-chartered or Federal institution, knowing that it is matched by a dollar of actual investment in income-producing assets.

The 40-cent claim becomes a new currency in the community. It can and will be used as a medium of payment to purchase the assets set aside for liquidation. Such claims, whether they be in the form of shares in an existing State-chartered institution which continues to liquidate such assets, in debentures of a holding company, or trust certificates in a trusteeship organized to liquidate such assets, will acquire a market value which will induce people with funds to buy them from present holders who find immediate need for cash. In a surprisingly short time, many believe, the real-estate holdings of such liquidating institutions will pass into the hands of individuals or groups and the liquidating institutions will receive their own shares or certificates in payment therefor.

Furthermore, the plan proposed affords a means of disposing within a reasonable time, of delinquent loans segregated for liquidation. Again it should be insisted that liquidation does not necessarily mean sale to individuals for cash. A loan may be delinquent for any number of reasons. Perhaps the borrower has become discouraged because he feels that he is asked to continue to pay on a $5,000 mortgage

94792—34——2



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secured by a home which is now worth only $4,500. He still needs the home and is still able to pay at least a reasonable amount in liquidation of a fair mortgage against such home. If the new institution is provided with funds by which it can buy such mortgage from the liquidating institution at a reasonable price, it is possible to make a good $4,200 mortgage out of a bad $5,000 mortgage. The net results are these: The individual retains his home, having been given an equity of $300 by writing the mortgage down to $4,200 as against the value of $4,500 and is given renewed hope to continue to make payments upon such mortgage; the new institution is given a good income-producing mortgage; the liquidating institution is given $4,200 in cash to be used in liquidation of claims against it. Is it not better to take a determinable loss in such case, make a satisfied borrower and home owner, than to foreclose, acquire more real estate, and face the uncertainty of finding a new owner at a probable loss at present unascertainable? Without discussing the possibilities in further detail, those who favor such a plan believe that its general adoption would result in an early resumption of normal operations of mortgage finance institutions and that in a surprisingly short time the assets segregated for liquidation would be absorbed in such manner that the liquidating institution itself would soon pass out of existence.

This plan in its various modifications is expected to be commonly adopted in the succeeding months. Already leaders in many sections of the country are giving it serious consideration. The Federal Home Loan Bank Board will be glad to be of assistance to any institution that cares to ask for specific advice about the possibility of adapting segregation of assets in some form to the future management of its affairs.



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# ECONOMIC INFORMATION AS AN AID TO HOME FINANCING

By David L. Wickens, *Director, Financial Survey of Urban Housing*

Although the volume of urban residential financing ranks among the largest of all classes of credit, there has been a notable lack of dependable data on this subject. The difficulties of the depression and the recognition that we must take steps to avoid for the future alternate periods of construction booms and depression, home purchases and foreclosures, have made us acutely aware of this lack. Moreover, recent programs of home financing contemplate a substantial raising of the loan ratio limit—that is, giving first mortgages up to 75 or 80 percent of the appraisal values. To the degree that this occurs, more exact measures than have been available are necessary as guides for practicable operations on a self-supporting basis.

A first step in the collection of adequate data has been taken by the Financial Survey of Urban Housing, a Civil Works Administration project, conducted under the auspices of the Department of Commerce in 64 cities scattered through all States. This survey collected information from one-third of a million families covering a wide range of items relating to housing and home financing. The results of this survey are now being compiled for publication. It is believed that they will contain material of first importance to home-financing institutions interested in studying their markets and their risks.

The variety and use of the information obtained may be illustrated by several tables describing conditions in Peoria, Ill., and other cities.

An increasing number of people and communities believe that more consideration should be given to long-term planning for each city as a whole. Such a purpose may be aided by knowledge of the age and condition of the aggregate of individual structures. A distribution by age of 3,500 properties in Peoria indicates a comparatively uniform rate of construction for 30 years after 1900 and shows strikingly the collapse of building activity in recent years (table 1).

Table 1.—*Age of residential properties by period and year when built, Peoria*

| Period or year in which built | Age on Jan. 1, 1934 | Total | | Owner occupied | Rented |
|---|---|---|---|---|---|
| | *Years* | *Number* | *Percent* | *Percent* | *Percent* |
| Total.... | .......... | 3, 475 | 100. 0 | 100. 0 | 100. 0 |
| Before 1870..... | Over 65.. | 53 | 1. 5 | 1. 3 | 2. 3 |
| 10-YEAR PERIOD | | | | | |
| 1870 to 1879... | 55 to 64.. | 107 | 3. 1 | 2. 9 | 3. 9 |
| 1880 to 1889.... | 45 to 54.. | 367 | 10. 6 | 9. 8 | 12. 9 |
| 1890 to 1899.... | 35 to 44.. | 498 | 14. 3 | 13. 7 | 16. 2 |
| 1900 to 1909.... | 25 to 34.. | 786 | 22. 6 | 22. 5 | 22. 8 |
| 1910 to 1919... | 15 to 24.. | 749 | 21. 6 | 22. 8 | 17. 6 |
| 1920 to 1929.... | 5 to 14... | 755 | 21. 7 | 22. 5 | 19. 2 |
| 1930 to 1933 (4 years). | 0 to 4.... | 160 | 4. 6 | 4. 5 | 5. 1 |

A program of home financing that aims at a comprehensive view must estimate the demand for the housing services offered. A distribution of 1933 rents and values in Peoria shows by concentration groups the prevailing levels for those items in that city. Over 75 percent of all dwelling units fall within the $2,000 to $7,500 value groups. This suggests the range within which a market for additional housing in Peoria is likely to be found (table 2).



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TABLE 2.—*Number of dwelling units by rent and value groups, Peoria*

| Rent groups, 1933 | Average rent per dwelling unit | Number of reports | | Value group | Average value Jan. 1, 1934 | Number of reports | |
|---|---|---|---|---|---|---|---|
| | | *Number* | *Percent of total* | | | *Number* | *Percent of total* |
| $1 to $59 | $43 | 8 | 0.3 | $1 to $499 | $267 | 6 | 0.2 |
| $60 to $119 | 96 | 86 | 3.7 | $500 to $999 | 763 | 38 | 1.4 |
| $120 to $179 | 142 | 377 | 16.4 | $1,000 to $1,499 | 1,173 | 92 | 3.4 |
| $180 to $239 | 196 | 512 | 22.3 | $1,500 to $1,999 | 1,680 | 180 | 6.6 |
| $240 to $299 | 253 | 373 | 16.2 | $2,000 to $2,999 | 2,347 | 486 | 17.7 |
| $300 to $359 | 308 | 333 | 14.4 | $3,000 to $3,999 | 3,309 | 556 | 20.3 |
| $360 to $479 | 388 | 375 | 16.3 | $4,000 to $4,999 | 4,229 | 437 | 15.9 |
| $480 to $599 | 508 | 132 | 5.7 | $5,000 to $7,499 | 5,713 | 584 | 21.3 |
| $600 to $899 | 663 | 97 | 4.2 | $7,500 to $9,999 | 8,030 | 187 | 6.8 |
| $900 to $1,199 | 964 | 8 | .3 | $10,000 to $14,999 | 10,848 | 109 | 4.0 |
| $1,200 and over | 1,650 | 4 | .2 | $15,000 and over | 18,086 | 65 | 2.4 |
| Total | 282 | 2,305 | 100.0 | | 4,549 | 2,740 | 100.0 |

If regularity of the supply of desirable homes is to conform to population growth and property depreciation, there must be a constant supplementing or replacement of the existing supply, with such improvements in construction or in methods of financing as will contribute the elements that have been lacking. Use of a longer range viewpoint in shaping the character of the growth of cities can proceed only by attending to the type of construction, size, location, and financing of individual structures, and must develop from the clearly indicated facts of the present situation.

Determination of the capacity of new houses may well be aided by attention to the differences in size of families, if unnecessary expense is to be avoided. The rents and average value per room emphasize this need of adjustment to space requirements. If the community is to have a desirable distribution of dwelling units of suitable size, it must avoid a tendency to construct "standard" size units when the parties wanting houses may consist of only 1, 2, or 3 persons or a large family and hence in that sense are not "standard." Tenants renting their housing space from others are commonly looked upon as the chief potential market for owner-occupied homes. A distribution of 3,200 tenant-occupied dwelling units covered by the financial survey in the city of Indianapolis, reveals that 83.8 percent of the families consist of from 2 to 5 persons, and illustrates the importance of the small-size family (table 3).

TABLE 3.—*Number of rented units by size of family, Indianapolis*

| Number of persons in dwelling unit | Number of units | Percent of total |
|---|---|---|
| 1 | 102 | 3.2 |
| 2 | 874 | 27.5 |
| 3 | 759 | 23.9 |
| 4 | 629 | 19.8 |
| 5 | 401 | 12.6 |
| 6 | 217 | 6.8 |
| 7 | 86 | 2.7 |
| 8 | 49 | 1.5 |
| 9 or more | 65 | 2.0 |
| Total | 3,182 | 100.0 |

Definition and measurement of desirable housing accommodation and its cost must give equal consideration to determining the means for paying for the property or its use. A long-time commitment requires a long-time estimate of means to



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carry it out. This calls for a measure of family incomes with some information regarding their variability and distribution in the community.

A classification of rents and values in relation to 1933 income as shown by the financial survey for tenants and home owners, is illustrated by the accompanying table for income groups. Such comparisons indicate how much families may be expected to pay for housing accommodations. In this instance rents averaged 25 percent of income. A pointed question is raised as to how satisfactory living quarters can be brought within the paying capacity of people with small incomes (table 4).

TABLE 4.—*Family incomes as related to rent and value, 1933, Peoria*

| Income group | Tenants: Rents and incomes | | | Home owners: Values and incomes | | |
|---|---|---|---|---|---|---|
| | Average family income | Average annual rent | Rent bill as percent of income | Average annual income | Average value of dwelling, Jan. 1, 1934 | Ratio of value of dwelling to 1933 income |
| | | | *Percent* | | | |
| No income | None | $229 | ......... | None | $3, 470 | ......... |
| $1 to $249 | $164 | 179 | 109 | $164 | 3, 039 | 18. 5 |
| $250 to $499 | 369 | 197 | 53 | 368 | 3, 437 | 9. 3 |
| $500 to $749 | 608 | 228 | 38 | 604 | 3, 510 | 5. 8 |
| $750 to $999 | 864 | 235 | 27 | 865 | 3, 439 | 4. 0 |
| $1,000 to $1,499 | 1, 179 | 278 | 24 | 1, 183 | 4, 095 | 3. 5 |
| $1,500 to $1,999 | 1, 674 | 335 | 20 | 1, 679 | 4, 564 | 2. 7 |
| $2,000 to $2,999 | 2, 322 | 428 | 18 | 2, 330 | 5, 755 | 2. 5 |
| $3,000 to $4,499 | 3, 340 | 562 | 17 | 3, 478 | 7, 185 | 2. 1 |
| $4,500 to $7,499 | 5, 283 | 724 | 14 | 5, 474 | 9, 968 | 1. 8 |
| $7,500 and over | 10, 950 | 1, 440 | 13 | 12, 086 | 14, 543 | 1. 2 |
| Average all families reporting on income | 1, 131 | 282 | 25 | 1, 454 | 4, 517 | 3. 1 |

Not only the amount but the possible variation of the annual income must be considered when making long-term credit arrangements. A comparison between the incomes of the same families in 1929 and 1933 shows a shrinkage of about one-third during this period. The usual cost of shelter makes such relatively large and constant demand on the family budget, that information on income changes may be used to forestall default (table 5).

TABLE 5.—*Average family incomes reported by years, Peoria*

| | 1929 | 1932 | 1933 | 1929 | 1932 | 1933 |
|---|---|---|---|---|---|---|
| | | | | *Percent* | *Percent* | *Percent* |
| Owner | $2, 203 | $1, 614 | $1, 454 | 100 | 73 | 66 |
| Tenant | 1, 691 | 1, 220 | 1, 131 | 100 | 72 | 67 |

Information on the proportion of family incomes in various size groups for the community has particular value in gauging the amount of housing warranted at various cost classifications. To produce, for instance, $5,000 homes for 40 percent of a city's families when income statistics show that only 20 percent can afford homes at that price is to invite loss. Income tables show that families with moderate means constitute the principal market for the country's total supply of housing. Thus the 1933 incomes of 87 percent of tenant families and of 78 percent of homeowner families reporting in Peoria were below $2,000 (table 6).



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TABLE 6.—*Incomes of tenants and homeowners, Peoria*

| Income group, 1933 | Percent of all incomes reported | |
|---|---|---|
| | Tenant | Homeowner |
| | *Percent* | *Percent* |
| No income | 3.0 | 5.3 |
| $1 to $249 | 7.8 | 7.0 |
| $250 to $499 | 11.9 | 9.3 |
| $500 to $749 | 15.9 | 12.2 |
| $750 to $999 | 13.2 | 10.0 |
| $1,000 to $1,499 | 22.3 | 19.3 |
| $1,500 to $1,999 | 13.0 | 15.0 |
| $2,000 to $2,999 | 8.4 | 12.1 |
| $3,000 to $4,499 | 3.1 | 6.1 |
| $4,500 to $7,499 | 1.2 | 2.6 |
| $7,500 and over | .2 | 1.1 |
| Total | 100.0 | 100.0 |

Efforts to encourage home ownership will be aided by information concerning the terms generally used in handling the consideration involved. A 5-year grouping of properties acquired during 34 years indicates a steady increase in the percentage of mortgage debt assumed during that time (table 7).

After determining upon the character and cost of dwellings most practicable for him, the prospective homeowner needs to know what agencies are available for the necessary financing, their relative importance, and the terms and conditions that he may expect. These data are illustrated by the accompanying table (table 8).

TABLE 7.—*Terms of purchase, 1-family owner-occupied dwellings, 1900–1933 by periods, Peoria*

| Period or year | Number of reports | Percent reporting assumption of debt | Average consideration | Average amount represented by— | | | |
|---|---|---|---|---|---|---|---|
| | | | | Cash | Trade | Debt assumed | |
| | *Number* | *Percent* | | | | *Amount* | *Percent* |
| 1900 to 1904 | 91 | 22.2 | $2,734 | $2,396 | .......... | $338 | 12.4 |
| 1905 to 1909 | 92 | 34.5 | 3,410 | 2,887 | $35 | 488 | 14.5 |
| 1910 to 1914 | 193 | 34.4 | 3,673 | 2,908 | 27 | 758 | 20.1 |
| 1915 to 1919 | 244 | 44.0 | 3,931 | 2,785 | 39 | 1,107 | 28.1 |
| 1920 to 1924 | 458 | 43.3 | 5,349 | 3,884 | 35 | 1,430 | 26.7 |
| 1925 to 1929 | 456 | 50.8 | 6,342 | 4,012 | 330 | 2,000 | 31.5 |
| 1930 to 1933 (4 years) | 273 | 54.0 | 5,378 | 2,890 | 554 | 1,934 | 36.0 |

TABLE 8.—*Original amount and cost of first-mortgage credit, owner-occupied properties, loans outstanding 1934, by source, Peoria*

| Mortgage agency | Percent of total volume of loans reported | Average amount of original loan | Interest rates on identical loans | | Total annual payment as percent of original loan |
|---|---|---|---|---|---|
| | | | Contract rate | Contract rate plus reported financing costs | |
| | *Percent* | | *Percent* | *Percent* | |
| Life insurance company | 10.7 | $4,715 | 6.32 | 6.59 | 11.3 |
| Building and loan association | 65.5 | 2,951 | 6.91 | 7.28 | 11.9 |
| Commercial bank | 3.5 | 3,402 | 6.05 | 6.71 | 8.8 |
| Savings bank | 1.0 | 2,992 | 6.13 | 7.28 | 8.7 |
| Mortgage company | .8 | 3,378 | } 6.21 | } 6.63 | } 10.0 |
| Construction company | .6 | 3,257 | | | |
| Title and trust company | .9 | 3,770 | | | |
| Home Owners' Loan Corporation | .8 | 1,919 | 5.00 | 5.35 | 8.4 |
| Individual | 11.1 | 3,091 | 6.12 | 6.49 | 11.0 |
| Other | 5.1 | 3,034 | 6.15 | 6.78 | 10.8 |
| Total | 100.0 | 3,109 | 6.69 | 7.08 | 11.4 |



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Calculation of risk is the crux of lending. Credit agencies need to supplement their own experience by a knowledge of that of the entire area in which they operate if they are to calculate risk effectively on various classes of property. Information covering all classes of loans in effect throughout the area meets this need regarding value, frequency and size of debt, ratio of debt to value and the extent of any delinquency that may indicate faulty credit arrangements in any part of the lending territory.

If appropriate economic data are provided not only for the city as a whole but also for separate areas, the community will be much more able to diagnose and prescribe for any conditions that may require improvement. Data for economic areas in several cities will illustrate the marked differences between sections of the same city (table 9).

TABLE 9.—*Comparative data on three cities by economic areas—Homeowners, Jan. 1, 1934; tenants, 1933*

| | City total | Economic area | | | | | |
|---|---|---|---|---|---|---|---|
| | | A | B | C | D | E | F |
| **WORCESTER** | | | | | | | |
| Mortgaged properties: | | | | | | | |
| Average value........dollars.. | 6,737 | 8,307 | 6,256 | 6,573 | 6,218 | 6,218 | ........ |
| Average debt........do.... | 4,537 | 5,735 | 4,221 | 4,115 | 4,432 | 3,952 | ........ |
| Reporting payments in arrears.....percent.. | 24 | 20 | 24 | 22 | 33 | 24 | ........ |
| Tenants: | | | | | | | |
| Average rent per month........dollars.. | 25.3 | 31.5 | 28.1 | 28.0 | 21.3 | 20.3 | ........ |
| Average family income........do.... | 1,221 | 1,599 | 1,432 | 1,393 | 923 | 936 | ........ |
| Reporting rent not fully paid.......percent.. | 24 | 19 | 16 | 19 | 31 | 32 | ........ |
| **INDIANAPOLIS** | | | | | | | |
| Mortgaged properties: | | | | | | | |
| Average value........dollars.. | 4,943 | 7,666 | 4,904 | 4,620 | 2,799 | 2,490 | 3,733 |
| Average debt........do.... | 2,778 | 4,257 | 2,759 | 2,592 | 1,707 | 1,312 | 2,583 |
| Reporting payments in arrears.....percent.. | 53 | 45 | 51 | 55 | 62 | 66 | 67 |
| Tenants: | | | | | | | |
| Average rent per month........dollars.. | 24.8 | 44.4 | 31.5 | 21.4 | 16.9 | 12.8 | 19.6 |
| Average family income........do.... | 1,289 | 2,804 | 1,702 | 1,054 | 853 | 486 | 683 |
| Reporting rent not fully paid.......percent.. | 25 | 8 | 15 | 27 | 32 | 47 | 26 |
| **BATON ROUGE** | | | | | | | |
| Mortgaged properties: | | | | | | | |
| Average value........dollars.. | 4,292 | 4,993 | 7,042 | 3,995 | 2,289 | ........ | ........ |
| Average debt........do.... | 1,947 | 2,377 | 2,805 | 1,395 | 1,218 | ........ | ........ |
| Reporting payments in arrears.....percent.. | 46 | 46 | 35 | 37 | 52 | ........ | ........ |
| Tenants: | | | | | | | |
| Average rent per month........dollars.. | 18.9 | 20.8 | 24.2 | 14.0 | 17.3 | ........ | ........ |
| Average family income........do.... | 1,011 | 1,046 | 1,574 | 702 | 1,057 | ........ | ........ |
| Reporting rent not fully paid.......percent.. | 32 | 30 | 22 | 47 | 28 | ........ | ........ |



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In periods of financial distress it is necessary to know what proportion of mortgaged homes are delinquent or threatened with foreclosure and the amount of emergency financing that may be required. The survey provides such information. When values have declined and refinancing is desired there is need of data showing the severity of debt burden, and the character and class of holder of the loans. A classification by ratio of debt to value shows the number and amount of loans which can be handled under the usual regulations, and those which can be cared for only through special facilities. Such an array of 1,700 owned and rented properties illustrates this use of the Financial Survey's material (table 10).

TABLE 10.—*Mortgaged properties, by ratio of debt to value, Jan. 1, 1934, Peoria*

| Ratio of debt to value (percent) | Percent of total reported | |
|---|---|---|
| | Owner-occupied | Rented |
| 1 to 9 | 4.7 | 4.1 |
| 10 to 19 | 7.7 | 4.1 |
| 20 to 29 | 10.6 | 13.1 |
| 30 to 39 | 11.1 | 12.5 |
| 40 to 49 | 14.0 | 15.0 |
| 50 to 59 | 14.9 | 18.5 |
| 60 to 69 | 12.2 | 10.9 |
| 70 to 84 | 11.8 | 12.8 |
| 85 to 99 | 7.4 | 2.8 |
| 100 and over | 5.6 | 6.2 |
| Total | 100.0 | 100.0 |

An essential for the provision of improved living quarters and security in their possession is an adequately organized body of data giving measures on important phases of the subject. The necessary inquiry properly begins with a canvass and measure of the existing situation. The Financial Survey of Urban Housing contributes something to this needed fund of information.



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# INTEREST RATES CHARGED BY BUILDING AND LOAN ASSOCIATIONS

The October FEDERAL HOME LOAN BANK REVIEW published a table showing interest rates charged during 1931 by building and loan associations and banks. (See table, columns 3, 4, and 5, p. 20, October REVIEW.) The Division of Research and Statistics of the Federal Home Loan Bank Board has since then completed a more recent study, based upon replies to a questionnaire, sent out to all building and loans associations.

These tables do not account for the entire costs of loans to the borrower in all cases. In some States the associations charge fees as a certain percentage of the face of the loan. These premiums or commissions range from 1 to 5 percent.

Then in some States there are charges made by an outside agency, other than the association, covering legal costs, fees, etc.

So far as the association itself is concerned these charges represent a charge of cost with no profit to the association. Such profits as may arise out of these transactions accrue to the outside agency involved. The costs of the services to the borrower are an additional charge in excess of the nominal rate of interest which appears in the tables below.

Table 1 shows for 1934 the most frequent rates, the average, and the rate quoted for 1931, as shown in the October REVIEW. The average annual rate in 1934 was computed as the simple arithmetical average of rate charged by all reporting institutions.

Table 2 shows more fully the source of the summary given in table 1. It gives the total number of building and loan associations in the several States, the number reporting interest rates, and the total number of member institutions of the Federal Home Loan Bank System.

It appears from these tables that the interest rates are affected less by the number of associations in the area than by the geographical location of the area. New England and the South Atlantic States have uniformly low interest rates as compared with Central States. The latter, in turn, have lower rates than Western States.

It seems probable that the resources of the States along the Atlantic seaboard have been more fully developed than those of Central and Western States, and that the ratio of demand for building and loan capital to the supply thereof is relatively less than in Western and Central States.

It is interesting to note the frequency with which certain rates were encountered in the several States. This frequency appears in the columns of table 3, under the caption of the respective rate. Interest rates reported range from a minimum of 5 percent to a maximum of 10 percent. The most frequent rate encountered in the United States is 6 percent. The next most frequent rate is 7 percent. The table indicates a prejudice against charging fractional rates. Otherwise the rate of 7 percent would hardly be expected to be more frequent than the rate of 6½ percent, since the fractional rate is nearer the rate of greatest frequency. Likewise 8 percent is more frequent than 7½ percent, but less frequent than 7 percent. The greatest frequency of the 10 percent rate appears in the West Central and Mountain States.

In relation to the question of geographical variation of interest rates charged by home-financing institutions, it is interesting to note that the rate charged by the Home Owners' Loan Corporation is uniform throughout the United States.



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TABLE 1.—*Home loan interest rates*

| | 1934 [1] | | 1931 [2] |
|---|---|---|---|
| | Predominating annual rate | Average annual rate | |
| | *Percent* | *Percent* | *Percent* |
| United States | 6 | 6.6 | .......... |
| New England | 6 | 5.9 | .......... |
| Maine | 6 | 5.9 | 6.2 |
| New Hampshire | 5 | 5.4 | .......... |
| Vermont | 6 | 6.0 | 6.3 |
| Massachusetts | 6 | 6.0 | 6.2 |
| Rhode Island | 6 | 6.0 | 6.0 |
| Connecticut | 6 | 6.0 | 5.9 |
| Middle Atlantic | 6 | 6.0 | .......... |
| New York | 6 | 6.0 | 6.0 |
| New Jersey | 6 | 6.0 | 6.0 |
| Pennsylvania | 6 | 6.0 | 6.0 |
| East North Central | 7 | 6.6 | .......... |
| Ohio | 7 | 6.6 | 6.8 |
| Indiana | 7 | 7.0 | 7.1 |
| Illinois | 6 | 6.4 | 6.3 |
| Michigan | 7 | 6.5 | 7.2 |
| Wisconsin | 6 | 6.3 | 6.7 |
| West North Central | 8 | 7.6 | .......... |
| Minnesota | 7 | 7.0 | 7.0 |
| Iowa | 7 | 7.0 | 6.8 |
| Missouri | 8 | 7.5 | 7.5 |
| North Dakota | 8 | 8.1 | 7.7 |
| South Dakota | 8 | 8.0 | 9.7 |
| Nebraska | 7 | 6.9 | 7.3 |
| Kansas | 8 | 8.2 | 8.7 |
| South Atlantic | 6 | 6.4 | .......... |
| Delaware | 6 | 6.0 | 6.0 |
| Maryland | 6 | 6.0 | .......... |
| District of Columbia | 6 | 6.0 | 6.0 |
| Virginia | 6 | 6.3 | 6.4 |
| West Virginia | [3] 6–8 | 7.1 | 6.9 |
| North Carolina | 6 | 6.0 | 6.0 |
| South Carolina | 7 | 7.1 | 7.9 |
| Georgia | 8 | 7.8 | 7.4 |
| Florida | 7 | 7.2 | 8.4 |

TABLE 1.—*Home loan interest rates*—Con.

| | 1934 | | 1931 |
|---|---|---|---|
| | Predominating annual rate | Average annual rate | |
| | *Percent* | *Percent* | *Percent* |
| East South Central | 6 | 6.9 | .......... |
| Kentucky | 6 | 6.3 | 6.3 |
| Tennessee | 6 | 6.0 | 6.0 |
| Alabama | 8 | 7.7 | 7.3 |
| Mississippi | 8 | 8.0 | 9.0 |
| West South Central | 8 | 8.0 | .......... |
| Arkansas | 8 | 8.3 | 9.0 |
| Louisiana | 8 | 7.7 | 7.4 |
| Oklahoma | 8 | 8.1 | 9.1 |
| Texas | 8 | 8.0 | 8.7 |
| Mountain | 8 | 8.2 | .......... |
| Montana | 8 | 8.3 | 7.8 |
| Idaho | 8 | 8.0 | 8.6 |
| Wyoming | 7 | 8.0 | 8.1 |
| Colorado | 8 | 8.1 | 8.8 |
| New Mexico | [3] 8–10 | 9.0 | 10.0 |
| Arizona | .......... | .......... | 10.0 |
| Utah | 8 | 7.6 | 8.7 |
| Nevada | 10 | 9.3 | 10.0 |
| Pacific | 7 | 7.1 | .......... |
| Washington | 7 | 7.2 | 7.9 |
| Oregon | 8 | 7.5 | 9.3 |
| California | 7 | 7.0 | 8.2 |
| Hawaii | 8 | 8.0 | .......... |

[1] Source: Replies to questionnaires returned to Federal Home Loan Bank Board by 2,629 (of a total of 10,238) building and loan institutions, August and September 1934.

[2] Source: Table of Home Loan Interest Rates, FEDERAL HOME LOAN BANK REVIEW, October 1934.

[3] Highest frequency reported for both rates.



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TABLE 2.—*Number of building and loan associations, reporting associations, and members of Federal Home Loan Bank System, July 1934*

| Area | Number of building and loan institutions | | Number of F.H.L.B. members | Predominating interest rate reported |
|---|---|---|---|---|
| | Total [1] | Reporting | | |
| United States... | 10,238 | 2,629 | 2,699 | 6 |
| New England... | 358 | 129 | 117 | 6 |
| Maine | 36 | 12 | 15 | 6 |
| New Hampshire | [2] 29 | 14 | 13 | 5 |
| Vermont | 14 | 3 | 2 | 6 |
| Massachusetts | 227 | 76 | 55 | 6 |
| Rhode Island | 8 | 2 | 2 | 6 |
| Connecticut | 44 | 22 | 30 | 6 |
| Middle Atlantic... | 4,733 | 858 | 684 | 6 |
| New York | 293 | 104 | 48 | 6 |
| New Jersey | [2] 1,532 | 376 | 268 | 6 |
| Pennsylvania | 2,908 | 378 | 368 | 6 |
| East North Central... | 2,246 | 712 | 750 | 7 |
| Ohio | 737 | 242 | 318 | 7 |
| Indiana | 380 | 156 | 100 | 7 |
| Illinois | 880 | 210 | 244 | 6 |
| Michigan | 65 | 34 | 30 | 7 |
| Wisconsin | 184 | 70 | 58 | 6 |
| West North Central... | 657 | 268 | 269 | 8 |
| Minnesota | 75 | 28 | 24 | 7 |
| Iowa | 74 | 43 | 43 | 7 |
| Missouri | 233 | 84 | 89 | 8 |
| North Dakota | 22 | 14 | 11 | 8 |
| South Dakota | 20 | 7 | 6 | 8 |
| Nebraska | 83 | 29 | 10 | 7 |
| Kansas | 150 | 63 | 86 | 8 |
| South Atlantic... | 1,026 | 243 | 326 | 6 |
| Delaware | 43 | 14 | 6 | 6 |
| Maryland | [2] 400 | 46 | 100 | 6 |
| District of Columbia | 28 | 18 | 13 | 6 |
| Virginia | 89 | 24 | 26 | 6 |
| West Virginia | 60 | 15 | 23 | 6–8 |
| North Carolina | 209 | 64 | 91 | 6 |
| South Carolina | [2] 98 | 29 | 23 | 7 |
| Georgia | 40 | 13 | 19 | 8 |
| Florida | 59 | 20 | 25 | 7 |

TABLE 2.—*Number of building and loan associations, reporting associations, and members of Federal Home Loan Bank System, July 1934*—Continued

| Area | Number of building and loan institutions | | Number of F.H.L.B. members | Predominating interest rate reported |
|---|---|---|---|---|
| | Total [1] | Reporting | | |
| East South Central... | 289 | 68 | 121 | 6 |
| Kentucky | 164 | 32 | 68 | 6 |
| Tennessee | 42 | 9 | 17 | 6 |
| Alabama | 39 | 12 | 14 | 8 |
| Mississippi | 44 | 15 | 22 | 8 |
| West South Central... | 383 | 154 | 184 | 8 |
| Arkansas | 55 | 29 | 32 | 8 |
| Louisiana | 99 | 36 | 44 | 8 |
| Oklahoma | 90 | 30 | 37 | 8 |
| Texas | 139 | 59 | 71 | 8 |
| Mountain... | 151 | 60 | 62 | 8 |
| Montana | 27 | 13 | 9 | 8 |
| Idaho | 14 | 8 | 9 | 8 |
| Wyoming | 8 | 4 | 3 | 7 |
| Colorado | 52 | 20 | 24 | 8 |
| New Mexico | 16 | 4 | 5 | 8–10 |
| Arizona | 8 | ........ | 2 | ........ |
| Utah | 21 | 8 | 8 | 8 |
| Nevada | 5 | 3 | 2 | 10 |
| Pacific... | 375 | 136 | 184 | 7 |
| Washington | 66 | 31 | 48 | 7 |
| Oregon | 27 | 11 | 21 | 8 |
| California | 282 | 94 | 115 | 7 |
| Hawaii | 11 | 1 | 2 | 8 |

[1] Based upon Summary Table prepared by U. S. Building and Loan League.

[2] Estimated.



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TABLE 3.—*Frequency table of interest rates reported by building and loan associations*

| Area | Total number of reports | Percent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 5 | 5½ | 6 | 6½ | 7 | 7½ | 8 | 8½ | 9 | 9½ | 10 |
| United States | 2,629 | 28 | 5 | 1,489 | 118 | 533 | 27 | 322 | 37 | 35 | 4 | 31 |
| New England | 129 | 13 | 3 | 107 | 4 | 2 | ...... | ...... | ...... | ...... | ...... | ...... |
| Maine | 12 | 1 | ...... | 11 | ...... | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| New Hampshire | 14 | 10 | ...... | 3 | 1 | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| Vermont | 3 | ...... | ...... | 3 | ...... | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| Massachusetts | 76 | ...... | 2 | 70 | 3 | 1 | ...... | ...... | ...... | ...... | ...... | ...... |
| Rhode Island | 2 | ...... | ...... | 2 | ...... | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| Connecticut | 22 | 2 | 1 | 18 | ...... | 1 | ...... | ...... | ...... | ...... | ...... | ...... |
| Middle Atlantic | 858 | 14 | 2 | 824 | 3 | 11 | 1 | 3 | ...... | ...... | ...... | ...... |
| New York | 104 | 7 | 2 | 93 | ...... | ...... | 1 | 1 | ...... | ...... | ...... | ...... |
| New Jersey | 376 | 3 | ...... | 373 | ...... | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| Pennsylvania | 378 | 4 | ...... | 358 | 3 | 11 | ...... | 2 | ...... | ...... | ...... | ...... |
| East North Central | 712 | ...... | ...... | 297 | 79 | 286 | 4 | 46 | ...... | ...... | ...... | ...... |
| Ohio | 242 | ...... | ...... | 85 | 25 | 128 | 3 | 1 | ...... | ...... | ...... | ...... |
| Indiana | 156 | ...... | ...... | 30 | 21 | 67 | ...... | 38 | ...... | ...... | ...... | ...... |
| Illinois | 210 | ...... | ...... | 132 | 8 | 62 | 1 | 7 | ...... | ...... | ...... | ...... |
| Michigan | 34 | ...... | ...... | 14 | 5 | 15 | ...... | ...... | ...... | ...... | ...... | ...... |
| Wisconsin | 70 | ...... | ...... | 36 | 20 | 14 | ...... | ...... | ...... | ...... | ...... | ...... |
| West North Central | 268 | ...... | ...... | 39 | 21 | 60 | 4 | 103 | 14 | 21 | 1 | 5 |
| Minnesota | 28 | ...... | ...... | 8 | 1 | 12 | ...... | 7 | ...... | ...... | ...... | ...... |
| Iowa | 43 | ...... | ...... | 7 | 5 | 20 | ...... | 11 | ...... | ...... | ...... | ...... |
| Missouri | 84 | ...... | ...... | 18 | 6 | 9 | 2 | 36 | 7 | 5 | ...... | 1 |
| North Dakota | 14 | ...... | ...... | 1 | 1 | ...... | 2 | 7 | ...... | 1 | ...... | 2 |
| South Dakota | 7 | ...... | ...... | ...... | ...... | ...... | ...... | 7 | ...... | ...... | ...... | ...... |
| Nebraska | 29 | ...... | ...... | 3 | 8 | 14 | ...... | 2 | 1 | 1 | ...... | ...... |
| Kansas | 63 | ...... | ...... | 2 | ...... | 5 | ...... | 33 | 6 | 14 | 1 | 2 |
| South Atlantic | 243 | 1 | ...... | 169 | 3 | 37 | 2 | 29 | ...... | 1 | ...... | 1 |
| Delaware | 14 | 1 | ...... | 12 | ...... | 1 | ...... | ...... | ...... | ...... | ...... | ...... |
| Maryland | 46 | ...... | ...... | 46 | ...... | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| District of Columbia | 18 | ...... | ...... | 18 | ...... | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| Virginia | 24 | ...... | ...... | 20 | ...... | ...... | ...... | 4 | ...... | ...... | ...... | ...... |
| West Virginia | 15 | ...... | ...... | 6 | ...... | 2 | ...... | 6 | ...... | 1 | ...... | ...... |
| North Carolina | 64 | ...... | ...... | 64 | ...... | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| South Carolina | 29 | ...... | ...... | 2 | ...... | 23 | ...... | 4 | ...... | ...... | ...... | ...... |
| Georgia | 13 | ...... | ...... | ...... | ...... | 1 | 2 | 10 | ...... | ...... | ...... | ...... |
| Florida | 20 | ...... | ...... | 1 | 3 | 10 | ...... | 5 | ...... | ...... | ...... | 1 |
| East South Central | 68 | ...... | ...... | 39 | ...... | 5 | 1 | 18 | 1 | 1 | ...... | 3 |
| Kentucky | 32 | ...... | ...... | 28 | ...... | 1 | ...... | 1 | 1 | ...... | ...... | 1 |
| Tennessee | 9 | ...... | ...... | 9 | ...... | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| Alabama | 12 | ...... | ...... | 1 | ...... | 1 | ...... | 10 | ...... | ...... | ...... | ...... |
| Mississippi | 15 | ...... | ...... | 1 | ...... | 3 | 1 | 7 | ...... | 1 | ...... | 2 |



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TABLE 3.—*Frequency table of interest rates reported by building and loan associations*—Continued

| Area | Total number of reports | Percent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 5 | 5½ | 6 | 6½ | 7 | 7½ | 8 | 8½ | 9 | 9½ | 10 |
| West South Central | 154 | ...... | ...... | 6 | 7 | 15 | 10 | 74 | 17 | 8 | 2 | 15 |
| Arkansas | 29 | ...... | ...... | 1 | ...... | 2 | 1 | 16 | 2 | 2 | 1 | 4 |
| Louisiana | 36 | ...... | ...... | ...... | 3 | 4 | 1 | 28 | ...... | ...... | ...... | ...... |
| Oklahoma | 30 | ...... | ...... | ...... | 1 | 3 | 4 | 13 | 4 | 1 | 1 | 3 |
| Texas | 59 | ...... | ...... | 5 | 3 | 6 | 4 | 17 | 11 | 5 | ...... | 8 |
| Mountain | 60 | ...... | ...... | 2 | ...... | 7 | 4 | 34 | 1 | 4 | 1 | 7 |
| Montana | 13 | ...... | ...... | ...... | ...... | 1 | 1 | 7 | ...... | 2 | ...... | 2 |
| Idaho | 8 | ...... | ...... | ...... | ...... | ...... | ...... | 8 | ...... | ...... | ...... | ...... |
| Wyoming | 4 | ...... | ...... | 1 | ...... | 2 | 1 | ...... | ...... | ...... | ...... | ...... |
| Colorado | 20 | ...... | ...... | 1 | ...... | 1 | 2 | 11 | 1 | 2 | 1 | 1 |
| New Mexico | 4 | ...... | ...... | ...... | ...... | ...... | ...... | 2 | ...... | ...... | ...... | 2 |
| Arizona | ...... | ...... | ...... | ...... | ...... | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| Utah | 8 | ...... | ...... | ...... | ...... | 3 | ...... | 5 | ...... | ...... | ...... | ...... |
| Nevada | 3 | ...... | ...... | ...... | ...... | ...... | ...... | 1 | ...... | ...... | ...... | 2 |
| Pacific | 136 | ...... | ...... | 6 | 1 | 110 | 1 | 14 | 4 | ...... | ...... | ...... |
| Washington | 31 | ...... | ...... | 3 | 1 | 18 | ...... | 9 | ...... | ...... | ...... | ...... |
| Oregon | 11 | ...... | ...... | 2 | ...... | 3 | ...... | 5 | 1 | ...... | ...... | ...... |
| California | 94 | ...... | ...... | 1 | ...... | 89 | 1 | ...... | 3 | ...... | ...... | ...... |
| Hawaii | 1 | ...... | ...... | ...... | ...... | ...... | ...... | 1 | ...... | ...... | ...... | ...... |



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FEDERAL HOME

*Combined statement of*

| | Combined | Boston | Newark | Pittsburgh | Winston-Salem |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash on hand, in banks and U. S. Treasury | $4, 862, 375. 28 | $967, 768. 27 | $713, 864. 17 | $106, 320. 30 | $517, 031. 14 |
| Loans outstanding: | | | | | |
| Members | 86, 039, 719. 45 | 2, 515, 256. 27 | 14, 192, 448. 34 | 11, 014, 774. 20 | 6, 195, 322. 36 |
| Affiliated banks | 600, 000. 00 | 600, 000. 00 | | | |
| Other | 7, 214. 82 | | | | |
| Total loans | 86, 646, 934. 27 | 3, 115, 256. 27 | 14, 192, 448. 34 | 11, 014, 774. 20 | 6, 195, 322. 36 |
| Accrued interest receivable | 559, 896. 58 | 25, 837. 79 | 74, 932. 80 | 89, 653. 17 | 36, 039. 25 |
| Investments: U.S. Government | 16, 089, 585. 31 | 2, 895, 218. 77 | 59, 656. 25 | 137, 900. 00 | 1, 010, 468. 75 |
| Other assets | 90, 463. 33 | 18, 704. 17 | 5, 489. 34 | 3, 303. 59 | 4, 676. 29 |
| Total assets | 108, 249, 254. 77 | 7, 022, 785. 27 | 15, 046, 390. 90 | 11, 351, 951. 26 | 7, 763, 537. 79 |
| LIABILITIES AND CAPITAL | | | | | |
| Liabilities: | | | | | |
| Current | 3, 721, 039. 06 | | 582, 255. 84 | 1, 055, 286. 24 | 7, 409. 00 |
| Fixed | | | | | |
| Total liabilities | 3, 721, 039. 06 | | 582, 255. 84 | 1, 055, 286. 24 | 7, 409. 00 |
| Capital: | | | | | |
| Capital stock, fully paid issued, and outstanding: | | | | | |
| Members | 18, 659, 600. 00 | 1, 577, 600. 00 | 2, 251, 500. 00 | 1, 433, 100. 00 | 1, 670, 500. 00 |
| U.S. Government | 81, 445, 700. 00 | 5, 000, 000. 00 | 11, 500, 000. 00 | 8, 500, 000. 00 | 5, 700, 000. 00 |
| | 100, 105, 300. 00 | 6, 577, 600. 00 | 13, 751, 500. 00 | 9, 933, 100. 00 | 7, 370, 500. 00 |
| Subscriptions to capital stock: | | | | | |
| Members and applicants | 4, 294, 500. 00 | 401, 600. 00 | 1, 179, 800. 00 | 311, 400. 00 | 226, 900. 00 |
| Less balance due | 2, 220, 854. 88 | 126, 625. 00 | 662, 375. 13 | 182, 625. 00 | 97, 700. 00 |
| | 2, 073, 645. 12 | 274, 975. 00 | 517, 424. 87 | 128, 775. 00 | 129, 200. 00 |
| U. S. Government | 43, 295, 300. 00 | 7, 467, 500. 00 | 7, 463, 200. 00 | 2, 646, 300. 00 | 3, 508, 200. 00 |
| Less balance due | 43, 295, 300. 00 | 7, 467, 500. 00 | 7, 463, 200. 00 | 2, 646, 300. 00 | 3, 508, 200. 00 |
| Surplus: | | | | | |
| Reserves: | | | | | |
| As required under section 16 of act | 563, 392. 81 | 25, 460. 44 | 56, 603. 25 | 57, 011. 80 | 40, 954. 58 |
| U. S. Government 2-percent dividend | 982, 987. 89 | 120, 509. 64 | 57, 972. 61 | 84, 887. 67 | 155, 758. 90 |
| Other | | | | | |
| Surplus unallocated | 802, 889. 89 | 24, 240. 19 | 80, 634. 33 | 92, 890. 55 | 59, 715. 31 |
| Total surplus | 2, 349, 270. 59 | 170, 210. 27 | 195, 210. 19 | 234, 790. 02 | 256, 428. 79 |
| Total capital | 104, 528, 215. 71 | 7, 022, 785. 27 | 14, 464, 135. 06 | 10, 296, 665. 02 | 7, 756, 128. 79 |
| Total liabilities and capital | 108, 249, 254. 77 | 7, 022, 785. 27 | 15, 046, 390. 90 | 11, 351, 951. 26 | 7, 763, 537. 79 |

Note.—Italic figures = deficit.



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## LOAN BANK SYSTEM

*condition as of Sept. 30, 1934*

| Cincinnati | Indianapolis | Chicago | Des Moines | Little Rock | Topeka | Portland | Los Angeles |
|---|---|---|---|---|---|---|---|
| $552, 482. 83 | $686, 153. 25 | $445, 076. 76 | $66, 973. 27 | $241, 820. 32 | $101, 285. 95 | $148, 169. 31 | $315, 429. 71 |
| 16, 855, 546. 35 | 5, 883, 759. 57 | 11, 802, 672. 42 | 4, 273, 979. 71 | 4, 100, 671. 57 | 4, 036, 518. 50 | 2, 342, 184. 46 | 2, 826, 585. 70 |
| ............ | ............ | ............ | ............ | ............ | ............ | ............ | ............ |
| ............ | ............ | ............ | ............ | ............ | ............ | ............ | 7, 214. 82 |
| 16, 855, 546. 35 | 5, 883, 759. 57 | 11, 802, 672. 42 | 4, 273, 979. 71 | 4, 100, 671. 57 | 4, 036, 518. 50 | 2, 342, 184. 46 | 2, 833, 800. 52 |
| 91, 756. 49 | 22, 666. 57 | 52, 678. 78 | 41, 649. 89 | 50, 413. 33 | 26, 963. 41 | 26, 297. 41 | 21, 007. 69 |
| 837, 870. 53 | 1, 576, 332. 04 | 267, 957. 90 | 1, 349, 309. 74 | 3, 293, 597. 73 | 1, 549, 820. 75 | 1, 685, 374. 72 | 1, 426, 078. 13 |
| 16, 180. 37 | 3, 275. 93 | 6, 733. 89 | 4, 893. 11 | 7, 682. 25 | 6, 771. 71 | 3, 987. 10 | 8, 765. 58 |
| 18, 353, 836. 57 | 8, 172, 187. 36 | 12, 575, 119. 75 | 5, 736, 805. 72 | 7, 694, 185. 20 | 5, 721, 360. 32 | 4, 206, 013. 00 | 4, 605, 081. 63 |
| 670, 317. 04 | 62, 497. 70 | 372, 850. 91 | 231, 656. 92 | 407, 003. 16 | 3, 336. 50 | 328, 409. 23 | 16. 52 |
| ............ | ............ | ............ | ............ | ............ | ............ | ............ | ............ |
| 670, 317. 04 | 62, 497. 70 | 372, 850. 91 | 231, 656. 92 | 407, 003. 16 | 3, 336. 50 | 328, 409. 23 | 16. 52 |
| 4, 138, 500. 00 | 1, 905, 500. 00 | 1, 714, 600. 00 | 758, 200. 00 | 1, 160, 400. 00 | 750, 600. 00 | 456, 200. 00 | 842, 900. 00 |
| 12, 775, 700. 00 | 6, 000, 000. 00 | 10, 000, 000. 00 | 4, 500, 000. 00 | 5, 900, 000. 00 | 4, 700, 000. 00 | 3, 310, 000. 00 | 3, 560, 000. 00 |
| 16, 914, 200. 00 | 7, 905, 500. 00 | 11, 714, 600. 00 | 5, 258, 200. 00 | 7, 060, 400. 00 | 5, 450, 600. 00 | 3, 766, 200. 00 | 4, 402, 900. 00 |
| 657, 800. 00 | 119, 200. 00 | 313, 900. 00 | 303, 100. 00 | 222, 300. 00 | 292, 700. 00 | 45, 800. 00 | 220, 000. 00 |
| 332, 768. 75 | 61, 675. 00 | 196, 165. 00 | 154, 675. 00 | 140, 595. 00 | 132, 466. 00 | 24, 300. 00 | 108, 885. 00 |
| 325, 031. 25 | 57, 525. 00 | 117, 735. 00 | 148, 425. 00 | 81, 705. 00 | 160, 234. 00 | 21, 500. 00 | 111, 115. 00 |
| ............ | 577, 400. 00 | 4, 173, 900. 00 | 2, 894, 900. 00 | 2, 872, 400. 00 | 2, 633, 600. 00 | 2, 650, 000. 00 | 6, 407, 900. 00 |
| ............ | 577, 400. 00 | 4, 173, 900. 00 | 2, 894, 900. 00 | 2, 872, 400. 00 | 2, 633, 600. 00 | 2, 650, 000. 00 | 6, 407, 900. 00 |
| 133, 801. 76 | 52, 930. 50 | 82, 583. 30 | 26, 263. 24 | 49, 521. 43 | 13, 942. 88 | 11, 806. 81 | 12, 512. 82 |
| 65, 103. 57 | 30, 246. 57 | 148, 410. 95 | 45, 123. 27 | 29, 742. 49 | 99, 249. 31 | 70, 268. 96 | 75, 713. 95 |
| ............ | ............ | ............ | ............ | ............ | ............ | ............ | ............ |
| 245, 382. 95 | 63, 487. 59 | 138, 939. 59 | 27, 137. 29 | 65, 813. 12 | *6, 002. 37* | 7, 828. 00 | 2, 823. 34 |
| 444, 288. 28 | 146, 664. 66 | 369, 933. 84 | 98, 523. 80 | 145, 077. 04 | 107, 189. 82 | 89, 903. 77 | 91, 050. 11 |
| 17, 683, 519. 53 | 8. 109, 689. 66 | 12, 202, 268. 84 | 5, 505, 148. 80 | 7, 287, 182. 04 | 5, 718, 023. 82 | 3, 877, 603. 77 | 4, 605, 065. 11 |
| 18, 353, 836. 57 | 8, 172, 187. 36 | 12, 575, 119. 75 | 5, 736, 805. 72 | 7, 694, 185. 20 | 5, 721, 360. 32 | 4, 206, 013. 00 | 4, 605, 081. 63 |



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# GROWTH OF THE FEDERAL HOME LOAN BANK SYSTEM

The membership of the Federal Home Loan Bank System as of September 30, 1934, compared with all building and loan associations, savings banks, and insurance companies, is revealed in the three accompanying tables. It is, of course, not correct to assume that all institutions in these three categories may become members of the System, for not all of them can meet the requirements.

So far, the Federal Home Loan Bank System has drawn its membership principally from building and loan associations. Of the 10,642 such associations in the country, 2,838 had joined the System by September 30. In numbers the members represented 26.66 percent of building and loan associations, but they had 41.8 percent of all assets. Furthermore, whereas the average building and loan association has gross assets of $674,671, the average member institution has gross assets of $1,059,492.

The Federal Home Loan Bank System provides a credit reservoir for institutions which finance urban homes. As the business of building and loan associations is almost entirely of this sort, their use of the System has been more immediate and extensive than that of either savings banks or insurance companies, whose financing activity is much more diversified. On December 31, 1933, of the $24,000,000,000 of insurance company assets, urban-home mortgages represented only an estimated $717,000,000, or 3 percent, while such mortgages represented on the same date an estimated $3,164,299,800, or 29 percent of the $10,856,000,000 of mutual savings bank assets. Nevertheless, the System will not realize its full possibilities as a safeguard both for home ownership and for financial institutions until eligible institutions as a whole have accepted the privileges and responsibilities of membership.

PRIVILEGES AND RESPONSIBILITIES

Membership is a means of increasing earning power. It immediately establishes a reservoir of credit which enables the member to use its own cash holdings for normal business. Without this credit reservoir, an institution must maintain a larger cash position for protection against emergency. Cash reserves in its own till cost the interest which the cash could be earning in loans.

*Interest Rates—Federal Home Loan Banks*

[Rates on advances by member Banks]

| Federal Home Loan Bank | Rate in effect on Sept. 30 | Type of loan |
|---|---|---|
| | *Percent* | |
| 1. Boston | 4 | All loans. |
| 2. Newark | 4 | Reconditioning loans. |
| | 4½ | All other loans. |
| 3. Pittsburgh | 4½ | All loans. |
| 4. Winston-Salem | 4 | Short-term and long-term billing. |
| | 4½ | Long-term contract. |
| 5. Cincinnati | 4¼ | All loans until Dec. 31, 1934. |
| 6. Indianapolis | 4 | Secured loans. |
| | 5 | Unsecured loans. |
| 7. Chicago | 4 | 1- and 10-year amortized loans. |
| | 4½ | 1-year straight loans. |
| | 5 | Unsecured loans. |
| 8. Des Moines | 4½ | All loans.[1] |
| 9. Little Rock | 4 | All loans until Sept. 30, 1934. |
| 10. Topeka | 4 | All loans. |
| 11. Portland | 4½ | Do. |
| 12. Los Angeles | 4½ | Do. |

[1] Des Moines has made a special rate to 1 member of 4 percent on an advance of more than $250,000.



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No other credit institution can meet all the terms on which Federal Home Loan Bank credit is offered. It is always available—in periods of depression as well as in periods of prosperity. The current interest rates on advances in general, as the accompanying table shows, make the cost of this credit cheaper than any that has ever been available to building and loan associations. Credit may be had for periods from 1 day to 10 years. Borrowers of long-term funds are protected against the customary short-term maturity which makes credit subject to call. The installment repayment plan for long-term loans is very similar to that on which building and loan associations operate. Members meeting certain requirements as to soundness may borrow for 1 year without security. The collateral requirements for long-term loans are reasonable and may be easily met.

These inclusive credit facilities cost the member, in effect, nothing. The amount of Home Loan Bank stock a member subscribes for does not represent a larger sum than it would have to carry in a commercial bank as a compensating balance upon which it would receive no earnings. Though the Banks have been in operation but 2 years the majority have already declared dividends and all of them will unquestionably do so as soon as practicable.

### MEMBERSHIP MEANS NEW BUSINESS

Membership in the System is more than a protection, it is a guaranty of new business. In a survey of 15 communities in New England, 90 percent of the people expressed a desire to put their savings in institutions with Federal affiliations. The American Savings, Building and Loan Institute has found the same attitude among people in 38 States. Admission to membership in the Federal Home Loan Banks is accepted by the public as an assurance of soundness and of uniform high standards of operation. For many institutions it has already resulted in a flow of new funds to them.

Furthermore, membership is usually an assurance to the public that an institution is under capable management with all that that implies. Such an assurance is inviting to new investments.

Finally, the System belongs to its members. All Federal Home Loan Banks, though they are established by an act of Congress and supervised by the Federal Home Loan Bank Board, are partially owned and independently operated by the member institutions. Membership of State-chartered institutions is entirely voluntary and may be relinquished at any time on 6 months' notice. As membership admits lending agencies to a national reserve of credit, it admits them also to a national reserve of experience in the operation of thrift and home-financing institutions. Only member institutions have the privilege of converting into Federal savings and loan associations.

### POWERFUL INSTITUTIONS JOIN

These are considerations that have already led some of the country's strongest savings banks as well as the majority of the larger home-financing institutions to join the Home Loan Bank System. Such institutions recognize that there is no better way of protecting credit for home financing and their own investments in home mortgages, or of increasing their resources for home loans than by the development of a national reserve system.



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*Comparison of the actual building and loan membership of the Federal Home Loan Bank System with all building and loan associations by Federal Home Loan Bank districts*

| District | All building and loan associations, latest available figures [1] | | Member building and loan associations as of Sept. 30, 1934 | | Proportion of member building and loan associations to all building and loan associations | Proportion of assets of member building and loan associations to assets of all building and loan associations |
|---|---|---|---|---|---|---|
| | Number | Amount of assets | Number | Amount of assets | | |
| | | | | | *Percent* | *Percent* |
| United States | 10, 642 | $7, 179, 848, 685 | 2, 838 | $3, 005, 838, 345 | 26. 66 | 41. 86 |
| No. 1, Boston | 359 | 606, 171, 813 | 111 | 242, 267, 028 | 30. 91 | 39. 96 |
| No. 2, Newark | 1, 846 | 1, 540, 752, 356 | 346 | 438, 997, 155 | 18. 74 | 28. 49 |
| No. 3, Pittsburgh | 3, 051 | 1, 006, 661, 599 | 414 | 208, 859, 930 | 13. 56 | 20. 74 |
| No. 4, Winston-Salem | 1, 396 | 479, 181, 042 | 328 | 215, 088, 434 | 23. 49 | 44. 88 |
| No. 5, Cincinnati | 936 | 1, 018, 314, 981 | 430 | 622, 491, 201 | 45. 94 | 61. 12 |
| No. 6, Indianapolis | 445 | 407, 040, 231 | 128 | 269, 640, 392 | 28. 76 | 66. 24 |
| No. 7, Chicago | 1, 089 | 682, 552, 991 | 314 | 257, 762, 446 | 28. 83 | 37. 76 |
| No. 8, Des Moines | 426 | 291, 771, 443 | 180 | 148, 277, 540 | 42. 25 | 50. 81 |
| No. 9, Little Rock | 354 | 294, 479, 057 | 192 | 169, 967, 517 | 54. 23 | 57. 71 |
| No. 10, Topeka | 376 | 353, 416, 249 | 168 | 172, 892, 435 | 44. 68 | 48. 92 |
| No. 11, Portland | 158 | 131, 956, 347 | 103 | 97, 306, 855 | 65. 18 | 73. 74 |
| No. 12, Los Angeles | 206 | 367, 550, 576 | 124 | 162, 287, 412 | 60. 19 | 44. 15 |

[1] Principally 1933 figures.

*Comparison of the actual savings bank membership of the Federal Home Loan Bank System with all savings banks by Federal Home Loan Bank districts*

| Districts | All mutual savings banks as of Dec. 31, 1933 | | Member mutual savings banks as of Sept. 30, 1934 | | Proportion of member mutual savings banks to all mutual savings banks | Proportion of assets of member mutual savings banks to assets of all mutual savings banks |
|---|---|---|---|---|---|---|
| | Number | Amount of assets | Number | Amount of assets | | |
| | | | | | *Percent* | *Percent* |
| United States | 567 | $10, 856, 000, 262 | 8 | $135, 744, 225 | 1. 41 | 1. 25 |
| No. 1, Boston | 367 | 3, 560, 646, 872 | 8 | 135, 744, 225 | 2. 17 | 3. 81 |
| No. 2, Newark | 160 | 6, 155, 235, 074 | 0 | 0 | 0 | 0 |
| No. 3, Pittsburgh | 9 | 578, 883, 207 | 0 | 0 | 0 | 0 |
| No. 4, Winston-Salem | 13 | 211, 778, 351 | 0 | 0 | 0 | 0 |
| No. 5, Cincinnati | 3 | 117, 158, 774 | 0 | 0 | 0 | 0 |
| No. 6, Indianapolis | 5 | 21, 832, 825 | 0 | 0 | 0 | 0 |
| No. 7, Chicago | 4 | 5, 101, 753 | 0 | 0 | 0 | 0 |
| No. 8, Des Moines | 1 | 60, 749, 570 | 0 | 0 | 0 | 0 |
| No. 9, Little Rock | ...... | ...... | ...... | ...... | ...... | ...... |
| No. 10, Topeka | ...... | ...... | ...... | ...... | ...... | ...... |
| No. 11, Portland | 4 | 48, 551, 332 | 0 | 0 | 0 | 0 |
| No. 12, Los Angeles | 1 | 96, 062, 504 | [1] 0 | [1] 1, 309, 114 | 0 | 0 |

[1] This bank is classified as a State bank in the Arizona Banking Report. It has been a member institution since Oct. 9, 1933. We include the assets in this report, but not for comparison.



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*Comparison of the actual insurance company membership of the Federal Home Loan Bank System with all insurance companies by Federal Home Loan Bank districts*

| Districts | All insurance companies [1] | | Member insurance companies as of Sept. 30, 1934 | | Proportion of member insurance companies to all insurance companies | Proportion of assets of member insurance companies to assets of all insurance companies |
|---|---|---|---|---|---|---|
| | Number | Amount of assets | Number | Amount of assets | | |
| | | | | | *Percent* | *Percent* |
| United States | 2, 196 | $24, 086, 175, 260 | 3 | $14, 282, 715 | 0. 13 | 0. 05 |
| No. 1, Boston | 183 | 3, 638, 790, 056 | 0 | 0 | 0 | 0 |
| No. 2, Newark | 420 | 13, 556, 144, 826 | 0 | 0 | 0 | 0 |
| No. 3, Pittsburgh | 78 | 1, 316, 355, 693 | 1 | 4, 389, 177 | 1. 28 | . 33 |
| No. 4, Winston-Salem | 204 | 547, 383, 614 | 1 | 7, 801, 458 | . 49 | 1. 42 |
| No. 5, Cincinnati | 183 | 761, 451, 668 | 0 | 0 | 0 | 0 |
| No. 6, Indianapolis | 119 | 419, 471, 586 | 0 | 0 | 0 | 0 |
| No. 7, Chicago | 235 | 1, 620, 508, 732 | 0 | 0 | 0 | 0 |
| No. 8, Des Moines | 195 | 972, 524, 808 | 0 | 0 | 0 | 0 |
| No. 9, Little Rock | 176 | 354, 970, 892 | 0 | 0 | 0 | 0 |
| No. 10, Topeka | 254 | 547, 998, 679 | 0 | 0 | 0 | 0 |
| No. 11, Portland | 57 | 84, 073, 142 | 1 | 2, 092, 080 | 1. 75 | 2. 48 |
| No. 12, Los Angeles | 92 | 266, 501, 563 | 0 | 0 | 0 | 0 |

[1] Principally 1932 figures.



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# NEW FEDERAL SAVINGS AND LOAN ASSOCIATIONS SHOW MARKED GROWTH

There is an effective demand for home financing. New loans can be and are being made widely over the country. Private savings are seeking investment. The Federal stamp on thrift home-financing institutions commands public confidence. These are some of the obvious conclusions to be drawn from the first report of operations of new Federal savings and loan associations.

The accompanying table showing progress made by 282 new Federal savings and loan associations up to September 30 justifies the hopes placed in these federally chartered, thrift, home-financing institutions. All phases of their operation show satisfactory progress. In studying the table, it must be remembered that the 282 institutions included are all new. No institutions converted from State charters are included. Not only are they new but on the average they are less than 6 months old. Consequently, when it is noted that the number of shareholders has increased from 15,631 to 22,289 or 42.6 percent in this period of time, we have concrete evidence of the extent of public confidence in federally chartered savings institutions. This is even more strikingly indicated in the increase in the amount of private subscriptions. These rose from $1,599,104 to $4,341,709, or 171.5 percent.

A major purpose in establishing these federally chartered, thrift institutions was to provide a haven for savings as small as 50 cents a month. Evidence that the associations are inviting investment from people of small means is given in the average number of shares subscribed for by shareholders and in the average amount—$195—paid in on individual subscriptions.

The final fact to be noted in the table—and it is perhaps the most important one at the present critical moment in the employment of credit—is that these new institutions have in the last 6 months put out nearly $6,000,000 in new mortgage loans. Obviously, a new institution has a special incentive to go out and develop business. These new Federal associations have done just that and in so doing have demonstrated that there is a market for mortgage money for those who will uncover it. Furthermore, these new associations have preferred to use their line of credit with the Federal Home Loan Banks rather than to refuse new business and disappoint eligible borrowers.

#### INCREASE IN FEDERAL ASSOCIATIONS

The establishment of new associations and conversion of State-chartered associations into Federal associations maintained during September the speed it has exhibited during the past several months. The increase in the number of State associations converting is particularly marked. The total resources of associations chartered and for which charters were pending on October 1 amounted to $317,156,284. This is more than 10 percent of the assets of all building and loan associations that were members of the Federal Home Loan Bank System on October 1.



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*Data showing progress of 282 new Federal savings and loan associations Sept. 30, 1934*

| | At time of organization | At Sept. 30, 1934 | Increase | Percent increase |
|---|---|---|---|---|
| SHARE SUBSCRIPTIONS | | | | |
| Number of private share accounts | 15, 631 | 22, 289 | 6, 658 | 42. 6 |
| Number of shares subscribed (exclusive of U. S. Government subscription) | 155, 687 | 197, 452 | 41, 765 | 26. 8 |
| Average number of shares per account | 9. 9 | 8. 9 | | |
| SHARE LIABILITIES | | | | |
| Cash paid on private subscriptions | $1, 599, 104 | $4, 341, 709 | $2, 742, 605 | 171. 5 |
| U. S. Government subscription | | 2, 812, 350 | 2, 812, 350 | |
| Total | 1, 599, 104 | 7, 154, 059 | 5, 554, 955 | 347. 4 |
| Average paid on private subscriptions | 102 | 195 | 93 | 91. 2 |
| Mortgage loans | | 5, 624, 439 | 5, 624, 439 | |
| BORROWED MONEY | | | | |
| Federal Home Loan Bank advances | | 327, 929 | 327, 929 | |
| Other sources | | 23, 450 | 23, 450 | |
| Total | | 351, 379 | 351, 379 | |

*Increase—Federal savings and loan associations during September*

| | September 1, 1934 | October 1, 1934 | Percent increase |
|---|---|---|---|
| 1. Charters issued: | | | |
| *a.* To new associations | 406 | 434 | 6. 9 |
| *b.* To associations converted from State institutions | 92 | 114 | 24. 0 |
| Total charters issued | 498 | 548 | 10. 0 |
| 2. Charters pending: | | | |
| *a.* For new associations | 220 | 215 | [1] 2. 3 |
| *b.* For associations converted from State institutions | 173 | 187 | 8. 1 |
| Total charters pending | 393 | 402 | 2. 3 |
| 3. Resources: | | | |
| *a.* Of associations chartered | $75, 321, 616 | $85, 491, 157 | 13. 5 |
| *b.* Of associations for which charters are pending | 212, 944, 400 | 231, 665, 127 | 8. 8 |
| Total resources | 288, 266, 016 | 317, 156, 284 | 10. 0 |
| 4. Subscriptions by the Secretary of the Treasury: | | | |
| *a.* Requested | 6, 151, 500 | 7, 936, 600 | 29. 0 |
| *b.* Approved and paid for | 2, 852, 800 | 4, 132, 800 | 44. 8 |

[1] Decrease.



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# INSURANCE OF INVESTMENTS IN BUILDING AND LOAN ASSOCIATIONS BEGINS

Federal insurance of investments in thrift, home-financing institutions has begun. A new era of safety for the savings of the public was inaugurated with the delivery on October 25 to Mr. I. Friedlander, president of the Gibraltar Savings and Building Association of Houston, Tex., of insurance certificate no. 1 of the Federal Savings and Loan Insurance Corporation. The presentation took place at the convention of the United States Building and Loan League on the occasion of Mr. Friedlander's induction into the presidency of the League.

This first certificate insures the solvency of $7,482,951.89 belonging to several thousand shareholders. At the same time, certificate no. 350 was delivered to the retiring president of the League, Mr. Philip Lieber, covering the first Federal Savings and Loan Association of Shreveport, Shreveport, La. The insurance coverage of this certificate is $7,330,727.65.

Thus almost exactly 4 months from the date of the President's approval of the act creating the Federal Savings and Loan Insurance Corporation, it had begun extending protection to the solvency of savings in building and loan associations. In this connection, it may be pointed out that within 3 months after insurance of liquidity of bank deposits became effective approximately $2,000,000,000 of deposits flowed back into the banks.

The Federal Savings and Loan Insurance Corporation was a response to a widespread demand on the part of building and loan associations for such protection. All Federal savings and loan associations must make application for insurance. State-chartered building and loan associations are entirely free to apply for insurance or not, as they wish. Accounts are insured up to $5,000 per member. The spirit in which the Insurance Corporation was created and in which it is being administered is to provide safety to the members of, and a maximum of service to, such thrift, home-financing institutions as desire it, and are eligible for it.

The insurance of shareholders is an insurance of solvency and not of liquidity. That is a vital distinction. The Insurance Corporation is soundly planned. It has a capital of $100,000,000 subscribed by the Government. The premium is ample to build up adequate reserves.

The cost of the insurance cannot be measured by the amount of the insurance premium alone. A recent survey prepared by the American Savings, Building and Loan Institute disclosed the fact that 9 out of 10 people prefer the safety of Federal insurance though it means a lower return. This suggests that insured institutions will attract funds with a lower dividend rate than uninsured institutions. The difference may very well be more than the quarter of 1 percent set up for the first year or even the half of 1 percent maximum premium and assessment possible. In that event, the insurance will actually be profitable to the institution, as well as being attractive to its members.

On the other hand, sound institutions need have no fear of the difficulty nor cost of examination. As the trustees of the Corporation pointed out in the foreword to the regulations: "It is especially desired to minimize the 'paper work' and expense incident to making application for insurance. The forms to be used will be as brief as possible. It is hoped that a consid-



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erable number of applicants can be insured without examination other than an audit of the report submitted by the applicant at the time it requests insurance of its accounts. In some instances, of course, an examination of the books and affairs and, at times, an appraisement of the assets, of the applicant will be necessary before eligibility for insurance can be established."

Progress made by the Corporation to October 20 is indicated in the accompanying table.

*Federal Savings and Loan Insurance Corporation summary of operations to Oct. 20*

| | Requests for forms | Completed applications filed | Share and creditor liabilities | Total assets |
|---|---|---|---|---|
| New Federal savings and loan associations | 559 | 274 | $6, 016, 036 | $6, 410, 177 |
| Converted Federal savings and loan associations | | 76 | 58, 606, 439 | 63, 669, 086 |
| State-chartered associations | 212 | 15 | 16, 932, 403 | 19, 298, 041 |
| Total | 771 | 365 | 81, 555, 148 | 89, 377, 304 |



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# APPLICATIONS TO HOME OWNERS' LOAN CORPORATION DECREASE

Applications for refinancing loans from the Home Owners' Loan Corporation fell to a new low during September, declining from 72,022 in August to 39,317 in September. The number of applications registered the sharpest drop (nearly 50 percent) for any single month since the beginning of operations more than a year ago. The peak was reached in March when 168,273 home owners applied for relief. Except for a slight rise in August the decrease has been continuous since that time. This is encouraging evidence that acute distress of home owners has diminished and that stability is being restored to the home-financing structure.

The number of loans closed by the Corporation during the month was 59,240, involving $179,299,857. This brought the total of loans made by the Corporation up to September 30 to 551,924, totaling $1,656,212,867. Loans closed averaged $3,001.

Concerning the future of the Home Owners' Loan Corporation, Chairman Fahey said in an address in Chicago on October 4: "What of the future of the Home Owners' Loan Corporation? We have ample funds to carry on and clear up loans at the present rate until next year. We intend to go on closing them as rapidly as possible, consistent with justice and care. We are today in a better position to do this in fairness to all concerned as the result of an intensive reexamination of applications which we have conducted in recent months.

"Under the law, the Corporation will stop lending by June 1936. Congress plainly intended that the work of the Corporation should be regarded as emergency in character. Present resources will be exhausted by next spring. The question then will be whether it is necessary or desirable for Congress to place more funds at the disposal of the Corporation. Whether it will then be apparent that the emergency has not yet been met and that additional resources must be provided will, we think, depend entirely upon the conditions that exist early next year.

"If the private lending institutions of the country are then in a position to resume their normal functions and meet the situation, it should not be necessary for the Government to go further. In the judgment of our Board the lending activities of the Corporation should cease just as soon as the private institutions are able to meet the needs of the home owners of the country."

*Home Owners' Loan Corporation—Summary of operations* [1]

| Months | Number of applications received, by months | Loans closed, by months | |
|---|---|---|---|
| | | Number | Amount |
| **1933** | | | |
| From date of opening to 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 |
| Cumulative total through Sept. 30, 1934 | 1, 691, 128 | 551, 924 | 1, 656, 212, 867 |

[1] These monthly data are subject to adjustments.



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# CENTRALIZED EXAMINING DIVISION

By resolution of the Federal Home Loan Bank Board on October 9, 1934, a new examining division of the Board was established with the following duties:

1. The annual or more frequent examination[1] of all Federal savings and loan associations, and the audit of reports required of such associations.

2. The examination of any member of a Federal Home Loan Bank whenever requested by such bank, and the audit of reports required of members of the Federal Home Loan Bank System.

3. The annual examination of any institution insured by the Federal Savings and Loan Insurance Corporation, and the more frequent examination of any such institution if requested by that Corporation, and the audit of reports required of insured institutions.

4. The review of outside audits of all institutions subject to examination under the supervision of the Federal Home Loan Bank Board.

The new Examining Division replaces the 13 different examining units formerly maintained by the 12 regional Home Loan Banks and by the Board in Washington. Henceforth all examinations of member institutions, and of nonmember institutions applying for insurance, will be carried out by the examining division, headed by a chief examiner, who reports directly to the Board. A district examiner is assigned to each regional Bank, and will report to the chief examiner in Washington.

The former practice of having the examinations conducted by 13 separate units had the defects of excessive expense, unavoidable delays, lack of uniformity in audits and examinations, and relatively inflexible operation. The urgent need of greater uniformity was shown shortly following the establishment of the Federal Savings and Loan Insurance Corporation, which disclosed the risk that unduly severe examinations in certain areas might in some cases prevent the insurance of actually solvent, well-managed institutions, while relative laxity of examination in other areas might result in the approval of applications for insurance of comparatively weak institutions.

The decision to establish a single examining division in Washington, properly coordinated with the regional Home Loan Banks, is expected not only to eliminate these hazards but materially to expedite the required examinations and audits. It will likewise result in direct operating economies, to the benefit of the Federal Home Loan Banks and their membership.

[1] The term "examination" as used in the resolution includes: (*a*) Review of audits or examinations made by other regulatory authorities or independent investigators; (*b*) audit of reports submitted by institutions named herein; (*c*) examination of the books and records of such institutions at their offices or elsewhere; and (*d*) appraisal of real estate, mortgages, or other assets.



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# RESOLUTION OF THE BOARD AFFECTING CONVERSION

As an aid to building and loan associations that desire to convert into Federal savings and loan associations, the Federal Home Loan Bank Board passed on October 22 the following resolution concerning the handling of assets which it is not desirable for a Federal association to hold:

"*Be it resolved by the Federal Home Loan Bank Board,* That in all cases of members of Federal Home Loan Banks desiring to convert themselves into Federal savings and loan associations where such institutions hold assets which it is not desirable for a Federal savings and loan association to hold, the following procedure is recommended:

"1. In cases where the existing institution can convey the acceptable assets and retain and manage and liquidate the remaining assets, it is recommended that a new Federal savings and loan association be organized to take over such acceptable assets and issue shares therefor on some reasonable basis subject to the approval of the Board.

"2. In cases where the existing institution is unable to retain and manage and liquidate the remaining assets, but can convey the same to trustees or to a holding company for the benefit of its shareholders, it is recommended that such unacceptable assets be conveyed to trustees or to a holding company for the benefit of the interested parties on an equitable basis and that the acceptable assets be conveyed to a new Federal savings and loan association in exchange for its shares on a basis subject to the approval of the Board.

"3. In cases where the existing institution can neither retain such unacceptable assets, administer or liquidate the same, nor convey the same to a holding company or trustees for the benefit of interested parties on an equitable basis, it is recommended that such institution segregate its assets into acceptable and unacceptable assets and request that it be converted into a Federal savings and loan association upon a basis of the issuance of Federal savings and loan association shares against such acceptable assets and the immediate transfer by the Federal savings and loan association of the unacceptable assets to trustees or to a holding company, the management or control of which is legally vested in the individuals who are the directors of the Federal savings and loan association and their successors in office, in consideration of the issuance to the shareholders or other interested parties on an equitable basis of debentures or shares or other certificates of interest, and in further consideration of the vesting by some legal means of such control for the period of management and liquidation of such assets for the benefit of those who are entitled thereto; be it further

"*Resolved,* That it be recommended that in all such cases an examination be made by the Examining Division of this Board to ascertain the facts as to the proper segregation of such assets and as to the proper basis of such transfers and of conversion, and that after such examination the plan be submitted to this Board for consideration before the same is acted upon by such institution; be it further

"*Resolved,* That a resolution for the accomplishment of the last-mentioned plan be recommended as follows:

"'Whereas it is the desire of this association to convert itself into a Federal savings and loan association under the provisions of Home Owners' Loan Act of 1933, as amended; and



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"'Whereas an examination has been made of its affairs and of its assets and such assets as are set out in exhibit A, hereto attached and referred to as a part of these resolutions, appear to be acceptable as sound assets for a Federal savings and loan association; and

"'Whereas the assets listed in exhibit B, hereto attached and referred to as a part of these resolutions, are of such uncertain value as to be unacceptable in a Federal savings and loan association and too uncertain to issue Federal savings and loan shares against: Therefore be it

"'*Resolved,* That this institution file a petition to the Federal Home Loan Bank Board for conversion into a Federal savings and loan association under the name and style of "---------- Federal savings and loan association of ----------" or such other name as to said Board may appear to be appropriate, that all costs in connection with such conversion to be paid by the association, that the officers be directed to take all action necessary and sign all the papers and documents necessary and appropriate to the accomplishment of such a conversion; be it further

"'*Resolved,* That the converted association continue obligated upon any outstanding creditor obligations for which Federal savings and loan shares are not issued; be it further

"'*Resolved,* That the assets shown on exhibit A, hereto attached and hereby referred to, be retained by the converted association and that the Federal savings and loan association issue its shares to the present shareholders or stockholders or other interested parties, on a pro rata basis for a total amount equivalent to the assets shown on said exhibit A less (1) the sum of ------ dollars which is hereby established as a reserve for the converted association, and (2) the sum of ------ dollars representing any remaining outstanding creditor obligations of the converted association; be it further

"'*Resolved,* That all of the assets shown on exhibit B, hereto attached and hereby referred to, be promptly transferred to a corporation (or to trustees if this method is preferable), the form of the organization of which has been explained, and is approved and is inserted in the minutes along with these resolutions, and the control of which is vested in directors who are the same individuals as the directors and their successors in office of this association, or who are selected by the directors of this association (or in the case of a trust, the trustees are the same individuals as the directors of this association and their successors in office, or are selected by the directors of this association). Such transfer of assets shall be made in consideration of the issuance to the shareholders and other interested parties of shares, debentures, or certificates of interest on a pro rata basis and in consideration of provision for control as is herein provided.'"



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# PRINTED MATERIAL AVAILABLE FROM THE FEDERAL HOME LOAN BANK BOARD

In connection with the 4 agencies under its administration, the Federal Home Loan Bank Board has available the following printed material.

### CURRENT

1. Federal Safeguards and Private Initiative in American Home Financing. An address by John H. Fahey, Chairman, Federal Home Loan Bank Board before the annual convention of the United States Building and Loan League, New Orleans, October 25, 1934.

### PERMANENT

1. Rules and regulations for Federal savings and loan associations. Revised edition, October 1934.
2. Federal Savings and Loan Insurance Corporation: Rules and regulations for insurance of savings and loan accounts.
3. How to organize a Federal savings and loan association.
4. Federal savings and loan associations. What they are—Conditions under which they may be organized.
5. Outstanding features of Federal savings and loan associations from the viewpoint of the investor, the home owner, and the executive of a thrift institution.

### BOOKLETS AND LEAFLETS SUITABLE FOR LOCAL DISTRIBUTION BY FEDERAL SAVINGS AND LOAN ASSOCIATIONS

1. Build financial independence through Federal savings and loan shares.
2. To Build, Improve, Refinance your Home; an outline of the advantages of borrowing from a Federal savings and loan association.
3. Four leaflets describing types of shares:
   - a. Installment thrift shares.
   - b. Optional savings shares.
   - c. Prepaid shares.
   - d. Full pay incomes shares.
4. Insurance for your long-term savings.



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