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Federal Home Loan Bank Review

TABLE OF CONTENTS

| | Page |
|--|------|
| The path to more business for thrift, home-financing institutions..... | 65 |
| Federal financial participation in home financing, home building, and housing..... | 68 |
| The rules and regulations for insuring building and loan accounts..... | 75 |
| Study of foreclosures in a building and loan association..... | 79 |
| Home reconditioning under the Home Owners' Loan Corporation..... | 85 |
| Dividend status of the Federal Home Loan Bank System..... | 87 |
| Combined statement of condition of the Federal Home Loan Banks..... | 90 |
| Federal Home Loan Bank interest rates on advances to member institutions | 92 |
| Federal Savings and Loan Insurance Corporation summary of operation.. | 93 |
| Federal savings and loan associations..... | 94 |
| Home Owners' Loan Corporation suspends activity on applications..... | 99 |
| Resolution of the Board governing deposits..... | 102 |

SUBSCRIPTION PRICE OF REVIEW

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

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The Path to More Business for Thrift, Home-Financing Institutions

By

H. F. CELLARIUS

Secretary, United States Building and Loan League

THE 3,000 member institutions have a line of credit with the Federal Home Loan Bank System of \$250,000,000. They are now using only \$87,000,000 of that sum. While the balance, \$163,000,000, of immediately available credit lies untouched—not to mention the vastly greater potential credit which the System could supply by the sale of bonds or debentures—many member institutions are failing to meet their communities' legitimate needs for funds to refinance existing home mortgages and to finance the building of new homes.

It is obvious that the Government does not wish to enter permanently into the business of extending funds for home financing to those economically able to provide themselves adequate housing. Within the last month the Home Owners' Loan Corporation has suspended the acceptance of further applications for loans in the hope that private capital is now in a position to take over the burden. The whole intent of the Government's program for the permanent organization of the home-financing system as reflected in the Federal Home Loan Bank Board and its affiliated agencies and in the Federal Housing Administration is to give protection and encouragement to private capital.

The invitation to building and loan, savings and loan, and homestead associations, and to cooperative banks and savings banks

to shoulder the major burden of the Nation's home financing is particularly strong. The basic features of the Government's program give signal recognition to the principles and methods of home financing for which these institutions have pioneered. The Federal Home Loan Bank System, the Federal savings and loan associations, and the Federal Savings and Loan Insurance Corporation all stamp the building and loan principle as the ideal for the financing of homes and recommend building and loan associations to the favorable attention of the public, both as a place to invest their savings and to finance their homes.

In the excitement of these times, it is doubtful whether the Nation's thrift, home-financing institutions have fully appreciated the significance of this Federal action in their behalf or have considered what it may mean to them in future business. If they had and if they understood the nature of the opportunity now lying on their doorstep, \$163,000,000 of credit would not be lying unused in the Federal Home Loan banks. Rather, the banks would be exercising their prerogative of issuing debentures to the public to increase funds.

THE LOSS OF AN OPPORTUNITY FOR CAPTURING NEW BUSINESS

IN NOT using to the full the facilities of the Federal Home Loan Bank System, building

and loan associations and savings banks are losing their opportunity to capture the major share of the Nation's home-financing business. They are failing to capitalize the good will of hundreds of thousands of actual and potential investors and home owners who have never before employed the services of building and loan associations. The surest way for solvent building and loan associations to start again and swell the flow of savings into their vaults is to let the community know that they are meeting withdrawals and aggressively seeking new business. New loans in the portfolio of an association will augment its earnings, strengthen the morale of active officers and employees, and incur the public favor which is the lifeblood of savings institutions. Of course, new business means new risks. New business always has and always will. But the risk is far less now, when real-estate values have shrunk to the lowest point in years, than it was in 1928 when building and loan associations were lending freely and widely.

It has been an axiom among financing institutions that a bank should not borrow to make loans. Like many another axiom, this has a weight of tradition which analysis does not fully justify. Every bank violates the axiom whenever it rediscounts short-term paper with the Federal Reserve System. The money the bank obtains, it uses to lend again. Advances from the Federal Home Loan Bank System to member institutions are for exactly the same purpose. The only difference is that while the Federal Reserve System advances short-term funds on short-term paper, the Federal Home Loan Bank System advances long-term funds on long-term paper. The danger in the long-term operation is no greater, because the System is organized to make that kind of an advance.

Moreover, practically all money loaned by financing institutions is borrowed money. It is borrowed from their depositors and shareholders. Every dollar received from such sources must be repaid

either upon demand or after a relatively short interval. Advances to member institutions from the Federal Home Loan banks are not subject to such unpredictable demands. They are obtained upon a legal contract which guarantees that the funds will not be demanded as long as the obligations of the contract are met.

This is not to argue that home-financing institutions should obtain all or a majority of their funds from the Federal Home Loan Bank System. This System constitutes a reserve to be called upon mainly in emergency. If an institution were to use this reserve to the full at all times, it would lose the protection necessary to meet unexpected demands either for withdrawals or new loans. However, the present is an emergency. This is a time when home-financing institutions need and should use the reserves in the Federal Home Loan Banks to the full, for that—as has been pointed out—is the surest way to start again the flow of savings which will make the extensive use of reserves unnecessary.

THE IMMEDIATE PROGRAM

The immediate program for the Nation's thrift, home-financing institutions seems clear. All solvent institutions that have not already done so should take full advantage of the facilities offered by the Federal Home Loan Bank System. Members should borrow from the System to clear up withdrawal lists and place themselves in a position to secure new investments. They should borrow to meet the demand for new loans.

The Federal Home Loan Bank System offers its members short-term credit to meet maturities or sudden demands by shareholders and depositors. It offers them long-term funds for the creation of new business. It offers them something that they can get from no other source, namely, cash that they can count on for a definite period of time. It offers them

these funds with a minimum of red tape or delay at rates ranging from 4 to 5 percent, which are fully in keeping with the rates they should pay their shareholders and depositors.

Any association whose hands are tied by large percentages of non-income-producing assets should consider the plan presented in the November issue of the *REVIEW* for segregating its assets and reorganizing into an active institution—using funds obtained

from the Federal Home Loan Banks and possibly also from conversion into a Federal savings and loan association—and into a separate liquidating institution.

There seems to be, in the offing, such business for the Nation's thrift, home-financing institutions as they have never known before, and the Federal Home Loan Bank System and its affiliated agencies are organized to enable them to capture this business.

Loans—Federal Home Loan Bank System

| | Loans advanced cumulative | Amount repaid cumulative | Balance loans outstanding at end of month |
|----------------|------------------------------|-----------------------------|---|
| 1932 | | | |
| December..... | \$837, 500. 00 | None | \$837, 500. 00 |
| 1933 | | | |
| January..... | 3, 896, 800. 00 | \$540. 00 | 3, 896, 260. 00 |
| February..... | 9, 234, 086. 00 | 50, 440. 00 | 9, 183, 646. 00 |
| March..... | 22, 957, 191. 00 | 258, 730. 00 | 22, 698, 461. 00 |
| April..... | 31, 268, 587. 66 | 728, 872. 46 | 30, 539, 715. 30 |
| May..... | 39, 991, 391. 12 | 1, 059, 087. 37 | 38, 932, 303. 75 |
| June..... | 48, 816, 812. 41 | 1, 237, 932. 82 | 47, 578, 879. 59 |
| July..... | 55, 493, 515. 95 | 1, 748, 851. 92 | 53, 744, 664. 03 |
| August..... | 61, 907, 694. 54 | 2, 101, 441. 84 | 59, 806, 252. 70 |
| September..... | 68, 916, 370. 74 | 2, 586, 878. 49 | 66, 329, 492. 25 |
| October..... | 76, 948, 584. 23 | 3, 838, 473. 32 | 73, 110, 110. 91 |
| November..... | 85, 233, 120. 49 | 4, 534, 117. 35 | 80, 699, 003. 14 |
| December..... | 93, 865, 344. 49 | 5, 423, 490. 12 | 88, 441, 854. 37 |
| 1934 | | | |
| January..... | 99, 601, 833. 90 | 7, 104, 900. 42 | 92, 496, 933. 48 |
| February..... | 102, 958, 427. 04 | 8, 918, 592. 32 | 94, 039, 834. 72 |
| March..... | 105, 957, 441. 60 | 12, 832, 635. 60 | 93, 124, 806. 00 |
| April..... | 108, 313, 841. 53 | 19, 391, 819. 12 | 88, 922, 022. 41 |
| May..... | 112, 816, 968. 63 | 25, 975, 167. 37 | 86, 841, 801. 26 |
| June..... | 116, 466, 572. 63 | 30, 218, 218. 54 | 86, 248, 354. 09 |
| July..... | 119, 587, 357. 29 | 33, 864, 475. 74 | 85, 722, 881. 55 |
| August..... | 122, 158, 821. 93 | 36, 640, 001. 14 | 85, 518, 720. 79 |
| September..... | 125, 355, 071. 93 | 38, 708, 137. 66 | 86, 646, 934. 27 |
| October..... | 128, 733, 125. 16 | 41, 286, 794. 30 | 87, 446, 330. 86 |

Federal Financial Participation in Home Financing, Home Building, and Housing

IN THE last two years the economic situation has compelled the Federal Government to take several steps affecting the Nation's activities in home financing, home building, and housing. The number and variety of these steps in so short a period has inevitably led to some confusion in the public mind, particularly as to what governmental funds are available for what purposes. This confusion can best be eliminated and a clear picture of the Government's activities obtained by an examination of the conditions that inspired them.

In the spring of 1933 the Government found itself faced with three related problems involving housing:

1. The avalanche of foreclosures on homes and other properties caused by the

inability of mortgagors to pay interest and principal due and the resultant collapse of the mortgage structure and of the real-estate market.

2. The inability of a dangerously large percentage of the population to provide themselves adequate housing.

3. The widespread unemployment in the building industry.

These problems were far from simple. In some respects they were temporary; in others, of long term. Insofar as they constituted an immediate threat to the economic and social structure, they demanded direct and drastic action. Insofar as they revealed permanent weaknesses they demanded basic and far-sighted programs of reform to forestall their recurrence. The solution of all of them hinged on the use

Federal agencies using Government credit to aid home financing, home building, and housing

| GROUP I Extending mainly emergency credit direct | GROUP II Financing and/or executing housing projects | GROUP III Using Federal credit to protect and encourage private capital |
|---|---|--|
| 1. Home Owners' Loan Corporation. 2. Farm Credit Administration: a. Land bank commissioner. b. Federal Land Banks. ¹ c. Production Credit Associations. ¹ 3. Reconstruction Finance Corporation. | 1. Public Works Administration; Housing Division and Emergency Housing Corporation. 2. Federal Subsistence Homesteads Corporation. 3. Federal Emergency Relief Administration: a. Rural rehabilitation program. b. Industrial rural communities. c. Reconditioning of homes occupied by tenants on relief rolls. 4. Tennessee Valley Authority. | 1. Federal Home Loan Bank Board: a. Federal Home Loan Bank System. b. Federal savings and loan associations. c. Federal savings and loan insurance corporation. 2. Federal Housing Administration: a. Modernization credit program. b. Mutual home mortgage insurance. c. National mortgage associations. |

¹ Federal land banks and production credit associations are *permanent* agencies for the extension of credit through national farm loan associations or directly to farmers.

of Federal credit but in a variety of ways. To stem foreclosures, halt the tailspin of the real-estate market, and the collapse of the mortgage structure, Federal credit had to be extended directly but temporarily to distressed owners of homes and farms on the one hand and to mortgage-financing institutions on the other. Such use of Government funds was corrective and involved principally the recasting of existing mortgage indebtedness. To provide adequate housing to the victims of economic maladjustment, Federal credit has been extended directly for new building. To revive on a large scale home building and employment in the construction industries, Federal credit has been extended indirectly to protect and encourage private capital.

These distinctions are not absolute because the problems and objectives are not unrelated. Encouraged private credit, for example, does its share of refinancing of existing mortgages, and slum clearance contributes to reemployment in the building trades. Also some of the Government's agencies deal with both the emergency and the long-term situation. Nevertheless, the distinctions are in the main valid and they supply clarifying groupings under which to list the Federal agencies that have been set up to deal with home financing, home building, and housing.

GROUP I

Federal agencies extending relief and emergency credit directly for home financing but in the main temporarily

1. *Home Owners' Loan Corporation.*—Administered by the Federal Home Loan Bank Board. Empowered to make loans directly to *distressed* urban home owners only, either to refinance an existing mortgage, to pay back taxes, or to recondition the home. Corporation must hold the first lien against property. Loans may amount to 80 percent of the appraised value of the property with a maximum of \$14,000; are to be amortized over a period of 15 years, and bear 5 or 6 percent interest, depending

on the type. Resources: \$3,000,000,000 in bonds; \$200,000,000 in cash. Empowered to make loans until June 13, 1936. Suspended taking of applications on November 13, 1934. Had refinanced mortgages on approximately 650,000 homes by that date. Expects to refinance about 400,000 additional mortgages for which applications are now pending.

2. *Farm Credit Administration.*—(Lending activities affect housing only as it is part of a farm.)

a. *Land Bank Commissioner.*—Empowered to make loans up to \$7,500 directly to farmers to refinance indebtedness, provide working capital, or redeem foreclosed farm property owned by him before foreclosure. Loans may be secured by a first or second mortgage. Amount of loan together with all prior indebtedness against the property may not exceed three-fourths of its appraised value. Loans are amortized over periods ranging from 13 to 40 years, depending on collateral. No payments on principal required during first three years if borrower not in default with respect to any other provision of his mortgage. Interest rate is 5 percent. Resources: Up to \$600,000,000 in bonds of the Federal Farm Mortgage Corporation. Loans may be made until February 1, 1936. Loans handled for the Commissioner by the 12 Federal land banks.

b. *Federal Land Banks.*—Constitute a permanent system of 12 banks. Empowered to make loans to farmers on first-mortgage security only, to refinance existing indebtedness, to purchase land for agricultural uses, to purchase livestock, equipment, fertilizers, to provide buildings, to improve farm land, to provide funds for general agricultural uses, and to liquidate indebtedness of the owner of the land mortgaged, incurred for agricultural purposes, or incurred to January 1, 1933. May make long-term loans in sums ranging from \$100 to \$50,000. Loans may not exceed 50 percent of the appraised normal value of the land plus 20 percent of the

appraised value of the insured, permanent improvements. Term of loans from 20- to 30-odd years. Interest rate 5 percent, with temporary reduction to 4½ percent where loans are made through national farm-loan associations prior to May 12, 1935. Direct loans are made by the banks at one-half of 1 percent higher rate. On loans made before May 12, 1935, postponement of payments on principal permitted until July 11, 1938.

Borrowers apply for loans to local national farm-loan associations, of which there are more than 4,600. Each borrower subscribes for stock in the association to the extent of 5 percent of his loan, and the association in turn subscribes for a like amount of stock in the Federal land bank of the district. In areas where associations are not making loans, farmers make application directly to the bank of the district and purchase stock in it.

Loans now being made mainly in bonds of the Federal Farm Mortgage Corporation, which is authorized to issue and have outstanding at any one time not exceeding \$2,000,000,000 in bonds. Prior to organization of the Farm Credit Administration the Federal land banks had outstanding approximately \$1,100,000,000 in farm-mortgage loans. Normally they secure funds to loan through sale of their own bonds. May resume selling their bonds with the passing of the emergency.

Long-term farm loans, June 1, 1933, to Nov. 21, 1934

| | Number | Amount |
|------------------------------------|----------|------------------|
| By Federal Land Banks. | 212, 439 | \$818, 792, 546 |
| By Land Bank Commissioner. | 331, 291 | 583, 010, 470 |
| Total. | 543, 730 | 1, 401, 803, 016 |

c. Production Credit Associations.—Permanent agencies empowered to make loans to farmers for general agricultural purposes, including improvement of farm dwellings. Dwelling-improvement loans may be part of agricultural-production

loans or in addition to them. To obtain a production loan borrower must own or purchase Class B stock in the association equal to \$5 for every \$100 or part of \$100 borrowed. Interest is 5 percent. Farmers who already own or purchase stock in connection with a production loan may obtain an additional "housing" loan without further purchase of stock, but interest on such additional loan is 6 percent. Class B stockholders of the associations may at their next meeting determine whether such "housing" loans shall be made to farmers who are not Class B stockholders.

3. Reconstruction Finance Corporation.—Empowered to make loans directly to financial institutions and corporations in order (among other purposes) to relieve pressure on them, and to assist in their reorganization or liquidation. Loans to such institutions have enabled them to continue to carry mortgages and have thus bolstered the mortgage structure and protected the home-owner borrower. Total advances for all purposes to September 30, 1934, \$8,092,477,460. Impossible to state exactly what percentage of these advances are secured by mortgage collateral or less directly have protected home financing. However, home financing and the mortgage structure have benefited largely from the following disbursements:

Advances affecting mortgage structure by Reconstruction Finance Corporation and repayments up to Sept. 30, 1934

| | Proceeds disbursed | Repayments |
|--|--------------------|------------------|
| To mortgage loan companies. | \$276, 204, 705 | \$115, 437, 610 |
| To building and loan associations. | 114, 920, 824 | 86, 669, 235 |
| To banks and trust companies. | 1,681,124,587 | 1, 089, 152, 118 |
| For repair and reconstruction of buildings damaged by earthquake, fire, and tornado. | 8, 521, 106 | 270, 447 |

Corporation will purchase preferred stock, capital notes, or debentures of trust

companies and make loans to trust companies and mortgage loan companies engaged in the business of lending upon real estate to enable such companies: (1) to make advances to holders of mortgages or mortgage bonds or certificates on the security thereof; (2) to refinance mortgages where the value and/or income of the mortgaged property will adequately support the new mortgages; (3) to assist in preservation and reorganization of distressed properties for protection of the holders of the mortgage bonds or certificates; and (4) to provide mortgage money for new building projects on a sound basis.

Also empowered, under the Act of June 1934, to make loans for industrial purposes to an aggregate of \$300,000,000. Up to October 15, out of a total of \$15,766,875 authorized, \$4,174,000 had been authorized and \$938,000 disbursed to contractors, manufacturers of and dealers in building materials.

In March 1933, prior to creation of the Public Works Administration, loaned over \$8,000,000 at 5 percent to a limited-dividend corporation in New York City to finance a slum-clearance and model-housing project covering four city blocks. Project now completed.

GROUP II

Federal agencies financing and/or executing directly housing projects

1. *Public Works Administration: Housing Division and Housing Corporation.*—Empowered to proceed with “construction, reconstruction, alteration, or repair under public regulation or control of low-cost housing and slum-clearance projects; . . . to construct, finance, or aid in the construction or financing; . . . to make grants to States, municipalities, and other public bodies . . . of 30 percent of the cost of labor and material; . . . to acquire by purchase, or by exercise of the power of eminent domain, any real or personal prop-

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erty in connection with the construction of any such project, and to sell any security acquired or any property so constructed or acquired or to lease any such property with or without the privilege of purchase.”

Public Works Emergency Housing Corporation, created to expedite that part of the work of the Housing Division relating especially to initiation and execution of projects by the Government. As the result of conflicting rulings by the Attorney General and the Comptroller of the Treasury as to the powers of the Corporation, its active functioning as a separate entity has been suspended pending further legislative authorization.

Because of the existence of other legislation carrying authorization for reconstruction, alteration, or repair under the direction of other Government agencies . . . and for other reasons the Public Works Administration has concerned itself chiefly with new construction. Has authorized loans totaling \$11,000,000 for low-cost housing and slum-clearance projects to seven limited-dividend corporations. No further loans are being made to such corporations. These loans have required 15 percent equities, carry 4 percent interest, and are subject to amortization over periods ranging from 15 to 33 years. Limited-dividend corporations have not been entitled to grants.

Federal projects to the amount of approximately \$135,000,000 have been authorized or are in process of development. This type of project makes possible the 30-percent grant without which the objective of really low-rent housing seems impossible of realization under present conditions. Interest on amount of project cost in excess of grant is 3 percent, and such cost is amortized over a period not to exceed 45 years.

2. *Federal Subsistence Homesteads Corporation, Department of the Interior.*—Empowered to finance and build homesteads on which families may raise much or nearly all of their food. Work is ex-

perimental and demonstrative. Primary purpose is to correct the overbalance of population in industrial centers. Not purely a relief operation. Four types of projects are under way: (1) small garden plots close to large industrial centers; (2) larger homesteads near decentralized industrial towns; (3) rural projects designed to prove that rural life may be made self-sufficient and attractive; (4) projects to accommodate workers left "stranded" by the closing or removal of industries.

Homestead consists of dwelling and outbuildings on a plot varying from 1 to 30 acres. Houses vary in size from 3 to 6 rooms. Communities contain from 25 to 500 homesteads. Total cost per homestead complete ranges from \$1,500 to \$4,000. This includes also tools, seeds, and fertilizers, chickens, pigs, and perhaps a cow and a horse.

Homestead is sold to the family without required down payment. Cost is amortized over a period of 30 years, at 3 percent interest. Resources: \$25,000,000, to serve as a revolving fund. Repayments will permit the financing of new projects. By November 24, approximately \$18,000,000 had been allocated to 62 projects and nearly \$5,000,000 spent. A total of 777 homestead houses were completed, under construction, or under contract. These projects alone will accommodate more than 6,700 families. A score of further projects are under study.

3. *Federal Emergency Relief Administration*.—Aids in the construction of homes and in the reconditioning of homes in connection with relief or as substitute for direct relief. All work directed by State relief administrations.

a. *Rural rehabilitation program*.—Is helping some 84,000 destitute farm families toward land ownership, removing them from direct relief lists. Farms are leased until end of 1935 with understanding the families which demonstrate fitness may then buy that or other land on long-term

payments. Loans enable families to obtain tools, animals, and seed.

b. *Industrial rural communities*.—Similar to subsistence homesteads except that they aid destitute families only. Small colonies with 10 to 20 acres per family, some semi-industrial, others purely agricultural. Plan already tested in three locations; construction soon to start on 12 additional projects; 50 planned. Houses of 3 to 5 rooms with outbuildings, to cost from \$900 to \$2,500. Cost to be held to minimum in every case. Designed to be self-liquidating, either through lease or long-term sale.

c. *Reconditioning by unemployed building-trades men of homes occupied by tenants receiving relief*.—Labor performed and materials supplied are charged off against rentals. In October approximately 4,000 men were engaged in this work in 23 States.

4. *Tennessee Valley Authority*.—Building—as part of its planning of the region—Norris, Tennessee, as a complete and self-contained community to house the families of some 2,000 workers on Norris Dam. Owns the land and rents the homes at \$14 to \$45 a month. Each family is allocated the free use of a garden spot within the village. Had built by September 30, 270 homes and 5 apartment houses. Funds allocated, \$3,600,000; expended \$2,850,000. Other building on a smaller scale at Wheeler Dam, Wilson Dam, and Pickwick Dam.

GROUP III

Permanent agencies using government credit to protect and encourage private capital for home financing

1. *Federal Home Loan Bank Board*.—a. *Federal Home Loan Bank System*.—A national home-financing reserve system of 12 banks empowered to make short- and long-term loans solely to its members, which are building and loan associations, savings banks, and insurance companies. Main

purposes are to increase funds for home financing, encourage low-cost, long-term amortized loans, give liquidity to home mortgages and home-financing institutions, and distribute funds for home financing to all communities in proportion to need. Federal Treasury subscribed to the capital stock of the 12 banks to get them started. Provision is made for the gradual retirement of this Treasury subscription.

Selected statistics on Federal Home Loan Bank System as of Oct. 31, 1934

| | |
|---|--------------------|
| Members----- | 2,925 |
| Total resources of member institutions----- | \$3,243,702,283.00 |
| Federal stock subscription--- | 124,741,000.00 |
| Paid in----- | 81,645,700.00 |
| Subscriptions of member institutions and applicants-- | 23,310,100.00 |
| Paid in----- | 21,213,911.12 |
| Line of credit of member institutions----- | 249,540,234.70 |
| Gross advances to date----- | 128,733,125.16 |
| Total repayments to date---- | 41,286,794.30 |
| Balance outstanding, advances----- | 87,446,330.86 |

Subject to regulation and approval by the Board, each Federal Home Loan Bank may issue bonds or debentures for sale to the public to increase its resources, but as yet none have been issued.

b. Federal savings and loan associations.—Local, mutual, thrift, home-financing institutions under Federal charter and subject to Federal examination. May be newly organized institutions or existing building and loan associations converted from State charters. May be established in any community where funds for home financing are inadequate. To encourage their establishment and increase funds for home financing, Treasury is empowered to subscribe up to 75 percent of the paid-in stock of any Federal association. Resources: \$100,000,000, to remain available until expended. Five years after date of Treasury subscription to any association, Board may call for repayment, but not in

excess of 10 percent of total of Treasury subscription in any one year.

Selected statistics on Federal savings and loan associations as of Nov. 1, 1934

| | |
|----------------------------|--------------|
| Charters issued----- | 577 |
| Subscriptions by Treasury: | |
| Requested----- | \$10,900,600 |
| Approved and paid for----- | 6,373,300 |

c. Federal Savings and Loan Insurance Corporation.—Empowered to insure solvency of investors' share accounts up to \$5,000 per account in thrift, home-financing institutions. All Federal Savings and Loan Associations must and any State-chartered building and loan association may apply for such insurance. Premium for first year one-fourth of 1 percent of all accounts of insured members plus any creditor obligations of the insured institutions. Government has subscribed \$100,000,000 in Home Owners' Loan Corporation bonds to constitute the capital stock of the Insurance Corporation.

2. Federal Housing Administration.—a. Modernization credit program.—In effect only until January 1, 1936, unless extended by Congress. Empowered to guarantee against loss up to 20 percent of the *total amount* loaned by any approved lending agency to property owners for the repair, remodeling, or modernizing of property. Amount of individual loan on which guaranty effective may range from \$100 to \$2,000. Loans are limited as to interest rate, service charges, and terms of repayment. In no instance can the total cost be more than a discount of \$5 on a one-year note of \$100 payable in equal monthly installments, with longer terms and larger amounts at proportionate maximum rates. Total liability of Government on such guaranties may not exceed \$200,000,000.

Empowered also to make loans to insured institutions up to full current face amount of guaranteed loans made by them.

b. Mutual Home Mortgage Insurance.—Empowered to insure on a mutual basis

long-term amortized mortgages on existing homes, new homes, and low-cost housing projects. Premium set is one-half of 1 percent per annum of face amount of new mortgages and 1 percent per annum of face amount of refunded mortgages. Mortgage may not exceed 80 percent of the appraised value of the property nor \$16,000 in amount. Interest rate may not exceed 5 percent on new mortgages nor $5\frac{1}{2}$ percent on refunded mortgages. Government has made available \$10,000,000 as a revolving

fund for this Mutual Home Mortgage Insurance. Insurance of mortgages has already begun.

c. *National Mortgage Associations.*—Privately financed and managed associations under Federal charter and supervision. Empowered (1) to buy and sell mortgages insured in the Mutual Home Mortgage Insurance; (2) to obtain funds by sale of bonds or debentures secured by insured mortgages. Must have a paid-in capital privately subscribed of \$5,000,000.

The Rules and Regulations for Insuring Building and Loan Accounts

INSURANCE of accounts in thrift, home-financing institutions has two purposes—to protect savings and to protect the institutions. The Federal Savings and Loan Insurance Corporation has no interests other than those of its members and their investors. It is endeavoring to restore the confidence with which the saving public long regarded building and loan, savings and loan, and homestead associations, and cooperative banks, and thereby to attract additional funds to them for use in the home-mortgage field.

Recent experience has proved that insurance under Federal supervision is a key to public confidence and a magnet for savings. The duty of the Federal Savings and Loan Insurance Corporation is, therefore, to supply insurance at the lowest price. To do that—keep costs to a minimum and prevent undue losses—it is essential that dependable standards of eligibility be set up and an agreement be reached in a general way with regard to policy and lending practices. What is more, as the Insurance Corporation operates on a national scale, these standards must be national. They cannot be modified to satisfy one set of specialized laws and traditions governing building and loan associations in one State and a different specialized set in another State. As the risks are common to all institutions sharing in the insurance, the standards must be uniform in all sections.

The Corporation does not desire to stress the role of a regulatory authority. There is very little in the regulations that is not

explicit in the Act, or clearly implied. Some regulations are essential to intelligent supervision, and without adequate supervision the cost of insurance would eventually be prohibitive to all concerned. The standards of entrance and operation set by the Corporation exclude no applicant that constitutes a reasonable risk. It is estimated that institutions representing 70 percent of the assets of all building and loan leagues in the country are now eligible for insurance under the regulations. Any considerable additional number could only be included at the cost of a sharp increase in the premium rate which would tend to make the plan unattractive to the majority of the institutions which it is designed to benefit.

If the Corporation's rules and regulations are examined in the light of the above considerations, the necessity for them will become apparent.

ELIGIBILITY FOR INSURANCE

A PLAIN statement of financial condition and lending practices, on forms supplied by the Corporation, together with supporting information, should be sufficient to secure admission for some institutions. If additional examination is considered necessary, it will be undertaken at the applicant's expense, since to impose such charges on the whole body of insured institutions would be clearly unfair. The charges for examination are just sufficient to enable the organization to carry itself, and not to burden the insurance fund.

Should it appear that all or part of the assets of an applicant need to be appraised, that, too, will be done at the applicant's expense, but only upon request, and the alternative course of withdrawal is at this point open. In this connection, it should be pointed out that the rules and regulations establish a very reasonable basis for the appraisal of delinquent mortgages. Mortgages that have been running for some years will surely show a net balance of less than 75 percent of their original face amount or less than 50 percent of the original appraisal, and so will be accepted at face value regardless of their degree of delinquency.

PROHIBITION OF PRACTICES THAT INCREASE THE INSURANCE RISK

INSTITUTIONS insured by the Corporation agree to forego certain practices which building and loan experience has proved to be inconsistent with safe management and which consequently would increase the insurance risk and cost. These objectionable practices have been specifically prohibited by the rules and regulations governing Federal savings and loan associations, which represent a definite attempt to set up a perfected form of thrift, home-financing institution. These regulations, far from proving too rigorous for the successful operation of Federal associations, have contributed greatly to their rapid rise in public favor. It may very well be asked, therefore, why the regulations governing other insured institutions should not be similarly guided by the need for sound principles.

Insured institutions agree that they will not issue demand securities, and before offering any certificates bearing a fixed return or maturing at a definite date, they will assure the Corporation that adequate safeguards have been provided. Applicants with certificates of this kind outstanding may find it advantageous to exchange them for shares, a practice which

institutions converting into Federal savings and loan associations have followed to the improvement of their financial condition. Loans will not be made beyond a fifty-mile radius from the head office unless the applicant was making them outside such a district on June 27, 1934; in that event it may continue the practice as long as it complies with the Corporation's other requirements.

Membership in the Insurance Corporation is a pledge to the public of the soundness and high quality of management of the institution. Consequently the relations of an insured institution with the public concern the Corporation and all other insured institutions. They all suffer in public good will and in the flow of funds to them if the practices of any member are discreditable; they all benefit if they are creditable. This fact, plus the necessity of reducing defaults and the cost of insurance, compels the Corporation to set certain standards of operation. Investors are to be clearly informed, by means of printed statements on passbooks and certificates, of their withdrawal or repurchase rights and of any fees connected with membership or withdrawal; the same documents will indicate the method used in maturing contracts, the rate of interest paid, if any and the dividend provisions.

In addition, insured institutions agree that the Corporation shall exercise the right of approval with regard to certain matters that vitally affect relations with the public. Passbooks will be submitted to it, as well as bylaws and any other form of contract affecting securities. No type of share, certificate, or deposit account, which the Corporation considers undesirable, will be employed. Sales plans are to be presented for approval, and the Corporation reserves the right to disapprove of any advertising matter.

PERIODIC EXAMINATIONS

IN THE absence of other acceptable investigation, insured institutions will be

examined once a year on behalf of the Corporation, at their own expense; however, any examination by an approved public regulatory authority may serve instead so that it should usually be possible to reduce costs in this way. The Corporation may, in any event, call for reports of such examinations; and, whenever requested, institutions will supply it with information regarding the amount of their accounts and the extent of their obligations.

These, with such obvious safeguards as the bonding of officials and employees who have access to funds, and a yearly audit by an independent accountant, constitute practically the full extent of the supervision which the Corporation will exercise. Section 18 of the regulations makes twenty additional recommendations with regard to lending practices and financial policy. All of them are based on principles which the experience of building and loan associations has long shown to incorporate the best policy. However, they are advanced here only as recommendations, and no institution will be debarred from insurance for not following them.

COST OF INSURANCE

THE regular insurance premium is fixed by law at one-fourth of 1 percent of the total of all accounts of insured members plus obligations to creditors. This is just half the figure proposed in the original bill, and considering how essential it is that adequate funds be available, nothing less could well be considered. Insurance based upon anything but conservative estimates is apt to be worse than useless. Premiums constitute the Corporation's main income, and expenses and claims are paid out of them. The annual balance is credited to a reserve fund. When this fund reaches an amount equal to 5 percent of all insured accounts plus creditor obligations, payments cease, and are resumed only if the reserve drops below that figure. The insurance plan will operate at the least expense possible. After the reserve is built

up, the income from it should reduce the cost substantially. It is clear, also, that the proportion of the premium which is applicable to reserve, as well as the sum likely to be required after the reserve once attains 5 percent, is directly related to the number of defaults among insured institutions; this, in turn, will be materially lowered by the general acceptance of regulations encouraging sound lending.

As another precaution against default, each institution is required to establish its own reserve. This reserve is accumulated by setting aside annually one-half of 1 percent of the total of all insured accounts, regardless of creditor obligations, until 5 percent of that sum is reached; it is then maintained on terms similar to those which control the Corporation's reserve. The purpose of the provision that an association must restore a reserve account depleted by losses to the regulation 5 percent of all insured accounts before paying dividends is to keep the insurance premiums as low as possible. Many associations already have such reserves and, whenever they are employed solely for absorbing losses, they may be used to satisfy this regulation.

Accounts are insured for their full withdrawable value up to \$5,000. A limitation upon the size of individual accounts which makes for greater security is thereby encouraged. It is entirely fair to assess a premium on creditor obligations, since, in case of liquidation, the Corporation must pay these before other claims are met, and they are, thus, in effect, insured. There is no necessity for a graduated premium. The risks on institutions which satisfy the eligibility requirements of the Corporation being approximately equal, the premium expense should be evenly distributed. Institutions which have accumulated reserves of their own benefit automatically. An association already in possession of a 5-percent reserve would be relieved from payments on that account as long as the reserve remained unimpaired. The Corporation does not discriminate among its cli-

ents. It insures only sound institutions, but realizes that strength cannot be measured merely by the size of reserves.

An institution entering the insurance plan after the first year pays an admission fee, the amount of which will be fixed by the Corporation. Such a provision is plainly equitable, since newly admitted institutions immediately become protected by the reserve already built up by the other participants.

DEFAULT AND TERMINATION OF INSURANCE

WHEN an insured institution is judged by a court or other public authority to be in default, the Corporation assumes all creditor obligations, and will dispose of the insured accounts of investors according to either of two plans. A member may have his account transferred to another insured institution, not in default, or, if he prefers, he will receive 10 percent in cash, 45 percent in negotiable non-interest-bearing bonds, payable in 1 year, and the remainder in similar bonds payable in 3 years. The insurance is thus one of solvency rather than liquidity, and it is this fact which makes it obtainable at a low rate. Experience shows that what investors in building and loan associations are principally concerned about is solvency.

The regulations governing the termination of insurance are designed not with the purpose of preventing withdrawal but to protect insured shareholders. It is impossible to understand them rightly unless this fact is appreciated. If the insurance of an institution is terminated by the Corporation, premiums continue to be paid for 5 years, and investors who held shares at the time of termination are protected to the end of that period. Should termination be decided upon by the institution itself, premiums are paid during 3 years thereafter, but the insurance benefits cease at once. This provision is necessary to pro-

tect the Corporation's income from sudden reductions, and the other insured institutions from excessive charges. The only regulation in this section which goes beyond the letter of the Act is that the shareholders must be advised whenever a termination is contemplated by the directors, and again when the decision to terminate has actually been taken. It is further stipulated that adequate newspaper publicity be given such a step. The justification of these provisions is evident. No institution will contract for insurance unless its investors desire it; and, since boards of directors act only with delegated authority, there is every reason why the shareholders themselves should have an opportunity to examine so important a proposal. The requirement that a termination be announced in the local press is, of course, for the protection of prospective investors.

The element of flexibility which Congress introduced into the structure of the Insurance Corporation by leaving comprehensive powers to the board of trustees can only be salutary. If it should ever transpire that a regulation has become unnecessary, or is operating unfairly, the right to repeal or alter it has been expressly reserved. The Federal Home Loan Bank Board, whose members act as trustees of the Corporation, is, by virtue of the four organizations of national scope which it governs, in a unique position to survey the home-mortgage market, both in detail and in its broad aspects. Insofar as it functions through the Insurance Corporation, the Board's purpose is to strengthen and preserve public confidence in sound savings, building and loan associations. As the table on page 93 shows, some 450 of them have already applied for insurance, and it may be anticipated that, as an increasing number experience the benefits of the plan in terms of public confidence, evidence of the fulfillment of this purpose will rapidly accumulate.

Study of Foreclosures in a Building and Loan Association

THE records of every building and loan association and every other home-financing agency are invaluable guides to sound lending policies. Such records can be analyzed to throw much light on such problems as how to foresee and how to decrease the future number of foreclosures of an association, whether its appraisal policies are sound and how to improve them, and what percentage of delinquencies to anticipate and to prepare for in good and bad years.

A study of loans, delinquencies, and foreclosures of a large building and loan association in an Eastern city, which has recently been completed by the Economics and Statistics Division of the Federal Housing Administration, affords a practical illustration of how to analyze the trends of the past years so that they may be used as a guide to future policies. Results of this study are published herewith by the courtesy of the Federal Housing Administration and of the building and loan association studied.

The loans made by the association bear interest at a rate of 6 percent and are amortized over a period of about 12 years. The borrower pays a monthly sum amounting to 1 percent of the face value of the loan, and the principal is readjusted every time \$100 is paid on it. To obtain a general picture of the operations of the association, a live file of 9,300 loans as well as several hundred loans which terminated prior to the depression were studied (table 1).

TABLE 1A.—Percentage distribution of loans ¹ by appraised value

| Appraised value | Percent of loan |
|-------------------------|-----------------|
| Under \$3,000..... | 10 |
| \$3,000 to \$5,000..... | 28 |
| \$5,000 to \$7,000..... | 30 |
| \$7,000 and over..... | 32 |
| | 100 |

TABLE 1B.—Percentage distribution of loans ¹ by amount of loan

| Amount of loan | Percent of loan | Amount of loan | Percent of loan |
|----------------------|-----------------|----------------------|-----------------|
| Under \$1,000.... | 2 | \$5,000 to \$6,000.. | 10 |
| \$1,000 to \$2,000.. | 12 | \$6,000 and over.. | 22 |
| \$2,000 to \$3,000.. | 18 | | 100 |
| \$3,000 to \$4,000.. | 18 | | |
| \$4,000 to \$5,000.. | 18 | | |

TABLE 1C.—Percentage distribution of loans ¹ by type

| Type | Percent of loan |
|---------------------------------|-----------------|
| Construction ² | 1 |
| Owner-occupied..... | 56 |
| Rented..... | 29 |
| With second trust: | |
| Owner-occupied..... | 10 |
| Rented..... | 4 |
| | 14 |
| | 100 |

TABLE 1D.—Percentage distribution of loans¹ by equity in relation to appraised value

| Percentage of equity | Percent of loans | |
|----------------------|-----------------------------|-----------------------------------|
| | Loans with first trust only | Loans with first and second trust |
| 0 to 20..... | ..... | 90 |
| 20 to 25..... | 1 | 7 |
| 25 to 30..... | 60 | 3 |
| 30 and over..... | 39 | ..... |
| Total..... | 100 | 100 |

¹ 8 samples of 100 loans each, picked at random from a live file of 9,300 loans.

² Construction loans have been gradually increasing since 1930. For 1934 they average around 7 percent of all loans. The other factors classified have been quite uniform in the past years according to the officers of the association.

The striking fact brought out by this analysis is the low equities in relation to the appraised value possessed by home owners carrying a second trust. (The owners' equities in relation to the purchase price were, of course, somewhat greater, since appraisals were generally under the prices actually paid.) Of owners with second trusts 90 percent had equities of less than 20 percent at time of purchase.

LIFE OF LOAN

ALTHOUGH the loans in the association were for a term of about 12 years, examination revealed that 80 percent of loans made had a life under 6 years, without marked concentration in any particular year. This ratio was for all appraised values and for the "good years" 1915-20 as well as for

the depression years illustrated by loans released in September and October 1934.

DISPOSITION OF RELEASED LOANS

THE disposition of released loans studied is indicated in table 2.

TABLE 2.—Percentage disposition of samples of loans released in a prosperity period and a depression period

| Disposition of loan | Released loans executed 1915-20 | Loans released Sept.-Oct. 1934 |
|--|---------------------------------|--------------------------------|
| | Percent | Percent |
| Paid off (by lump sums or higher monthly payments)..... | 23 | 8 |
| Refinanced in the building and loan.... | 15 | ..... |
| Refinanced in building and loan and still running..... | 3 | 16 |
| Refinanced in another institution, or property sold..... | 59 | 76 |
| Total..... | 100 | 100 |

The percentage of loans paid off in the depression period was far less than for the "good years," in 1915-20, 8 percent as compared to 23 percent.

Of the loans released in September and October 1934, 16 percent were refunded for an additional loan in the same association, and 76 percent had outstanding balances such as to be an evidence of their refunding elsewhere, or else of the selling of the property.

DELINQUENCIES

THE number of delinquencies on all loans and the effects of depression in increasing such delinquencies is shown in table 3.

TABLE 3.—*Percentage distribution of loans according to payments and delinquencies*¹

| Loan payments and delinquencies | Year in which loan was executed | | | | | | | | |
|---------------------------------|---------------------------------|------------|------------|------------|-------------|------------|------------|------------|------------|
| | 1916 | 1917 | 1918 | 1919 | Before 1931 | 1931 | 1932 | 1933 | 1934 |
| Regular payments..... | Percent 72 | Percent 69 | Percent 52 | Percent 67 | Percent 54 | Percent 47 | Percent 39 | Percent 54 | Percent 77 |
| Delinquent: | | | | | | | | | |
| 1 month..... | 18 | 10 | 22 | 4 | 4 | 7 | 9 | 18 | 19 |
| 2 months..... | 4 | 6 | 2 | 8 | 6 | 4 | 13 | 11 | 1 |
| 3 months and over..... | 6 | 15 | 24 | 21 | 36 | 42 | 39 | 17 | 3 |
| | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

¹ For the period 1916-19 about 50 loans made in each year were picked at random, totaling over 200 mortgages (10 percent of total loans). For the loans "running in October 1934" 100 loans were picked at random each year from 1931-34, inclusive. 100 loans were picked prior to 1931.

TABLE 4.—*Analysis of delinquencies with reference to the year of loan execution*¹

| Appearance of first delinquency | Year in which loan was executed | | | | | Total |
|---------------------------------|---------------------------------|-------|-------|------|------|-------|
| | 1915 | 1916 | 1917 | 1918 | 1919 | |
| First year..... | 5 | 4 | 3 | 3 | 4 | 19 |
| Second year..... | 4 | 2 | 3 | 2 | 1 | 12 |
| Third year..... | 4 | 4 | 5 | 7 | 2 | 22 |
| Fourth year..... | 2 | ..... | 2 | 6 | 3 | 13 |
| Fifth year..... | ..... | 2 | ..... | 2 | 1 | 5 |
| Sixth year..... | ..... | ..... | 1 | 1 | 1 | 3 |
| Seventh year and over..... | ..... | 3 | 1 | 3 | 4 | 11 |

¹ About 50 loans picked at random for each year from 1915-19, totaling over 200 mortgages (10 percent of total loans).

An analysis of appearance of delinquencies among loans made in the years 1915-19 reveals that if delinquency is going to appear at all, it will appear early in the life of the loan. Two-thirds of the loans that were delinquent at all had their first delinquency some time in the first three years of their life.

FORECLOSURE BY YEARS

AN EXAMINATION of all foreclosures in relation to the year in which the loan was executed revealed the maximum foreclosure rate that the association may anticipate during a major depression (table 5).

TABLE 5.—*Number of loans executed and number of foreclosures by years, 1925-34*

| Year of loan execution | Number of loans executed | Foreclosures | | Number of foreclosures by years ¹ | | | | | | | |
|------------------------|--------------------------|--------------|------------------|--|-------|-------|-------|-------|-------|-------|---------------|
| | | Number | Percent | 1927 | 1928 | 1929 | 1930 | 1931 | 1932 | 1933 | 1934 (10 mo.) |
| 1925..... | 980 | 9 | 0.9 | 2 | ..... | 3 | 1 | 1 | ..... | 1 | 1 |
| 1926..... | 1,120 | 9 | .8 | 2 | 1 | ..... | 1 | 2 | 1 | 1 | 1 |
| 1927..... | 1,450 | 31 | 2.1 | ..... | 5 | 6 | 3 | 2 | 5 | 7 | 3 |
| 1928..... | 1,580 | 44 | 2.8 | ..... | 1 | 3 | 11 | 7 | 4 | 10 | 8 |
| 1929..... | 1,490 | 46 | 3.1 | ..... | ..... | ..... | 8 | 7 | 14 | 12 | 5 |
| 1930..... | 1,490 | 56 | 3.8 | ..... | ..... | ..... | 3 | 15 | 10 | 17 | 11 |
| 1931..... | 1,760 | 52 | 3.0 | ..... | ..... | ..... | ..... | 1 | 15 | 19 | 17 |
| 1932..... | 1,880 | 31 | 1.6 | ..... | ..... | ..... | ..... | ..... | ..... | 15 | 16 |
| 1933..... | 1,360 | 6 | .4 | ..... | ..... | ..... | ..... | ..... | ..... | 3 | 3 |
| 1934..... | 1,730 | 1 | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | 1 |
| Total..... | 14,840 | 285 | ² 2.7 | 4 | 7 | 12 | 27 | 35 | 49 | 85 | 66 |

¹ Before 1928 there were practically no foreclosures.

² Average calculated for years 1927 to 1932, inclusive, only.

The maximum number of foreclosures occurred for loans made in 1930. The officials of the association estimate that in the last two months of 1934 there will be foreclosed from 25 to 30 more loans; but that for 1935 there will be not more than 50 foreclosures if the rise in rents continues to increase the demand for real estate.

Therefore, we may estimate that for the loans executed in 1930, there will be not far from 13 foreclosures in 1934 and 3 foreclosures in 1935. This would constitute a percentage of foreclosures of a little over 4 percent for mortgages written in the peak year, 1930.

Taking this peak year, 1930, as a foreclosure pattern for a similar depression period in the city concerned, we find the following figures, admitting that the depression began in the first year of the loans:

Pattern on the basis of 40 foreclosed loans per thousand loans

| | | | |
|------------------|----|-----------------|----|
| First year..... | 2 | Fifth year..... | 9 |
| Second year..... | 9 | Sixth year..... | 2 |
| Third year..... | 7 | | |
| Fourth year..... | 11 | | 40 |

It is to be noted that the greatest number of foreclosures are found in the fourth year.

TABLE 6.—Percentage of foreclosures according to certain loan characteristics by year of loan execution
(A study of all foreclosures to date since 1927; about 300 foreclosures)

| Loan characteristics | Year executed ¹ | | | | | | |
|--|----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 1927 | 1928 | 1929 | 1930 | 1931 | 1932 | Tendency |
| By appraised value: | <i>Percent</i> | <i>Percent</i> | <i>Percent</i> | <i>Percent</i> | <i>Percent</i> | <i>Percent</i> | <i>Percent</i> |
| Less than \$3,000..... | 4.1 | 2.5 | 6.7 | 2.7 | 3.4 | 1.1 | 2.5 to 4 |
| \$3,000—\$5,000..... | 2.9 | 3.6 | 2.9 | 5.0 | 3.4 | 1.9 | 3 |
| \$5,000—\$7,000..... | .9 | 2.7 | 2.5 | 2.7 | 2.1 | .7 | 2.5 |
| \$7,000 and over..... | 1.9 | 2.0 | 2.5 | 3.8 | 3.1 | 2.0 | 2 to 3 |
| By type: | | | | | | | |
| Owner-occupied..... | 1.9 | 2.4 | 2.5 | 3.9 | 2.4 | .5 | 2.5 |
| With first trust only..... | 1.6 | 1.8 | 1.8 | 2.6 | 1.6 | .5 | 1.7 |
| With first and second trust..... | 3.4 | 6.3 | 6.7 | 10.7 | 6.8 | ..... | 6.5 |
| Rented..... | 2.6 | 3.2 | 3.9 | 3.1 | 7.6 | 3.9 | 3.5 |
| With first trust only..... | 2.1 | 2.5 | 3.4 | 2.5 | 3.6 | 2.3 | 2.5 |
| With first and second trust..... | 6.9 | 7.9 | 8.3 | 8.3 | 7.1 | 15.5 | 8 |
| With second trust..... | 4.4 | 6.7 | 7.1 | 10.5 | 6.9 | 7.9 | 7 |
| Owner-occupied..... | 3.4 | 6.3 | 6.7 | 10.7 | 6.8 | ..... | 6.5 |
| Rented..... | 6.9 | 7.9 | 8.3 | 8.3 | 7.1 | 15.5 | 8 |
| By equity at start: ² | | | | | | | |
| 0-20 percent..... | 5.6 | 5.2 | 9.1 | 14.0 | 7.7 | 6.3 | 5.5 to 8 |
| 20-25 percent..... | 4.6 | 10.6 | ..... | 6.7 | 3.8 | ..... | 4 to 7 |
| 25-30 percent..... | 1.9 | 3.4 | 3.6 | 3.9 | 3.6 | 1.4 | 3.5 |
| 30 percent and over..... | 1.3 | .5 | .7 | ..... | .7 | .3 | .7 |
| Percentage foreclosure of total loans..... | 2.1 | 2.8 | 3.1 | 3.8 | 3.0 | 1.6 | ..... |

¹ No such records were kept before 1927, and after 1932 the number of loans is too small to calculate percentages.

² The equity is calculated as a percentage of the original appraisal.

NOTE.—The above figures are subject to certain limitations: (a) It was not always easy to ascertain if the property was owner-occupied or rented. (b) Only the bulk of the second trusts was recorded on the deeds. (c) The amount of foreclosures in each of the above categories is relatively small, varying from 5 to 15. Percentages are therefore very sensitive to variation.

FORECLOSURES ACCORDING TO LOAN CHARACTERISTICS

THE existence of a second trust increases the danger of foreclosure. This is shown by the high rate of foreclosure—7 percent in loans having a second trust as against 1.6 percent with loans having only first trusts. Of borrowers whose initial equity

was below 20 percent of the appraised value, from 5½ to 8 percent suffered foreclosure, as compared with seven-tenths of 1 percent of those with an initial equity of 30 percent. The danger of foreclosure was nearly twice as great for loans on rented properties as compared with loans on owner-occupied properties (table 6).

The absence of a greater rate of foreclosures, as might be expected in the higher-priced houses—\$7,000 and over—is due to the fact that a larger equity—generally 50 percent of the appraisal—was required from the owner by the association.

CAUSES OF FORECLOSURE

THE association studied has kept a record of reasons for foreclosure since March 1934. This record reveals that vacancies in rented properties were responsible for one-half of the foreclosures in the last months of this year.

TABLE 7.—*Number and causes of foreclosures for different types of occupancy*

| Causes: | Number |
|--|--------|
| Rented | 19 |
| Vacant property | 17 |
| Tenants moved out (repairs needed) | 2 |
| Owner-occupied | 7 |
| Cannot carry, H. O. L. C. declined to take over on account of insufficient security (decline in value, need of repairs, etc.) | 6 |
| Cannot carry, moved out of home | 1 |
| Estate: Heirs cannot keep up payments | 2 |
| Clear title: Domestic troubles, etc. | 4 |
| Miscellaneous: | |
| Owner keeps rent of tenants without keeping up payments on mortgage; assessed by water man (cannot install plumbing); business failure | 5 |
| Grand total | 37 |

DELINQUENCIES BEFORE FORECLOSURE

DELINQUENCIES seem to constitute a warning signal of importance, indicating that a loan is running the risk of foreclosure. Of 223 foreclosures studied, 86 percent were delinquent at least once prior to the immediate months preceding foreclosure. Furthermore, out of 10 foreclosed loans delinquent once 9 became delinquent again (table 8). Some were delinquent as many as 6 times a year, but the average

rate of delinquency for loans ultimately foreclosed was between 1.5 and 3.5 times a year. Delinquencies just prior to foreclosure were not counted in the above calculation. For the association studied, the time elapsed between the last monthly payment and the month of foreclosure rarely exceeded 7 months and averaged 3 to 5 months.

TABLE 8.—*Analysis of foreclosures in relation to number of months delinquent*

| Number of months delinquent | Percent of loans foreclosed | Number of months delinquent | Percent of loans foreclosed |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| 0..... | 14 | 5 to 10..... | 37 |
| 1..... | 10 | 10 to 20..... | 13 |
| 2..... | 13 | | |
| 3 to 5..... | 13 | Total..... | 100 |

FORECLOSURE EXPENSES AND RESALE VALUES

ANALYZING the experience of this association with respect to its disposal of foreclosed properties suggests the value to every home-financing institution of an analysis of its own experience. The association has sold 78 percent and holds 22 percent of the total number of properties foreclosed between 1927 and 1932, inclusive. The percentage of the appraisal value recovered at the sale of the properties is indicated in table 9.

TABLE 9.—*Value of property sold and percentage of appraised value recovered at sale*

| | Year executed | | | | | |
|--|---------------|------|------|------|------|------|
| | 1927 | 1928 | 1929 | 1930 | 1931 | 1932 |
| Appraised value recovered at sale of property (percentage) | 64 | 70 | 74 | 76 | 76 | 75 |
| Value of property sold (in thousands of dollars) | 130 | 220 | 205 | 170 | 200 | 150 |

Ninety-five percent of the properties foreclosed were in arrears on taxes, vary-

ing in amount with the value of the property. The total cost of foreclosure to the association, including back taxes and charges, ranged from \$140 to \$245. Some

of the irregularity in charges is due to the fact that trustees' fees, calculated on the basis of 5 percent of the sale price, are paid only if there is a surplus (table 10).

TABLE 10.—*Back taxes and charges on foreclosed properties* ¹

| Appraisal value | Back taxes | | Charges | | Total cost | |
|-------------------------|------------|---------|------------|---------|------------|---------|
| | Range | Average | Range | Average | Range | Average |
| Under \$3,000..... | \$50-\$150 | \$75 | \$25-\$150 | \$65 | \$75-\$300 | \$140 |
| \$3,000 to \$5,000..... | 50- 200 | 100 | 25- 250 | 55 | 75- 450 | 155 |
| \$5,000 to \$7,000..... | 50- 250 | 150 | 25- 300 | 50 | 75- 550 | 200 |
| \$7,000 and over..... | 100- 250 | 175 | 25- 300 | 70 | 125- 550 | 245 |

¹ 264 out of 292 foreclosures; foreclosures from 9,600 loans.

Home Reconditioning Under the Home Owners' Loan Corporation

ALTHOUGH the Reconditioning Division of the Home Owners' Loan Corporation deals only with distressed home owners, it has already raised the standard of housing of 100,000 families, protected the Government's investment in their homes, and contributed substantially to employment in the building trades.

The Division's work must not be confused with the modernization credit program of the Federal Housing Administration. The Housing Administration guarantees private capital against losses on character loans for reconditioning to all types of property owners; the Reconditioning Division makes direct loans for reconditioning only to distressed home owners, whose mortgages in practically all instances are refinanced by the Home Owners' Loan Corporation.

A mortgagee's investment in a home is threatened when it is allowed to fall into disrepair. This is the very practical consideration that led to the formation of the Reconditioning Division. The burden of preserving a home in good condition is usually beyond the capacity of owners who are facing foreclosure. Naturally, therefore, the original Home Owners' Loan Act provided for the repair and maintenance of homes on which the Corporation took over mortgages. Subsequently, the need of repairs and even of more extensive reconditioning was found to be greater than anticipated. Congress amended the Act to permit the Corporation to undertake all types of reconditioning and authorized it to employ up to \$300,000,000 of its funds

for this purpose. In June 1934 the Corporation established a division professionally qualified to control and direct necessary reconditioning on the million homes (more or less) it was refinancing.

The Reconditioning Division functions as an integral part of the existing structure of the Corporation. There is a small executive staff in Washington, a regional staff to supervise field work, and a reconditioning department attached to every office of the Corporation that exercises lending functions. The qualifications of the men in these positions are exceptional. Nearly all of them have been trained as builders or architects. Forty-four percent of the State supervisors and twenty-six percent of the assistants and inspectors hold professional degrees.

The reconditioning which this staff directs and controls covers three types of work: (1) Repair and maintenance, which include all work designed to restore a house to its condition when new, such as repainting, reroofing, and replacement of worn-out fixtures; (2) remodeling, which involves any structural changes, such as enlargement of the dwelling and alteration of design or plan; (3) modernization, which involves the installation of new equipment, such as running water, wiring for electricity, and central heating.

The services of the Division include inspection to determine the need of reconditioning, preparation of designs and cost estimates, securing of bids, approving contract awards, and supervision and inspection of all work done. It is obvious that

these services are something new in the field of home reconditioning. The home owner of moderate means has always suffered from the lack of sound advice on reconditioning. He generally is unable to afford the architectural or engineering advice that will protect him from making costly technical mistakes, or from spending more money on a home than the house or neighborhood justifies. He is at the mercy of an unregulated trade and must depend on chance as to whether he gets his money's worth.

The Reconditioning Division provides the home-owner borrower from the Home Owners' Loan Corporation impartial professional advice and supervision. It has prepared master specifications which cover materials and methods involved in small-dwelling construction that safeguard the home owner's interests. It insures him the services of labor, contractors, and fee architects at the lowest prices consistent with good workmanship.

At the same time, the Reconditioning Division's standards of quality and businesslike administration have enlisted the support of the building industry. Manufacturers of building materials and trade associations have aided in the preparation of the master specifications to insure home owners the widest selection of materials. The architectural profession has agreed to a scale of fees for advisory and supervisory services on a much lower basis than heretofore charged by architects for such work. So extensive and thorough has been the organization of the building industry to provide efficient home reconditioning service that it is hoped that private industry will find it desirable to continue the service after the emergency has passed.

The reconditioning loan is usually incorporated in the mortgage which secures the refinancing loan made by the Corpora-

tion. These mortgages are amortized over a 15-year period, and bear 5 percent interest. To save the expense of reopening a first mortgage already held by the Corporation on a home, it may permit the writing of a second mortgage to secure the recondition loan. The long-term and low interest rate permits hundreds of thousands of home owners, who otherwise could not afford it, to enjoy the comfort and protection of reconditioned homes, at the same time the Corporation's investment is safeguarded.

The suspension by the Home Owners' Loan Corporation of the acceptance of new applications for loans will not decrease the activities of the Reconditioning Division for some time to come. It is estimated that over 50 percent of the approximately 1,000,000 homes on which the Corporation is making refinancing loans require some reconditioning. This includes many homes on which refinancing loans have already been made. So far about 100,000 reconditioning contracts have been executed.

The reconditioning activity carried on by the Division from June 1 to November 8 in 45 States is revealed in the following table:

*Reconditioning Division—summary of operations
June 1, 1934, to Nov. 8, 1934*

| | Number | Amount |
|--|----------------------|-------------------------|
| 1. Applications for reconditioning loans | 284, 083 | ..... |
| 2. Cases submitted to loan committee | 171, 408 | \$38, 559, 216 |
| 3. Total contracts executed | ¹ 100,000 | ¹ 22,000,000 |
| 4. Total jobs completed and approved | 66, 386 | 10, 115, 946 |
| 5. Jobs paid for | 61, 567 | 9, 306, 895 |

¹ Approximate.

The loans for reconditioning for the 171,408 cases submitted to the loan committee by November 8 averaged \$224 each.

Dividend Status of the Federal Home Loan Bank System

WITHIN two years of the organization of the Federal Home Loan Bank System on October 15, 1932, as a functioning Federal reserve agency for home-financing institutions, all twelve regional banks were operating at a profit and seven of them had paid dividends to the Federal Government and to member institutions. When it is remembered that all the banks had to absorb the deficit incurred incident to organization out of subsequent earnings and that they were getting their start in a period which saw the bank holiday of March 1933 and which has generally been attended by uncertainty, this record constitutes striking proof of the economical management of the banks and of the soundness of their organization. It proves also that a steadily growing number of member institutions and the home-owning public as well have recognized the value of this national reserve structure for home-mortgage finance in stabilizing real-estate values and in amplifying home-loan credit.

Although the Federal Home Loan Bank System is not a relief agency, its operation has contributed to the general recovery program of the Federal Government. The credit made available to member institutions has enabled them better to meet the withdrawal demands of needy depositors and shareholders. By easing pressure on the lending institutions, it has also enabled them to be more lenient with worthy delinquent borrowers. The credit already extended has provided new funds for new home financing and the System will provide more as the borrower demand upon member institutions grows.

Detailed analyses, balance sheets, and income accounts will be presented shortly, in the annual report of the Federal Home Loan Bank System, for the information of member and nonmember institutions. In advance of that report, however, it is pertinent to refer to the rapidity with which the regional banks have built up their earnings through operations as shown in the accompanying statement on dividends paid and accrued through October 31, 1934. Total dividends paid during 1934, to date of November 22, amount to \$812,710.40, of which \$150,307.79 was paid to members, as shown by the accompanying table. Impressive further evidence of the financial strength of the Federal Home Loan Bank System is afforded by the following summary prepared by the Comptroller's office:

Sources of value

| | |
|---|------------------------|
| 1. Payments received on account of capital stock: | |
| a. Payments in full: | |
| U. S. Government..... | \$81,645,700.00 |
| Member institutions..... | 19,282,900.00 |
| | <hr/> \$100,928,600.00 |
| b. Payments and deposits, members and applicants..... | 1,931,011.12 |
| | <hr/> 102,859,611.12 |
| 2. Results of operations, October 15, 1932, through October 31, 1934..... | 3,885,682.59 |
| | <hr/> 106,745,293.71 |

Disposition of value

| | |
|--------------------------------------|----------------------|
| Cash dividends disbursed: | |
| 1. To the U. S. Government | \$1,031,328.63 |
| 2. To member institutions..... | 229,260.83 |
| | <hr/> \$1,260,589.46 |
| Net worth as at October 31, 1934.... | 105,488,704.25 |
| | <hr/> |

Eliminating interbank transactions, canceling liability cash deposits against cash resources, transferring the balance of "Interest purchased" in the amount of \$78,712.05 from "Other assets" to "Accrued interest receivable", and making other appropriate offsets, the net worth of the System as above stated appears to be invested as follows:

| | Amount | Percent |
|-----------------------------|-------------------|---------|
| Cash..... | \$2, 003, 785. 18 | 1. 90 |
| Loans outstanding..... | 86, 846, 330. 86 | 82. 33 |
| Accrued interest..... | 589, 109. 05 | . 56 |
| Investments..... | 16, 003, 335. 68 | 15. 17 |
| Furniture and fixtures..... | 22, 227. 42 | . 02 |
| Deferred..... | 16, 587. 16 | } . 02 |
| Other..... | 3, 328. 90 | |
| Total..... | 105, 484, 704. 25 | 100. 00 |

With over 82 percent of its net worth represented by advances to members, whom it serves at low interest rates, the System has expended but thirty-five cents of each dollar of its gross income for all normal operating expenses and assessments, and has carried sixty-five cents thereof to surplus, to meet dividend and reserve requirements and to accumulate free surplus.

The United States Government investment in the capital stock of the System amounts to \$81,645,700.00, or 79.38 percent of total payments received on account of stock subscriptions, while member institutions and applicants have furnished \$21,213,911.12, or 20.62 percent of the paid-in capital.

Seven of the twelve Banks have so far disbursed dividends during 1933-34 totaling \$1,260,589.46, as follows: \$1,031,328.63 to the Government and \$229,260.83 to members. In addition \$1,120,864.08 has been set aside as a reserve to provide for cumulative dividends accrued on the United States Government stock.

With the organization period of the System definitely at an end, with a total membership of approximately 3,000 institutions, with a definite earning trend established, and with close to a million dollars of free surplus, the Federal Home Loan Bank System has already begun to realize the purpose which it was designed to meet, in the establishment of a nation-wide reserve system for the protection of American home owners and the strengthening of American home-financing agencies.

FEDERAL HOME LOAN BANK SYSTEM

Statement showing dividends paid and accrued to the United States Government and member institution stockholders in the several regional banks through Oct. 31, 1934

| | Combined | Boston | Newark | Pittsburgh | Winston-Salem | Cincinnati |
|--|------------------------|----------------------|----------------------|----------------------|----------------------|--------------------|
| 1933 | | | | | | |
| Paid: | | | | | | |
| U. S. Government..... | \$368, 926. 02 | | | | | \$95, 830. 13 |
| Members..... | 78, 953. 04 | | | | | 25, 854. 59 |
| Total..... | 447, 879. 06 | | | | | 121, 684. 72 |
| Accrued: U. S. Government..... | 447, 319. 68 | \$45, 989. 11 | \$70, 446. 57 | \$76, 191. 78 | \$70, 860. 29 | 63, 399. 72 |
| Total dividends, 1933..... | 895, 198. 74 | 45, 989. 11 | 70, 446. 57 | 76, 191. 78 | 70, 860. 29 | 185, 084. 44 |
| 1934 | | | | | | |
| Paid: | | | | | | |
| U. S. Government: | | | | | | |
| Out of 1933 earnings..... | 255, 845. 85 | | 70, 446. 57 | 76, 191. 78 | | 63, 399. 72 |
| Out of 1934 earnings..... | 406, 556. 76 | | 100, 523. 29 | 39, 616. 44 | | 126, 706. 94 |
| Members..... | 150, 307. 79 | | 36, 071. 62 | 22, 191. 01 | | 54, 871. 58 |
| Total..... | 812, 710. 40 | | 207, 041. 48 | 137, 999. 23 | | 244, 978. 24 |
| Accrued: U. S. Government..... | 1, 120, 864. 08 | 129, 002. 79 | 77, 506. 86 | 99, 326. 03 | 165, 441. 09 | 86, 104. 72 |
| Total dividends, 1934..... | 1, 933, 574. 48 | 129, 002. 79 | 284, 548. 34 | 237, 325. 26 | 165, 441. 09 | 331, 082. 96 |
| Dividends paid Oct. 15, 1932, to Oct. 31, 1934: | | | | | | |
| U. S. Government..... | 1, 031, 328. 63 | | 170, 969. 86 | 115, 808. 22 | | 285, 936. 79 |
| Members..... | 229, 260. 83 | | 36, 071. 62 | 22, 191. 01 | | 80, 726. 17 |
| Total..... | 1, 260, 589. 46 | | 207, 041. 48 | 137, 999. 23 | | 366, 662. 96 |

| | Indianapolis | Chicago | Des Moines | Little Rock | Topeka | Portland | Los Angeles |
|--|--------------------|---------------------|----------------------|----------------------|----------------------|----------------------|--------------------|
| 1933 | | | | | | | |
| Paid: | | | | | | | |
| U. S. Government..... | \$76, 526. 03 | \$119, 172. 60 | | \$77, 397. 26 | | | |
| Members..... | 22, 257. 00 | 18, 082. 28 | | 12, 759. 17 | | | |
| Total..... | 98, 783. 03 | 137, 254. 88 | | 90, 156. 43 | | | |
| Accrued: U. S. Government..... | | | \$45, 780. 38 | \$30, 597. 25 | \$21, 489. 74 | \$22, 564. 84 | |
| Total dividends, 1933..... | 98, 783. 03 | 137, 254. 88 | 45, 780. 38 | 90, 156. 43 | 30, 597. 25 | 21, 489. 74 | 22, 564. 84 |
| 1934 | | | | | | | |
| Paid: | | | | | | | |
| U. S. Government: | | | | | | | |
| Out of 1933 earnings..... | 27. 40 | | 45, 780. 38 | | | | |
| Out of 1934 earnings..... | 59, 117. 81 | | 22, 093. 59 | 58, 498. 69 | | | |
| Members..... | 17, 818. 41 | | 8, 577. 64 | 10, 777. 53 | | | |
| Total..... | 76, 963. 62 | | 76, 451. 61 | 69, 276. 22 | | | |
| Accrued: U. S. Government..... | 40, 438. 35 | 165, 397. 25 | 52, 767. 10 | 39, 994. 54 | 107, 232. 86 | 75, 891. 42 | 81, 761. 07 |
| Total dividends, 1934..... | 117, 401. 97 | 165, 397. 25 | 129, 218. 71 | 109, 270. 76 | 107, 232. 86 | 75, 891. 42 | 81, 761. 07 |
| Dividends paid Oct. 15, 1932, to Oct. 31, 1934: | | | | | | | |
| U. S. Government..... | 135, 671. 24 | 119, 172. 60 | 67, 873. 97 | 135, 895. 95 | | | |
| Members..... | 40, 075. 41 | 18, 082. 28 | 8, 577. 64 | 23, 536. 70 | | | |
| Total..... | 175, 746. 65 | 137, 254. 88 | 76, 451. 61 | 159, 432. 65 | | | |

FEDERAL HOME

Combined statement of

| | Combined | Boston | Newark | Pittsburgh | Winston-Salem |
|--|-------------------|-----------------|------------------|------------------|-----------------|
| ASSETS | | | | | |
| Cash on hand, in banks and U. S. Treasury . . | \$5, 091, 608. 29 | \$973, 451. 07 | \$608, 624. 18 | \$206, 162. 77 | \$358, 025. 56 |
| Loans outstanding: | | | | | |
| Members | 86, 839, 152. 45 | 2, 546, 444. 00 | 14, 209, 446. 87 | 10, 950, 463. 33 | 6, 382, 814. 17 |
| Affiliated banks | 600, 000. 00 | 600, 000. 00 | | | |
| Other | 7, 178. 41 | | | | |
| Total loans | 87, 446, 330. 86 | 3, 146, 444. 00 | 14, 209, 446. 87 | 10, 950, 463. 33 | 6, 382, 814. 17 |
| Accrued interest receivable | 516, 292. 90 | 38, 920. 62 | 78, 322. 52 | 48, 442. 27 | 37, 930. 30 |
| Investments: U. S. Government | 16, 003, 335. 68 | 2, 895, 218. 77 | 59, 656. 25 | 137, 900. 00 | 1, 010, 468. 75 |
| Other assets | 126, 283. 02 | 17, 611. 92 | 2, 555. 47 | 2, 245. 62 | 5, 566. 44 |
| Total assets | 109, 183, 850. 75 | 7, 071, 646. 38 | 14, 958, 605. 29 | 11, 345, 213. 99 | 7, 794, 805. 22 |
| LIABILITIES AND CAPITAL | | | | | |
| Liabilities: | | | | | |
| Current | 3, 699, 146. 50 | | 353, 441. 68 | 1, 009, 867. 82 | 708. 70 |
| Fixed | | | | | |
| Total liabilities | 3, 699, 146. 50 | | 353, 441. 68 | 1, 009, 867. 82 | 708. 70 |
| Capital: | | | | | |
| Capital stock fully paid, issued, and outstanding: | | | | | |
| Members | 19, 282, 900. 00 | 1, 693, 100. 00 | 2, 378, 800. 00 | 1, 452, 500. 00 | 1, 707, 200. 00 |
| U. S. Government | 81, 645, 700. 00 | 5, 000, 000. 00 | 11, 500, 000. 00 | 8, 500, 000. 00 | 5, 700, 000. 00 |
| Total | 100, 928, 600. 00 | 6, 693, 100. 00 | 13, 878, 800. 00 | 9, 952, 500. 00 | 7, 407, 200. 00 |
| Subscription to capital stock: | | | | | |
| Members and applicants | 4, 027, 200. 00 | 291, 500. 00 | 1, 082, 900. 00 | 281, 300. 00 | 199, 000. 00 |
| Less balance due | 2, 096, 188. 88 | 97, 525. 00 | 595, 025. 13 | 162, 275. 00 | 86, 950. 00 |
| Total | 1, 931, 011. 12 | 193, 975. 00 | 487, 874. 87 | 119, 025. 00 | 112, 050. 00 |
| U. S. Government | 43, 095, 300. 00 | 7, 467, 500. 00 | 7, 463, 200. 00 | 2, 646, 300. 00 | 3, 508, 200. 00 |
| Less balance due | 43, 095, 300. 00 | 7, 467, 500. 00 | 7, 463, 200. 00 | 2, 646, 300. 00 | 3, 508, 200. 00 |
| Total | | | | | |
| 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 | 1, 120, 864. 08 | 129, 002. 79 | 77, 506. 86 | 99, 326. 03 | 165, 441. 09 |
| Other | | | | | |
| Surplus unallocated | 940, 836. 24 | 30, 108. 15 | 104, 378. 63 | 107, 483. 34 | 68, 450. 85 |
| Total surplus | 2, 625, 093. 13 | 184, 571. 38 | 238, 488. 74 | 263, 821. 17 | 274, 846. 52 |
| Total capital | 105, 484, 704. 25 | 7, 071, 646. 38 | 14, 605, 163. 61 | 10, 335, 346. 17 | 7, 794, 096. 52 |
| Total liabilities and capital | 109, 183, 850. 75 | 7, 071, 646. 38 | 14, 958, 605. 29 | 11, 345, 213. 99 | 7, 794, 805. 22 |

LOAN BANK SYSTEM

condition as at Oct. 31, 1934

| Cincinnati | Indianapolis | Chicago | Des Moines | Little Rock | Topeka | Portland | Los Angeles |
|------------------|-----------------|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| \$482, 296. 44 | \$692, 183. 20 | \$659, 726. 65 | \$138, 811. 74 | \$382, 354. 02 | \$173, 939. 69 | \$167, 154. 24 | \$248, 878. 73 |
| 17, 219, 973. 58 | 5, 897, 898. 07 | 11, 837, 379. 17 | 4, 291, 786. 71 | 4, 164, 002. 19 | 4, 195, 676. 00 | 2, 237, 898. 30 | 2, 905, 370. 06 |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | 7, 178. 41 |
| 17, 219, 973. 58 | 5, 897, 898. 07 | 11, 837, 379. 17 | 4, 291, 786. 71 | 4, 164, 002. 19 | 4, 195, 676. 00 | 2, 237, 898. 30 | 2, 912, 548. 47 |
| 90, 441. 77 | 39, 204. 62 | 44, 202. 24 | 32, 908. 05 | 20, 965. 07 | 31, 783. 63 | 31, 434. 66 | 21, 737. 15 |
| 837, 244. 33 | 1, 576, 255. 46 | 326, 025. 25 | 1, 349, 250. 44 | 3, 293, 480. 33 | 1, 358, 383. 25 | 1, 685, 374. 72 | 1, 474, 078. 13 |
| 15, 211. 58 | 3, 015. 75 | 6, 773. 23 | 6, 413. 91 | 48, 876. 24 | 3, 602. 70 | 3, 075. 87 | 11, 334. 29 |
| 18, 645, 167. 70 | 8, 208, 557. 10 | 12, 874, 106. 54 | 5, 819, 170. 85 | 7, 909, 677. 85 | 5, 763, 385. 27 | 4, 124, 937. 79 | 4, 668, 576. 77 |
| 762, 029. 08 | 69, 674. 42 | 576, 456. 06 | 293, 584. 10 | 392, 003. 16 | 2, 957. 77 | 228, 407. 19 | 10, 016. 52 |
| 762, 029. 08 | 69, 674. 42 | 576, 456. 06 | 293, 584. 10 | 392, 003. 16 | 2, 957. 77 | 228, 407. 19 | 10, 016. 52 |
| 4, 232, 400. 00 | 1, 923, 100. 00 | 1, 790, 600. 00 | 775, 200. 00 | 1, 183, 600. 00 | 788, 300. 00 | 466, 200. 00 | 891, 900. 00 |
| 12, 775, 700. 00 | 6, 000, 000. 00 | 10, 000, 000. 00 | 4, 500, 000. 00 | 6, 100, 000. 00 | 4, 700, 000. 00 | 3, 310, 000. 00 | 3, 560, 000. 00 |
| 17, 008, 100. 00 | 7, 923, 100. 00 | 11, 790, 600. 00 | 5, 275, 200. 00 | 7, 283, 600. 00 | 5, 488, 300. 00 | 3, 776, 200. 00 | 4, 451, 900. 00 |
| 828, 600. 00 | 111, 800. 00 | 259, 900. 00 | 282, 900. 00 | 205, 000. 00 | 263, 000. 00 | 39, 200. 00 | 182, 100. 00 |
| 446, 968. 75 | 61, 750. 00 | 155, 640. 00 | 145, 575. 00 | 133, 645. 00 | 115, 750. 00 | 18, 325. 00 | 76, 760. 00 |
| 381, 631. 25 | 50, 050. 00 | 104, 260. 00 | 137, 325. 00 | 71, 355. 00 | 147, 250. 00 | 20, 875. 00 | 105, 340. 00 |
| ..... | 577, 400. 00 | 4, 173, 900. 00 | 2, 894, 900. 00 | 2, 672, 400. 00 | 2, 633, 600. 00 | 2, 650, 000. 00 | 6, 407, 900. 00 |
| ..... | 577, 400. 00 | 4, 173, 900. 00 | 2, 894, 900. 00 | 2, 672, 400. 00 | 2, 633, 600. 00 | 2, 650, 000. 00 | 6, 407, 900. 00 |
| 133, 801. 76 | 52, 930. 50 | 82, 583. 30 | 26, 263. 24 | 49, 521. 43 | 13, 942. 88 | 11, 806. 81 | 12, 512. 82 |
| 86, 104. 72 | 40, 438. 35 | 165, 397. 25 | 52, 767. 10 | 39, 994. 54 | 107, 232. 86 | 75, 891. 42 | 81, 761. 07 |
| 273, 500. 89 | 72, 363. 83 | 154, 809. 93 | 34, 031. 41 | 73, 203. 72 | 3, 701. 76 | 11, 757. 37 | 7, 046. 36 |
| 493, 407. 37 | 165, 732. 68 | 402, 790. 48 | 113, 061. 75 | 162, 719. 69 | 124, 877. 50 | 99, 455. 60 | 101, 320. 25 |
| 17, 883, 138. 62 | 8, 138, 882. 68 | 12, 297, 650. 48 | 5, 525, 586. 75 | 7, 517, 674. 69 | 5, 760, 427. 50 | 3, 896, 530. 60 | 4, 658, 560. 25 |
| 18, 645, 167. 70 | 8, 208, 557. 10 | 12, 874, 106. 54 | 5, 819, 170. 85 | 7, 909, 677. 85 | 5, 763, 385. 27 | 4, 124, 937. 79 | 4, 668, 576. 77 |

Federal Home Loan Bank Interest Rates on Advances to Member Institutions

A FURTHER reduction in interest rates on advances to member institutions, the second within six months, is announced by the Federal Home Loan Bank of Pittsburgh beginning January 1, 1935. At that time the effective rate on all loans will be reduced from $4\frac{1}{2}$ percent to $4\frac{1}{4}$ percent.

In taking this action, the directors of the Pittsburgh bank expressed the belief "that a further reduction in the rate of interest will serve as an incentive to member institutions to reduce their interest charges" to home-owner borrowers, and they expressed the further belief that it is "at present desirable to stimulate borrowing by member associations in order that funds be loaned for remodeling and repairing of homes".

The rate on all short-term loans up to one year is to be written at $4\frac{1}{4}$ percent. The rate on all long-term loans is to be written at 5 percent, but on application the borrowing institution is to be credited with the difference between 5 percent and $4\frac{1}{4}$ percent so that the effective rate on long-term loans will also be $4\frac{1}{4}$ percent. Resolutions governing this procedure were passed by the directors of the Pittsburgh bank on November 24, 1934, and read as follows:

"Be it further resolved, That all borrowing members whose loans are evidenced by notes written for more than one year shall be requested to authorize the Federal Home Loan Bank of Pittsburgh to lower the interest rate of 5 percent and to fluctuate the same from time to time if they deem it advisable but not in excess of 5 percent as written.

"Be it further resolved, That upon receiving such authorization the Federal Home Loan Bank of Pittsburgh shall, until further action of the Board of Directors of this Bank, refund to member borrowers by crediting to the interest charged to their accounts, a sum equal to the difference between interest at the rate of 5 percent per annum and interest at the rate of $4\frac{1}{4}$ percent per annum."

Interest rates—Federal Home Loan Banks; rates on advances by member Banks

| Federal Home Loan bank | Rate in effect on December 1 | Type of loan |
|------------------------|------------------------------|--|
| | Per-cent | |
| 1. Boston..... | 4 | All loans. |
| 2. Newark..... | 4 | Reconditioning loans. |
| | $4\frac{1}{2}$ | All other loans. |
| 3. Pittsburgh..... | $4\frac{1}{2}$ | All loans. |
| 4. Winston-Salem... | 4 | Short-term and long-term billing—H. O. L. C. security. |
| | $4\frac{1}{2}$ | Loan-term contract. |
| 5. Cincinnati..... | $4\frac{1}{2}$ | All loans until Dec. 31, 1934. |
| 6. Indianapolis..... | 4 | Secured loans. |
| | 5 | Unsecured loans. |
| 7. Chicago..... | 4 | 1- and 10-year amortized loans. |
| | $4\frac{1}{2}$ | 1-year straight loans. |
| | 5 | Unsecured loans. |
| 8. Des Moines..... | 4 | Loans up to 1 year if secured by H. O. L. C. bonds. |
| | 4 | That portion of any loan in excess of \$250,000. |
| | $4\frac{1}{2}$ | All other loans. |
| 9. Little Rock..... | 4 | All loans. |
| 10. Topeka..... | 4 | Do. |
| 11. Portland..... | $4\frac{1}{2}$ | Do. |
| 12. Los Angeles..... | $4\frac{1}{2}$ | Do. |

¹ Beginning January 1, 1935, effective rate on all loans is to be $4\frac{1}{4}$ percent. See accompanying analysis.

A correction on the previously reported rate has been sent in by the Des Moines bank. The rate as published in previous *REVIEWS* was given as 4½ percent on all loans. There are two exceptions to this flat rate. Since last April, the bank has been making short-term advances up to one year when secured by Home Owners' Loan Corporation bonds at a rate of 4 percent. Such advances are made up to the

par value of the bonds. In addition, the Des Moines bank has offered to all associations borrowing more than \$250,000 a rate of 4 percent on any amount in excess of this sum. That is, an institution borrowing \$500,000 from the Des Moines bank would pay 4½ percent on the first \$250,000 and 4 percent on the second \$250,000 or any part thereof.

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

| | Applications received | | | Institutions insured | | |
|--|-----------------------|--------------------------------|---------------|----------------------|--------------------------------|----------------|
| | Number | Share and creditor liabilities | Total assets | Number | Share and creditor liabilities | Total assets |
| New Federal savings and loan associations.. | 320 | \$6, 506, 628 | \$6, 913, 220 | 283 | \$43, 434, 364 | \$46, 783, 933 |
| Converted Federal savings and loan associations..... | 102 | 69, 927, 950 | 75, 834, 632 | | | |
| State-chartered associations..... | 34 | 45, 211, 792 | 49, 728, 735 | 1 | 7, 481, 470 | 8, 426, 127 |
| Total..... | 456 | 121, 646, 370 | 132, 476, 587 | 284 | 50, 915, 834 | 55, 210, 060 |

Federal Savings and Loan Associations

REFINANCING heads the list of purposes for which Federal savings and loan associations made new mortgage loans during the month of October, as shown by the accompanying table (table 1). This is encouraging evidence that private home-financing institutions are recognizing the opportunity for new business offered in recasting the existing volume of home-mortgage indebtedness. As more institutions share in this movement, the demand for funds for new construction, released from the chains of a fear psychology, should expand rapidly.

Loans made during the month for new construction by the Federal associations reporting were in fact a good second, totaling \$479,107 for both new and converted associations as compared with \$1,056,798 for refinancing. The proportion of loans for reconditioning was comparatively high, totaling \$291,957 as compared with \$292,609 for purchase of homes.

The great increase in the volume of calls made by Federal associations upon the \$100,000,000 fund authorized by Congress for investment in preferred shares of these private, mutual, thrift institutions also reflects in part a growing demand on the part of home owners for long-term amortized mortgage loans. By November 1, 544 calls for Treasury investment had been made, amounting to \$10,900,600 (table 2). New calls are now being made at the rate of \$1,000,000 a week, as contrasted with less than \$100,000 weekly six months ago. By November 1, \$6,373,300 had actually been advanced.

The use that Federal associations are making of their line of credit with the Federal Home Loan Banks is also significant evidence of their active response to a growing demand for new mortgage loans. The 262 new Federal associations report-

ing show an increase of 59 percent in their borrowings from the System during the month of October (table 1).

As the result of action by the Federal Home Loan Bank Board in arranging for monthly reports from all Federal savings and loan associations, the REVIEW will in the near future be able to publish regularly indexes of mortgage activity for a representative group of home-financing institutions situated in all sections of the country. These indexes should serve as a pulse by which to determine every month the condition of home-mortgage financing activity. Table 1, showing the expansion during the month of October in the activities of 262 new and 70 converted Federal associations, illustrates the type of information these indexes will present.

In connection with this table, the decreases in the number and amount of private-share subscriptions which occurred in the converted institutions require explanation. These decreases result from the transference of many converted institutions from the "share-sinking fund" plan of mortgage loans to the "direct-reduction" loan required by Federal savings and loan association regulations.

Under the "share-sinking fund" plan a borrower is required to buy so many installment shares in the association. He makes monthly payments on these shares, which may or may not earn dividends, and when the shares are matured his mortgage loan is canceled against them. Under the "direct-reduction" plan the borrower pays a stated amount every month for a specified number of months. The interest is figured on the unpaid balance at the end of each month and the remainder of the payment applies on the principal. In consequence, the complete payment of his loan, principal and interest, can be figured to the cent and to the day.

Federal Home Loan Bank Review

TABLE 1.—Data showing progress of 262 new and 70 converted Federal savings and loan associations during the month of October 1934

| | 262 new Federal savings and loan associations | | | |
|--|---|--------------------|--------------------|--------------|
| | Sept. 30, 1934 | Oct. 31, 1934 | Increase | Percent |
| Share subscriptions: | | | | |
| Number of private share accounts..... | 20, 755 | 21, 623 | 868 | 4. 1 |
| Number of shares subscribed..... | 210, 442 | 218, 880 | 8, 438 | 4. 0 |
| Average number of shares per account..... | 10. 1 | 10. 1 | | |
| Share liabilities: | | | | |
| Paid on private subscriptions..... | \$4, 143, 571 | \$4, 460, 775 | \$317, 204 | 7. 7 |
| Subscriptions by Secretary of Treasury..... | 2, 760, 800 | 3, 783, 800 | 1, 023, 000 | 37. 0 |
| Total..... | 6, 904, 371 | 8, 244, 575 | 1, 340, 204 | 19. 4 |
| Average paid on private subscriptions..... | 200 | 206 | 6 | 3. 0 |
| Mortgage loans during October: | | | | |
| a. Modernization..... | | 212, 123 | 212, 123 | |
| b. New construction..... | | 431, 727 | 431, 727 | |
| c. Refinancing..... | | 660, 399 | 660, 399 | |
| d. Purchase of homes..... | | 192, 781 | 192, 781 | |
| Totals outstanding at end of month..... | 5, 437, 035 | 6, 934, 065 | 1, 497, 030 | 27. 5 |
| Borrowed money: | | | | |
| Advances: Federal Home Loan Bank System..... | 298, 193 | 474, 226 | 176, 033 | 59. 0 |
| Other sources..... | 22, 767 | 20, 300 | —2, 467 | —10. 8 |
| Total..... | 320, 960 | 494, 526 | 173, 566 | 54. 0 |

| | 70 converted Federal savings and loan associations | | | | Combined total, Oct. 31, 1934 |
|--|--|---------------------|-----------------|-------------|-------------------------------|
| | Sept. 30, 1934 | Oct. 31, 1934 | Increase | Percent | |
| Share subscriptions: | | | | | |
| Number of private share accounts..... | 53, 691 | 52, 788 | —903 | —1. 7 | 74, 411 |
| Number of shares subscribed..... | 572, 491 | 560, 443 | —12, 048 | —2. 1 | 779, 323 |
| Average number of shares per account..... | 10. 7 | 10. 6 | —0. 1 | —1. 0 | 10. 5 |
| Share liabilities: | | | | | |
| Paid on private subscriptions..... | \$30, 327, 328 | \$30, 092, 743 | —\$234, 585 | —0. 8 | \$34,553,518 |
| Subscriptions by Secretary of Treasury..... | 614, 000 | 1, 220, 000 | 606, 000 | 98. 7 | 5, 003, 800 |
| Total..... | 30, 941, 328 | 31, 312, 743 | 371, 415 | 1. 2 | 39, 557, 318 |
| Average paid on private subscriptions..... | 565 | 570 | 5 | 1. 0 | 464 |
| Mortgage loans during October: | | | | | |
| a. Modernization..... | | 79, 834 | 79, 834 | | ¹ 291, 957 |
| b. New construction..... | | 47, 380 | 47, 380 | | ¹ 479, 107 |
| c. Refinancing..... | | 396, 399 | 396, 399 | | ¹ 1, 056, 798 |
| d. Purchase of homes..... | | 99, 828 | 99, 828 | | ¹ 292, 609 |
| Totals outstanding at end of month..... | 26, 683, 779 | 26, 943, 858 | 260, 079 | 1. 0 | 33, 877, 923 |
| Borrowed money: | | | | | |
| Advances: Federal Home Loan Bank System..... | 2, 236, 384 | 2, 314, 705 | 78, 321 | 3. 5 | 2, 788, 931 |
| Other sources..... | 244, 800 | 264, 900 | 20, 100 | 8. 2 | 285, 200 |
| Total..... | 2, 481, 184 | 2, 579, 605 | 98, 421 | 4. 0 | 3, 074, 131 |

¹ Total loans made by new and converted associations during October.

In transferring from one plan to the other, converting institutions are required to cancel share payments against loans with the result that the number and volume of shares outstanding and of mortgage loans both decrease. However, new loans made in October by converted institutions more than offset the shrinkage resulting from this change of plan, so that the 70 associations reporting showed a net increase in total mortgage loans of \$260,079.

One reason why Federal savings and loan associations are receiving new investments and making new loans is that they advertise their facilities. Many associations have undertaken energetic campaigns to bring to the attention of the public the facts concerning their Federal charters, their insurance of share accounts, and the services that Federalization enables them to offer. The REVIEW reproduces in the pages following this article a full-page advertisement on loaning accommodations run in a Shreveport (La.) newspaper by the First Federal Savings and Loan Association of Shreveport, and a joint advertisement run by three Federal savings and loan associations in Berkeley, Calif. The latter illustrates the possibilities of cooperative merchandising of Federal savings and loan shares.

TABLE 2.—*Increase—Federal savings and loan associations—during October*

| | Oct. 1, 1934 | Nov. 1, 1934 | Per cent- age in- crease |
|---|-----------------|------------------|-----------------------------------|
| 1. Charters issued: | | | |
| a. To new associa- tions..... | 434 | 453 | 4.4 |
| b. To associations converted from State in- stitutions..... | 114 | 124 | 8.8 |
| Total..... | 548 | 577 | 5.3 |
| 2. Charters pending: | | | |
| a. For new associa- tions..... | 215 | 178 ¹ | 17.0 |
| b. For associations converted from State in- stitutions..... | 187 | 211 | 12.8 |
| Total..... | 402 | 389 ¹ | 6.2 |
| 3. Resources: | | | |
| a. Of associations chartered..... | \$85,491,157 | \$89,231,957 | 5.5 |
| b. Of associations for which charters are pending..... | 231,665,127 | 248,234,168 | 7.1 |
| Total..... | 317,156,284 | 337,466,125 | 6.4 |
| 4. Subscriptions by the Secretary of the Treasury: | | | |
| a. Requested..... | 7,936,600 | 10,900,600 | 37.3 |
| b. Approved and paid for..... | 4,132,800 | 6,373,300 | 54.2 |

¹ Decrease.

ANNOUNCEMENT

BY

First Federal Savings and Loan Association

OF SHREVEPORT

LOAN PLANS

As low as

5 $\frac{3}{4}$ %

Interest on mortgage loans without discount or service premium

We have received our Federal Charter and announce that hereafter the Shreveport Mutual Building Association will operate under the name of First Federal Savings and Loan Association of Shreveport.

Federal sponsorship added to the strength of an \$850,000.00 surplus and nearly a half century of operating experience enable us to offer you, the home owners and potential home owners of Shreveport, a home financing plan different from any previously available to you.

As low as

5 $\frac{1}{4}$ %

Interest on mortgage loans with a small service premium

5 $\frac{3}{4}$ %, 6% and 6 $\frac{1}{4}$ % Interest Without Premium or Discount

We will lend, without any service premium, bonus, or discount, at interest rates of 5 $\frac{3}{4}$ %, 6% and 6 $\frac{1}{4}$ % on monthly reducing balances. The rate charged on each loan will be determined by the type of security you have to offer, and the basis on which you wish to repay. The highest rate on any new loan on which contractual payments are made will be 6 $\frac{1}{4}$ % but our plan recognizes that loans offering unusual security justify an even lower interest cost.

Collection Charges Eliminated

Also we announce the elimination of all collection charges on delinquent payments on both new loans and those now on our books. In addition, all loans now on our books which continue to be paid up to date will be granted an interest reduction of $\frac{1}{4}$ % per annum.

Loan Costs Further Reduced

New and refinancing loan costs are also further reduced. On each loan actually completed, the expense of appraisal will be borne by the Association. This will establish costs from as low as \$15.00 to not over \$30.00 for any type and size of loan. As has always been the case with us, no abstract need be purchased or submitted until the loan has been approved.

Requirements Greatly Liberalized

We feel that Shreveport home owners have seen the advantages of supervised construction and the monthly payment of taxes and insurance. Therefore, these features will no longer be compulsory. Loans will be made on both supervised and unsupervised construction. Monthly payments will be arranged either with or without the inclusion of taxes and insurance. However supervised construction and monthly provision for taxes and insurance will be recognized by lower interest rates, or by more liberal loans or longer terms of repayment.

Supervision By Architects

Due to the volume of business anticipated under the National Housing Act, we shall accept the supervision of registered architects in lieu of our own supervision. However we will still provide this service whenever preferred by home owners.

Low Monthly Payments and Long Term Loans

Under our new loan plan we will continue to offer loans with terms of approximately twelve, sixteen, and twenty years, with monthly interest and principal payments of \$10.00, \$8.00, and \$7.20 a month per thousand.

6% Housing Loans

Federal Savings and Loan Associations are authorized to make loans for terms of from five to twenty years. The First Federal will cooperate with the National Housing Administration by making five-year loans for modernization under mortgages separate and apart from those we now hold. A special interest rate of 6% on reducing balances, without bonus or premium, will be offered on all these National Housing loans.

Commercial Loans

In addition to our usual home financing business, a substantial amount of money will also be available for high-grade loans on commercial properties.

5 $\frac{3}{4}$ %, 5 $\frac{1}{2}$ % and 5 $\frac{1}{4}$ % Interest on Service Premium Loans

For those who prefer the service premium or bonus type of loan made by other types of financial institutions, we offer interest rates ranging from 5 $\frac{3}{4}$ % to 5 $\frac{1}{4}$ % (depending again on the type of security offered) upon the payment of a small service premium.

Your Choice of Loan Plans

Federal Savings and Loan Associations, in all parts of the country, both new institutions and converted organizations, seem to be about equally divided as to interest plans. Some have adopted the service premium type of loan—some the plan without service premium. We sincerely believe that we are offering to the people of Shreveport the lowest interest rates and the longest terms in home financing that we know of in this country, and in addition we are offering the home owners in our community their choice of any of the plans that are being successfully used elsewhere.

Friendly Service

We exist for only one purpose, to serve our fellow home owners and investors. We invite you to come in to see us and talk over our new loan plans because we believe it will be in your interest as well as ours to do so before you borrow or refinance.

FIRST FEDERAL SAVINGS AND LOAN ASSOCIATION

OF SHREVEPORT

CROCKETT STREET AT McNEIL



PHILIP LIEBER
President
JAMES H. ROWLAND
First Vice President

JACOB C. SIMON
Second Vice President
JOHN J. PUSSEUR
Assistant to the President

OFFICERS
JAMES R. EWING
Assistant, Vice President
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Secretary-Treasurer
BOYD C. EMBREY
Assistant Secretary-Treasurer

LIONEL R. FLAXMAN
Assistant Secretary-Treasurer
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DIRECTORS

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Alben M. Dwyer

Simon Ehrlich
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John Howell
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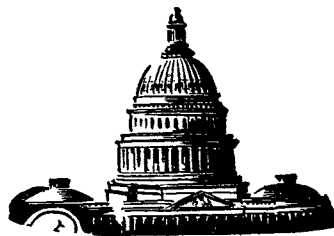
Philip Lieber
James H. Rowland

Joseph C. Stearn
Bess Winters, Jr.

R. S. Winton
J. V. Woodward



Announcing three new FEDERAL SAVINGS and LOAN Associations for Berkeley



Sponsored and supervised by the United States Government . . . owned by their investing shareholders . . . managed by responsible local business men . . . making loans to local home owners, secured by sound first mortgages on their homes . . . these new mutual thrift institutions bring to Berkeley added facilities for safe investment and sound and economical financing of homes.

What They Are

Federal Savings and Loan Associations are savings institutions operating under Federal charter and supervised by the U. S. Government. They issue shares for the investment funds placed with them, and lend these funds on homes in their district. The Associations are authorized to repurchase the investor's shares.

Charters are issued only to responsible persons, whose guiding motive is the safety of the shareholders' investment. In Berkeley, the only charters are those which have been granted to the well-established, successful building and loan groups of this city, namely, the Berkeley, Community and Fidelity. The new "Federals" will operate as companion institutions to the present Associations.

A Federal Savings and Loan Association is not a bank. It does not accept deposits or pay out money on checking accounts. It is strictly a mutual investing institution, designed for the long-term savings of the people.

Federal Participation

Proving its confidence in these new institutions, Congress empowered the Federal Government to participate financially in their establishment and progress.

The Government may invest in the Full Paid Income shares of these Associations, \$3.00 for every \$1.00 invested by private investors. The Government invests on the same basis as any private investor, without preference as to principal or earnings.

Tax Exemption

Shares of Federal Associations are exempt, both as to their value and the income therefrom, from all taxation except surtaxes, estate, inheritance and gift taxes, now or hereafter imposed by the United States.



Types of Shares

● Installment Thrift—

For systematic weekly or monthly savings. A bonus is provided for those who save consistently.

● Optional Savings—

Payments may be made in any amount, from \$1.00 up, at convenience of the investor.

● Prepaid Shares—

For lump sum investment, with dividends to accumulate until the account reaches the subscribed amount.

● Full-paid Income Shares

For lump sum investment, with dividends payable in cash. For people of moderate or substantial means who wish to realize an attractive rate of income upon their savings or investments.

The above investments are now available with the undersigned Associations. Full information on request.



2122 SHATTUCK AVE.
THERMALL 0600



2101 SHATTUCK AVE.
BERKELEY 0200



2122 SHATTUCK AVE.
THERMALL 2434

Home Owners' Loan Corporation Suspends Activity on Applications

ON NOVEMBER 13, announcement was made by the Home Owners' Loan Corporation of its decision to suspend acceptance of further applications and to halt activity on all applications pending in stages prior to investigation by the Legal Department, which is the last step before action by the Loan Closing Department. The reasons underlying these important measures call for detailed explanation. They constitute both a challenge and an invitation to institutions engaged wholly or in part in home finance.

Primarily, suspension of Home Owners' Loan Corporation activities at a time when a large volume of applications had not yet been rejected or closed was rendered necessary by the fact that the Corporation's authority to extend relief to home owners is limited by law to approximately \$3,000,000,000. Of this sum, \$2,000,000,000 had been expended in making loans to some 650,000 home owners. Applications which had reached the Legal Department at the time suspension was announced would have accounted for the Corporation's remaining resources.

It would be an unjustifiable misuse of public funds in superfluous overhead costs for the Corporation to continue to handle applications for loans which it has not the funds to make. Handling of such applications would also hamper the closing of the 300,000 or more applications for which credit remains available, and which, having reached the Legal Department, appear

likely to be closed within a relatively short time.

The specific rule that no loan in any stage prior to the Legal Department should receive further attention has raised the question as to why suspension was not based on the chronological order of applications received, or upon the relative degree of distress of the applicants involved.

As far as the chronological standard is concerned, it would be physically impossible and generally unfair to the applicants to base suspension upon the date of the original applications. In thousands of cases of acute distress, by reason of misunderstanding of the law, application was not made until relatively late, whereas many applicants whose cases may be rejected because of insufficient distress had made their applications much earlier. As far as the second point is concerned, it would be wholly out of the question to establish the relative "degree of distress" among the large number of applicants in all parts of the United States whose loans have not yet been granted.

THE FIELD FOR PRIVATE LENDING ACTIVITY

WITH the suspension a fact, and the prospect of additional resources through new legislation entirely beyond the realm of prediction, it seems imperative for private home-financing institutions to consider the situation and their own position realistically. The press has been practically

unanimous in considering the suspension of Home Owners' Loan Corporation activities a sign that the peak of the emergency in home real estate has passed, and that any additional appropriation of Federal funds for distressed home owners should be restricted to the extent necessary to bridge the gap between what the Corporation has accomplished and the volume of acute distress which may remain, when the Corporation's funds have been exhausted.

The Corporation is taking every possible step to facilitate the transition from its own emergency function to the resumption of lending by private capital. This effort has had the endorsement of representative building and loan associations, savings banks, and life insurance companies. Moreover, it appears that these institutions collectively have sufficient funds now awaiting investment in home loans to effect the adjustment or refinancing of those mortgages which may be rejected by the Corporation on grounds of insufficient distress. Through the Federal Home Loan Banks, information is rapidly being gathered as to the specific lending institutions which have loanable resources and are willing to consider the refinancing of this particular group of loans. Steps are likewise being taken through the offices of the Home Owners' Loan Corporation to encourage the mortgagors and their present lenders to compose existing indebtedness in the light of present values and the mortgagor's ability to discharge his obligation.

Before the Corporation's present resources have been exhausted, reliable information may be at hand regarding the degree to which the private home-lending institutions of the United States are able to take up the slack. Their capacity and willingness to do so offer the only alternative to substantial further appropriation of Federal funds to prevent the serious difficulties which might result from a shortage of

refinancing facilities affecting any considerable number of home owners.

Typical of the measures now under way in ascertaining the exact situation is the following form letter which is being sent out by the Federal Home Loan Banks to every member and nonmember home-financing institution in the twelve bank districts.

The Federal Home Loan Bank of ----- has established a new department—the Loan Placement Division—for the purpose of cooperating both with the Home Owners' Loan Corporation and with all building associations, savings banks, life insurance companies, and other home-financing institutions in this district. The functions of the Loan Placement Division are as follows:

1. To ascertain from home-financing institutions in this district whether satisfactory adjustment has been made with their own mortgagors whose applications for loans from the Home Owners' Loan Corporation have been rejected. Wherever adjustment has been effected, such cases require no further action by the Loan Placement Division.

2. In all other cases, the bank proposes to issue periodic lists of home-financing institutions in this district which have funds available for loans to home owners of satisfactory credit status, and to supply such lists to those home owners who have applied to the Home Owners' Loan Corporation but whose requirements apparently deserve the attention of private lending institutions.

By this method, prospects for mortgage loans will be made available to home-financing institutions which have loanable resources and are willing to lend on adequate security. A large proportion of the rejected Home Owners' Loan Corporation applicants fall into this class. Their distress in thousands of instances has been due to inability to meet large lump-sum maturities. The home owners concerned are of sound character. Their present incomes appear adequate to meet all charges on amortized loans made at reasonable interest rates.

The handling of such applications becomes an obligation of, and an opportunity for, all home-financing institutions in this district. This can be done with profit to the institutions provided they exercise care in the selection of risks. The bank merely acts as a clearing house. It will endeavor to bring together home owners requir-

ing mortgage accommodations and home-financing institutions which have funds available.

In this way the Federal Home Loan Bank of ----- will help in restoring a normal mortgage market, complementing the past activities of the Home Owners' Loan Corporation, which has now ceased to accept loan applications and which must confine its activities at present to applications which have already been finally appraised and are in the hands of the Legal Department.

We would appreciate your filling out and returning the enclosed post card, signifying whether or not you wish to participate in this service. The proposed lists of institutions which declare themselves in a position to lend money on selected risks will include only those institutions which return this card. We wish to thank you in advance for your cooperation in this important matter.

Very truly yours,

FEDERAL HOME LOAN BANK OF -----

[Text of proposed return post card]

FEDERAL HOME LOAN BANK OF -----,

Dear Sirs: This institution has { ample
moderate funds
available for
making
no

amortized loans to home owners of satisfactory personal credit status and adequate security in the refinancing of their existing mortgage contracts.

Name of institution -----,

Signed by -----

*Home Owners' Loan Corporation applications received and loans closed, by months*¹

| Month | Applica- tions re- ceived ² | Loans closed | |
|---|--|--------------|------------------|
| | Number | Num- ber | Amount |
| 1933 | | | |
| From date of opening through Sept. 30 | 403, 114 | 593 | \$1, 688, 787 |
| October | 129, 504 | 3, 424 | 10, 164, 678 |
| November | 99, 232 | 10, 946 | 31, 445, 827 |
| December | 90, 946 | 22, 286 | 62, 621, 051 |
| 1934 | | | |
| January | 123, 189 | 30, 339 | 86, 143, 838 |
| February | 136, 132 | 32, 940 | 93, 499, 995 |
| March | 168, 273 | 52, 260 | 150, 213, 639 |
| April | 145, 772 | 56, 172 | 171, 490, 768 |
| May | 119, 791 | 64, 172 | 208, 293, 766 |
| June | 97, 679 | 71, 768 | 223, 440, 191 |
| July | 66, 157 | 78, 046 | 235, 467, 606 |
| August | 72, 022 | 69, 738 | 202, 442, 864 |
| September | 39, 317 | 59, 240 | 179, 299, 857 |
| October | 35, 675 | 65, 813 | 201, 211, 532 |
| Cumulative total | 1, 726, 803 | 617, 737 | 1, 857, 424, 399 |
| Detroit wholesale operations | 16, 189 | ..... | ..... |
| Grand total to Oct. 31, 1934 . | 1, 742, 992 | 617, 737 | 1, 857, 424, 399 |

¹ These figures are subject to adjustment.

² The monthly figures exclude Detroit wholesale operations. Any of these applications that resulted in loans are included in the "Loans closed" columns.

Resolution of the Board Governing Deposits

THE following resolution governing deposits with the Federal Home Loan Banks by member institutions was adopted by the Federal Home Loan Bank Board on November 13, 1934.

Be it resolved by the Federal Home Loan Bank Board that the Federal Home Loan Banks be and they are authorized to accept deposits from their members under the following conditions:

1. Withdrawals from deposit accounts shall be made by written request for withdrawal which shall be paid by the check of the Federal Home Loan Bank, and checks against such deposit accounts shall not be allowed.

2. In the acceptance of deposits the right shall be reserved to demand thirty days' notice in writing of intention to withdraw all or any part of the deposit.

3. Interest may be paid on the deposits subject to the following limitations:

a. If the deposit is withdrawn within thirty days no interest may be paid.

b. If the deposit is withdrawn after thirty days but within ninety days Federal Home Loan Banks may contract to pay interest at the rate of not exceeding one per centum per annum.

c. If the deposit is not withdrawn within ninety days Federal Home Loan Banks may contract to pay interest at the rate of not exceeding two per centum per annum.

4. Funds received on deposits from members may be invested in:

a. Obligations of the United States.

b. Deposits in banks or trust companies.

c. Advances to members with a maturity of not to exceed one year upon such terms and conditions as the Federal Home Loan Bank Board may prescribe.

