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# Federal Home Loan Bank Review

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## SUBSCRIPTION PRICE OF REVIEW

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

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# The Risks to Mortgage Investments that Arise from Instability of Property Values

AFTER a bad accident the average man drives fearfully and with excessive care. With the recent crash fresh in their minds it is natural that home-financing institutions should magnify the risks and move too cautiously when they again set forth on the lending road. The danger of such a procedure is that the institutions may misread the risks; that they will creep along on the open boulevard but ignore the fatal railroad crossing.

The home-financing institution whose hypercautiousness expresses itself in holding to a low level the percentage of loan to present appraised values is the victim of just such misreading. So-called "conservative" loans are not an effective guaranty against default, foreclosure, and partial loss of a first-mortgage investment. The experience of the past four years has exploded that theory once for all. Life-insurance companies, for example, have always relied for safety largely on low-percentage lending. The laws of most States prevent them from lending more than 50 percent of appraised value. Yet so little did this practice protect the safety of their investments in mortgages that the estimated amount of real estate held by all life-insurance companies rose from 5 percent of their mortgage holdings at the end of 1929 to 28 percent at the end of 1934. In dollars this represents a jump from \$367,128,000 in 1929 to \$1,678,600,000 in 1934. These figures, of course, do not take account of the additional volume of real estate taken in during the depression which has been resold.

The evidence is that low-percentage loans, when they compel the homeowner

to take a high-cost junior lien, tend rather to increase than to decrease the risk to the first-mortgage investment. The heavy burden of the second-mortgage payments makes it harder for the borrower to keep up his payments on the first mortgage. Then when hard times force him to default, the expectation that the property can always be sold for an amount sufficient to liquidate the first mortgage is shown to be false. A large number of foreclosures knocks the bottom out of the market and the first mortgagee must take a loss or carry the property. Thousands of conservative lending institutions know the truth of this from their own experience.

This is, of course, not to argue that lending institutions should always make loans representing a high percentage of property value. On the contrary, a borrower should never be encouraged to take a larger loan than he needs, and the more 40- and 50-percent loans an institution can make the better for it, *if such low loans do not force the borrower to take a junior lien*. The essential point is that a single first mortgage of 75 percent generally involves less risk to the first mortgagee than a first mortgage of 40 percent plus a costly second mortgage of 35 percent. When there is no second mortgage, the lower-percentage first mortgage obviously involves less risk.

In magnifying the risk of lending a relatively high percentage of appraised value, our home-financing institutions have minimized or entirely missed other and more vital risk factors.

There are many such factors, including the character and earning capacity of the

borrower, and the movement of the business cycle, both of which should receive primary consideration from any financial institution whose business is to lend money. We are here concerned, however, with a group of risk factors peculiar to the mortgage business and which home-financing institutions can no longer afford to neglect.

#### THE RISK OF UNSTABLE PROPERTY VALUES

MORTGAGE investments in the United States have always suffered from the notorious instability of residential values. Property readily salable for \$10,000 at one time finds no market at \$5,000 a few years later. This instability of value is due mainly to two things: the periodic inflation and deflation of property values and the instability of use of property. The present generation of home-financing executives knows all about the boom-and-collapse cycle in real estate, and recognizes it as one of the major risks in their business.

As for instability of use, rapid decay has long been characteristic of American home neighborhoods. For one reason or another values of single-family residences have seemed fated to disappear sooner or later. This may be due to the intrusion of a grocery store, a gas station, a rooming house, or an apartment house. It may be due to bad community planning and subdivision—narrow, rectangular lots which condemn the subdivision in advance to overcrowding, deterioration, and blight; streets too broad and costly or too narrow and congestive; and inefficient access to industrial and commercial sections. Or, this instabil-

ity of use and of value may be due to jerry-building and unsightly house designs, which can destroy the character of a neighborhood like a plague.

This list is not meant to be exhaustive. There are many other causes of instability of use and value. The fact to recognize about them all is that they are not "acts of God." They result from the activity or inactivity of men, and so they can be corrected and the risks they impose on mortgage loans can be reduced, and even removed.

None has a more vital interest in the removal of these risks than home-financing institutions, particularly those making long-term loans. Probably nothing would go farther to take the headache out of their business than the knowledge that they need no longer look forward fearfully to sharp drops in the value of the security behind their mortgages.

Whether home-financing institutions shall enjoy this increased security rests largely with themselves. As masters of the purse strings, they occupy the key position in determining in what kinds of neighborhoods what kinds of housing shall be built.

In succeeding issues, the REVIEW will analyze the many factors—physical, technical, and legal—that determine the stability and consequent investment-desirability of neighborhoods and dwellings. An attempt will be made to define the community and construction standards on which lending institutions should insist and to show how they may help to bring about those standards.

# Disposition of a Sample Group of Properties Foreclosed in 1934

SOME indication of the proportion of foreclosed properties bought in by the mortgagee during the six-month period, July-December 1934, has recently been obtained by the Division of Research and Statistics of the Federal Home Loan Bank Board. Reports were made on 5,175 foreclosures which took place during this period in 352 communities. At least one community (usually a county) reported from every State except Delaware, Alabama, South Carolina, Tennessee, and the District of Columbia. The combined popu-

lation of the reporting districts was 6,884,063 (1930 Census) or 5.6 percent of the national total. The communities were predominantly rural and more than half of the foreclosures were on farms. It is not, therefore, permissible to draw conclusions for the nation as a whole from these reports.

Table 1 reveals the size of the reporting communities. Although communities of less than 25,000 represented 76.1 percent of the number, they contained only 42 percent of the total population.

TABLE 1.—Reporting communities by population groups

Population group	Number of reporting communities			Population of reporting communities		
	Actual	Percent		Actual	Percent	
		Actual	Cumulative		Actual	Cumulative
Less than 2,500.....	24	6.8	6.8	32,815	0.5	0.5
2,500 to 5,000.....	37	10.5	17.3	142,047	2.1	2.6
5,000 to 10,000.....	69	19.6	36.9	520,124	7.5	10.1
10,000 to 25,000.....	138	39.2	76.1	2,198,319	31.9	42.0
25,000 to 50,000.....	66	18.7	94.8	2,299,670	33.4	75.4
50,000 to 100,000.....	13	3.7	98.5	831,805	12.1	87.5
100,000 to 250,000.....	3	0.9	99.4	341,137	5.0	92.5
250,000 to 500,000.....	2	0.6	100.0	514,291	7.5	100.0
Total.....	352	100.0	.....	6,880,208	100.0	.....

The number of foreclosures by type of mortgagee and the number and percent of foreclosed properties bought in by the mortgagee are revealed in table 2. By far the largest number of foreclosures in the reporting communities were instituted by individual mortgagees. They foreclosed 1,536 properties as compared with 1,082 by insurance companies, 977 by banks and trust companies, and 948 by building and

loan associations. However, as we do not have any information on the number of mortgages held by any type of mortgagee in relation to all mortgages in these communities, no conclusions can be drawn from these data on the relative tendency of any type of mortgagee to foreclose.

Individual mortgagees bought in the smallest percentage of properties they foreclosed. The noteworthy fact, however,

is the high percentage of properties bought in by all types of mortgagees. The average was 87.2 percent and no type of mortgagee bought in less than 83 percent. This uniformly high percentage suggests that in the last half of 1934 the market for distressed properties was not active enough to permit mortgagees to realize on their investment by sale at the time of foreclosure (table 2).

TABLE 2.—Number of foreclosed properties bought in by the mortgagee by type of mortgagee

Agency	Properties foreclosed	Number of foreclosed properties		
		Bought in by mortgagee	Not purchased by mortgagee	Percent bought in by mortgagee
Individuals.....	1,536	1,276	260	83.1
Insurance companies...	1,082	971	111	89.7
Banks and trust companies.....	977	826	151	84.5
Building and loan associations.....	948	867	81	91.4
Mortgage companies...	209	184	25	88.0
United States Government agencies.....	150	144	6	96.0
Others.....	273	243	30	89.0
Total.....	5,175	4,511	664	87.2

Of the 5,175 foreclosed properties reported 2,939 were farms. The mortgagees

bought in 88.6 percent of these farm properties (table 3). It is possible to get some breakdown of the type of structure involved in other foreclosures. One-family dwellings led the list with a total of 1,206 (table 3).

TABLE 3.—Foreclosures by type of structure

Type of structure	Properties foreclosed	Number of foreclosed properties		
		Bought in by mortgagee	Not purchased by mortgagee	Percent bought in by mortgagee
1-family dwellings.....	1,206	1,001	205	83.0
2-family dwellings.....	126	101	25	80.1
Joint home and business.....	47	41	6	87.2
3-family dwellings.....	22	19	3	86.4
Multifamily dwellings...	27	24	3	88.9
Other residential.....	450	429	21	95.3
Other nonfarm.....	358	292	66	81.6
Farm.....	2,939	2,604	335	88.6
Total.....	5,175	4,511	664	87.2

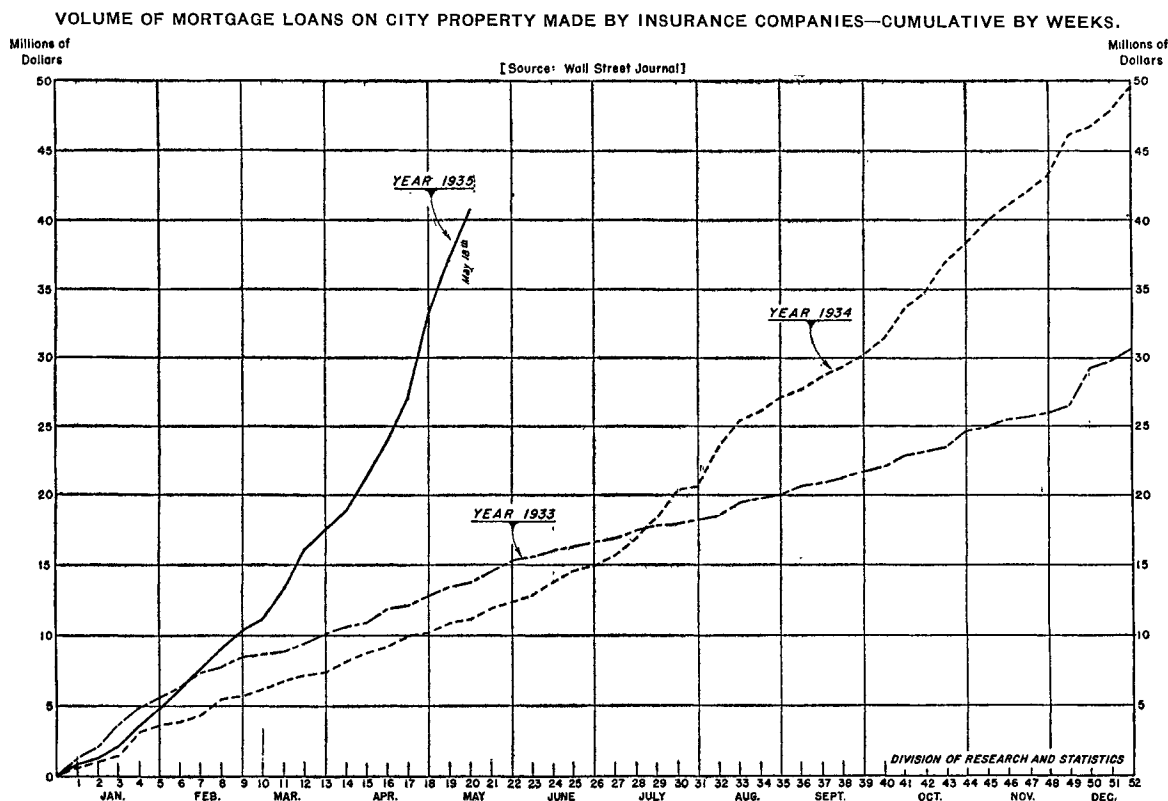
All types of mortgagees with the exception of building and loan associations reported greater number of foreclosures on farm properties than on any other type. Of the 948 properties foreclosed by building and loan associations, 460 were 1-family dwellings and 221 were farms.

# Current Investments in Mortgages by Leading Life Insurance Companies

**I**N THE first 20 weeks of this year, 47 leading life insurance companies invested as much in urban mortgages as they did in 46 weeks of 1934 (see chart). Their investments in urban mortgages during the first three weeks of May, as reported by the Wall Street Journal, constituted 7.8 percent of all their investments during that period. This is the highest percentage of investment in mortgages by these companies in any month since 1932. Although 7.8 percent is still far below the monthly average of 49.1 percent for six months in 1928, there are indications that

it marks the definite departure of the insurance companies from the cautious attitude toward urban-mortgage investments of the last two years.

Insurance company investments in farm mortgages have not risen above the low level of the depression years. However, each month of this year has witnessed an increase in the purchase of public utility securities by these insurance companies, to the point where they exceeded the monthly average of such investments in 1928. The purchase of miscellaneous securities also jumped sharply in May. Balancing this





increase in mortgage, utility, and miscellaneous securities, May recorded the smallest percentage of investment in all United States and other Government securities by these 47 life insurance companies of any month since 1932. Only 55.9 percent of their funds were invested in Government securities as compared with a high of 86.8 percent in September of last year.

TABLE 1.—Investments in new mortgages on urban property made by leading life insurance companies, by months, 1934-35

[Source: Weekly reports of 47 companies taken from the Wall Street Journal]

Month	1934	1935
January.....	\$3, 138, 158	\$4, 827, 574
February.....	2, 335, 078	5, 503, 067
March.....	1, 909, 765	7, 184, 725
April.....	2, 615, 746	9, 610, 016
May.....	2, 384, 263	<sup>1</sup> 13, 660, 291
June.....	2, 570, 082	.....
July.....	5, 471, 379	.....
August.....	6, 665, 409	.....
September.....	3, 106, 553	.....
October.....	6, 818, 903	.....
November.....	6, 226, 100	.....
December.....	6, 267, 072	.....
Yearly total.....	49, 508, 508	.....

<sup>1</sup> For first 3 weeks of May only.

TABLE 2.—Percentage distribution of new investments by 47 leading life insurance companies, 1928-35

[Source: 1928-33, weekly reports of 25 companies in New York Evening Post and Wall Street Journal. 1934-35, weekly reports of 47 companies in Wall Street Journal]

Period	Total	Mortgages		Railroad securities	Public utilities	Government securities	Miscellaneous securities
		Farm property	Dwellings and business property				
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
1928 (6 months).....	100.0	11.1	49.1	10.6	13.6	10.1	5.5
1929.....	100.0	8.7	43.3	8.4	7.4	11.3	20.9
1930.....	100.0	10.1	44.8	9.9	15.4	11.1	8.7
1931.....	100.0	7.6	36.5	10.3	20.4	20.1	5.1
1932.....	100.0	9.3	31.3	1.1	9.9	44.0	4.4
1933.....	100.0	3.5	3.7	3.5	6.5	80.4	2.4
1934.....	100.0	1.6	2.7	5.9	7.2	76.6	6.0
1934							
1st quarter.....	100.0	1.4	2.2	4.6	6.6	81.8	3.4
2nd quarter.....	100.0	1.9	2.1	9.0	6.4	72.5	8.1
3rd quarter.....	100.0	1.1	3.0	6.3	6.4	77.7	5.5
4th quarter.....	100.0	1.9	3.0	4.6	8.3	75.5	6.7
1935							
January.....	100.0	1.5	2.1	4.7	7.2	65.1	19.4
February.....	100.0	2.7	3.1	5.9	9.1	72.5	6.7
March.....	100.0	1.5	3.6	5.2	10.9	72.0	6.8
April.....	100.0	1.6	5.1	7.8	13.8	67.1	4.6
May <sup>1</sup> .....	100.0	1.5	7.8	3.9	14.9	55.9	16.0

<sup>1</sup> Information for first 3 weeks only.

# The Economical Savings Market for Thrift Institutions

**A**S CUSTODIANS of savings and as agencies for the financing of homes, building and loan associations have served great numbers of people of small means. On this service rests their special claim to Federal encouragement and to the support of local business executives and civic leaders. Their responsibility and opportunity are to expand this service to include larger and larger numbers of people in the small-income groups. Keeping this in mind as their principal objective, they might profitably give consideration to attracting a larger proportion of the savings of the higher-income groups than they have in the past.

More investors mean, of course, greater resources for building and loan associations and that is highly desirable. There is, however, another major reason why these thrift, home-financing institutions should seek to attract the savings of well-to-do members of the population. Because the building and loan business has been based so largely on the savings of people of small incomes, the associations have been subject to wholesale withdrawals of accounts in periods of economic depression. This has constituted an element of instability and has led to a rate of investor turnover which has severely handicapped the growth and profitable operation of many associations.

Investors of larger means and more secure sources of income are less likely to be forced to withdraw their savings on short notice as a result of depression periods. Consequently, the development of share sales among a large number of peo-

ple of the business and professional classes, able in normal times to invest from \$20 to \$100 monthly, would greatly broaden the base of an association's resources and enable it more easily to meet the urgent needs of its small investors in critical periods.

The experience of British building societies since the War indicates how strong is the potential appeal of the thrift, home-financing institution to investors in all income categories. So popular are share purchases and deposits in the British societies with the merchant and professional classes as well as with wage earners that an estimated 20 percent of all the funds invested in England in 1932 went into the shares of the building societies.

The reason that building and loan associations in this country have not attracted more of the savings of the merchant and professional groups is that they have made no appeal to these groups. They have not educated the general public to the desirability of savings and loan investment, a fact clearly brought out by the survey which the American Savings, Building and Loan Institute made in 1934. Scarcely 1 percent of the investors interviewed preferred building and loan investment to any other form of security. They knew too little about these thrift, home-financing institutions. This unfamiliarity can be overcome, and circumstances render the present time propitious. The development of Federal insurance of share accounts in building and loan associations provides the investment safeguard necessary to make an effective appeal to large savers.

With this insurance feature, there seems no reason why America's thrift, home-financing institutions cannot duplicate the success of British building societies.

SPENDING SALES DOLLARS TO GET SAVINGS  
DOLLARS

IN view of the desirability and of the present opportunity for obtaining savings from more diversified income groups, building and loan associations are faced with the problem of how to spend their advertising dollars to get the best results.

To put the problem clearly: Suppose a given savings and loan association with total resources of \$5,000,000 is located in a city where there are 100,000 people receiving income through earnings or otherwise. Also, assume that the association is able to set up for sales promotion an annual appropriation equal to one-tenth of 1 percent of its resources, or \$5,000. The actual market to which such an appropriation might be directed can be broken into three different groups of people. The first is a very large circle, representing perhaps 60,000 people in that area whose average incomes are below \$2,000 a year. Then there is a smaller second circle of about 18,000 people, whose incomes are estimated to range between \$2,000 and \$3,000, and a somewhat larger third circle of 22,000, whose incomes range upward from \$3,000.

In the entire sales area of 100,000 income recipients, only 3,000 receive \$10,000 or more, and 78,000 receive less than \$3,000. With such a breakdown, which corresponds to the general American urban average, it is possible to weigh the number of prospective customers against the average unit of sale in which people in each group are able to invest. From the association's own records as to the cost of handling its resources, it is relatively easy to compute the upper and lower points where it becomes unprofitable for the association to incur any sales expense whatever.

To put the case in extreme form, no association could exist if its savings market and its sales activities were restricted to individuals who are unable to save more than \$1 each month. At the other extreme, few associations would be able to develop any large volume of resources if limited to the top 3 percent of the population whose incomes average \$10,000 or more, because the cost of securing business from these investors is unusually high, due to the keenly competitive character of that market for securities of every type, and the resulting business would be unstable.

THE BROAD PROFITABLE MARKET

THE foregoing factors suggest that somewhere between the vast army of minimum income earners, and the very limited number of investors who occupy the top income brackets, is a broad opportunity for the encouragement of savings by institutions of the building and loan type. The task of capitalizing that market profitably, by developing the largest volume of resources among the maximum number of shareholders at the minimum cost is, of course, a problem for the individual association to meet. It depends upon such basic elements as the existing resources of the association itself, its general operating cost and the nature of the community which it serves, particularly as to the accessibility, at low cost, of large numbers of people of the lower-income groups. In other words, a small association would be less able to develop business profitably among a large number of small investors than would a larger association. An institution in a large metropolitan center, where overhead costs are relatively high, would probably find its minimum profitable market at a much higher income level than an association located in a small community. An institution serving an area where the workers are widely distributed among small plants and stores would be less able to approach the lower-salaried or wage-earning groups than an

association in a city where considerable numbers of workers could be readily approached on a wholesale basis through important industrial plants and factories.

This problem of how to get the most out of the sales dollar is one for each association to consider, in the light of its own experience, policy, and operating conditions. It is not a field for academic debate. At the least, it suggests the desirability of developing sound sales-cost accounting

methods which will disclose how much it costs to put a new subscriber on the books and how large the average paid-in subscription must be to permit the association to meet savings' interest rate competition in its community. The commercial banks have developed such cost accounting to a high degree of accuracy. It is a question which no financial institution can afford to overlook in maintaining efficient operation.

# Dwelling Conditions in Sixty-four Cities

**I**N JANUARY and February 1934, the Federal Government made an extensive survey of residential property in 64 cities. The project was financed by the Civil Works Administration and was under the direction of the Bureau of Foreign and Domestic Commerce. A preliminary summary of the results obtained was published in the October 1934 issue of the REVIEW. With the subsequent release of more complete data, the Division of Research and Statistics of the Federal Home Loan Bank Board has been able to compile valuable tables and charts supplementing the original report.

The 64 cities surveyed represent every State (for list of cities, see October 1934 REVIEW). They range in population from 10,000 to more than 1,000,000 and their combined population exceeds 10,000,000. The cities illustrate different types of economic development and vary considerably as to age and rate of growth. It seems legitimate, therefore, to conclude that the conditions found in these 64 cities are sufficiently indicative of the nation-wide conditions under which urban dwellers live to be of wide use.

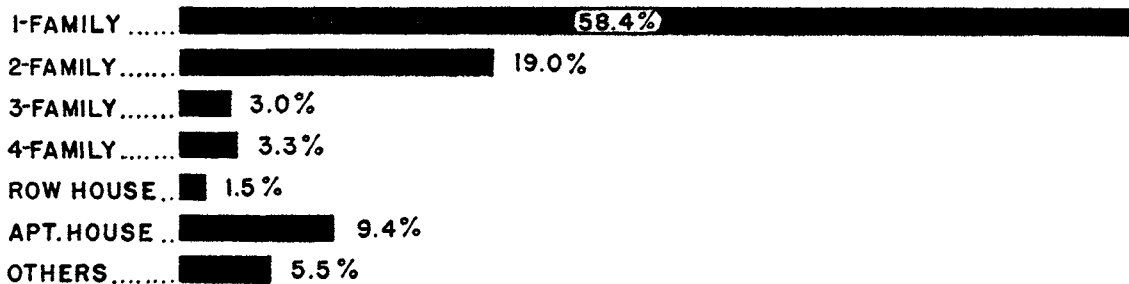
Of course, an inventory taken today in these same 64 cities would give results

varying to some extent from the results obtained 18 months ago. Vacancies and rentals, for instance, would almost certainly show changes. Yet it is doubtful whether such fundamental factors as the ratios between vacancies in different types of structures would fluctuate materially. The following data are, therefore, presented in the belief that they indicate fundamental relationships in urban housing conditions.

## TYPES OF STRUCTURES AND DWELLING UNITS

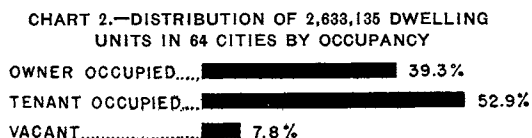
**SINGLE-FAMILY** dwellings predominate in all the cities. The enumerators reported 1,945,272 residential dwelling structures of which 79 percent were of single-family construction and 13 percent were two-family dwellings. Apartments accounted for only 1.1 percent of the total structures. The 1,945,272 dwelling structures had a capacity of 2,633,135 dwelling units. Whereas single-family dwellings constituted 79 percent of the total number of structures, they contained only 58.4 percent of the total dwelling units, as shown in chart 1. Although apartment houses (defined as structures containing 5 or more dwelling units) constituted only 1.1 percent of the total structures, they contained 9.4 percent of the total dwelling units.

CHART 1.—PERCENTAGE DISTRIBUTION OF 2,633,135 DWELLING UNITS IN 64 CITIES, BY TYPE OF STRUCTURE



CONDITIONS OF OCCUPANCY

OF the 2,633,135 dwelling units in the 64 cities, 39.3 percent were occupied by the owners, 52.9 percent were occupied by tenants, and 7.8 percent were vacant (chart 2). The total number of extra families, or doubled-up families, was 183,200. These are families who were temporarily living with the usual occupants of a dwelling and who expressed a desire to take separate quarters as soon as financial conditions permit.



VACANCY

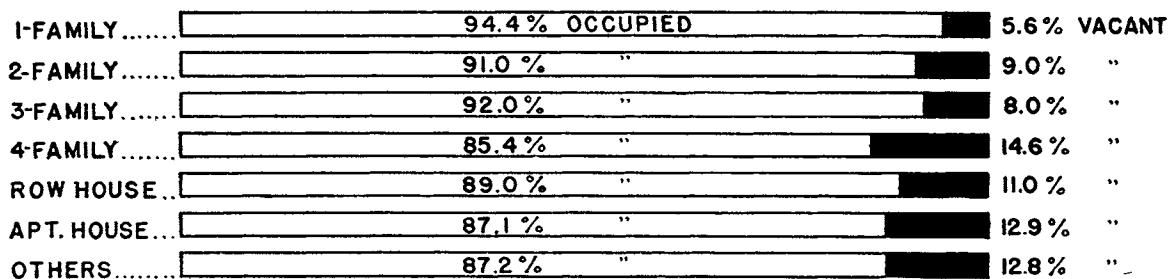
AN analysis of the duration of vacancy shows that 54.8 percent of the total of 204,228 vacant dwelling units had been vacant six months or less, 15.4 percent had been vacant from 6 to 11 months, 12.5 percent from 12 to 23 months, and 14.9 percent for two years or more.

the situation in the country as a whole in early 1934, it would be unsafe to apply it to any particular city. Individual cities varied greatly from this average. Thus the lowest vacancy ratio was reported by Jackson, Miss., with 1.8 percent while Butte, Mont., with 15.9 percent, reported the highest. Chart 3 shows the extent of occupancy and vacancy for each type of structure. One-family dwellings showed the lowest vacancy ratio (5.6 percent), while 4-family dwellings showed the highest with 14.6 percent, followed by apartment houses with 12.9 percent. The permanent interest of these figures is the relative ratios, which suggest the relative risks of investment in the different types of structures.

CONDITION OF STRUCTURES

FOUR classifications for condition were set up, as shown below. According to the instructions to the enumerators "minor repairs" meant painting, papering, and the like; "major repairs" meant structural repairs, such as repairs to the roof, foundation, and walls. Since the results of this

CHART 3.—DISTRIBUTION OF OCCUPANCY AND VACANCY BY TYPE OF STRUCTURE



As already indicated, the ratio of vacant dwelling units to total dwelling units was 7.8 percent for the 64 cities. While this average may have value as an indication of

question were based upon the opinions of the enumerators, it is not to be expected that the reports obtained were 100 percent correct.

CHART 4.—OCCUPIED AND VACANT DWELLING UNITS IN 64 CITIES CLASSIFIED AS TO CONDITION OF STRUCTURE



As indicated in chart 4, the occupied units were in much better condition than the vacant units. The 2,428,907 occupied dwelling units were classified as follows:

- 39 percent were reported in good condition
- 44.5 percent in need of minor repairs
- 14.7 percent in need of major repairs
- 1.7 percent unfit for use

The 204,228 vacant units were classified as follows:

- 25.2 percent in good condition
- 42.4 percent in need of minor repairs
- 23.9 percent in need of major repairs
- 8.3 percent unfit for use

#### EXTRA FAMILIES

If the number of vacant dwelling units fit for use is compared with the number of extra families, who are listed as sharing living quarters with other families, there appears to be evidence that when financial conditions permit these families to "undouble" many cities will need additional dwellings. The total number of extra families in the 64 cities is 183,200, while the vacant residential units fit for use total 187,372, leaving only 4,172 excess units in the 64 cities. In half of the cities the number of doubled families exceeded the total number of vacant dwelling units that were fit for use. On the other hand, too much importance must not be attached to these figures. Experience has proved that many families remain permanently doubled-up for one reason or another in periods of general prosperity.

#### MORTGAGE DATA

Of 860,465 one-family dwellings that were occupied by the owners, 54 percent were mortgaged and 43.8 percent were free from any mortgages. The remaining 2.2 percent were unreported. Information was not obtained on the proportion of rental properties encumbered.

#### TYPES OF CONSTRUCTION

FRAME construction predominates in the 1,536,806 single-family dwellings that were enumerated, with 83.5 percent falling in this classification. Brick structures ac-

counted for 8.7 percent, and stucco dwellings 6.5 percent of the single-family dwellings. In the cities surveyed, stone, concrete, or metal were not used to any appreciable extent for residential building. It is understood, of course, that the above refers to the principal material employed in construction. In stucco-finish houses, for example, the backing and interior construction may be lumber, brick, concrete, or other material. The cities are relatively few in which wood does not take first place as the building material used.

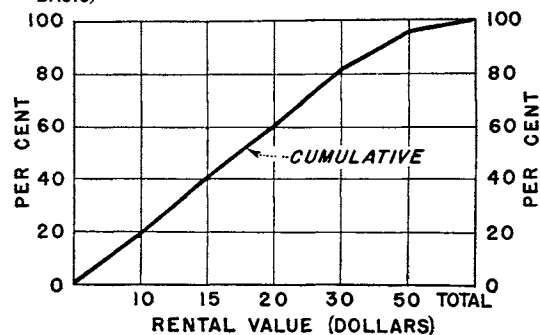
#### NUMBER OF ROOMS

NEARLY half of the single-family structures reported five or six rooms. Five-room dwellings composed 25.9 percent and 6-room dwellings composed 23.1 percent of the total. Four-room dwellings accounted for 14.4 percent of the total, and 7-room dwellings 11.6 percent.

#### RENTALS

WHEN the survey was taken more than half of the total rental units in the 64 cities were renting for less than \$20 per month, while more than a third were renting for less than \$15 per month. This is shown graphically in chart 5, which, on a cumula-

CHART 5.—DISTRIBUTION OF OCCUPIED RENTAL UNITS BY MONTHLY RENTAL (CUMULATIVE ON A LESS-THAN BASIS)



tive basis, shows the percentage distribution of occupied rental units classified by the monthly rental charge. It may also be noted that nearly 80 percent of the occupied units were renting for less than \$30 per month.

Chart 6 summarizes the rental information in a different manner. This bar chart

shows the percentage of the total occupied rental units falling in specified rent groups. It can be seen that the units renting for \$20 to \$29.99 per month constituted the largest rent group. 25.9 percent of the total units in the 64 cities fell within this

CHART 6.—DISTRIBUTION OF OCCUPIED RENTAL UNITS BY MONTHLY RENTAL

UNDER \$10.00	15.6%
\$10.00 - 14.99	18.3%
15.00 - 19.99	17.8%
20.00 - 29.99	25.9%
30.00 - 49.99	17.0%
50.00 - 74.99	3.1%
75.00 - 99.99	10.5%
100.00 & OVER	10.3%
NOT REPORTED OR RENT FREE	1.5%

group. Combining the three groups paying the highest rentals, it can be seen from this chart that less than 4 percent of the tenants studied, were paying rents of \$50 per month or more.

The vacant dwelling units are, for the most part, in the low rental groups as shown in charts 7 and 8 which indicate that 18.5 percent of the units would rent for less than \$10 per month, 19.8 percent between \$10 and \$15, 17.6 percent from \$15 to \$20,

CHART 7.—DISTRIBUTION OF VACANT RENTAL UNITS IN 64 CITIES BY MONTHLY RENTAL VALUE

UNDER \$10.00	18.5%
\$10.00 - 14.99	19.8%
15.00 - 19.99	17.6%
20.00 - 29.99	22.7%
30.00 - 49.99	13.4%
50.00 - 74.99	3.0%
75.00 - 99.99	0.7%
100.00 & OVER	0.7%
NOT REPORTED	3.6%

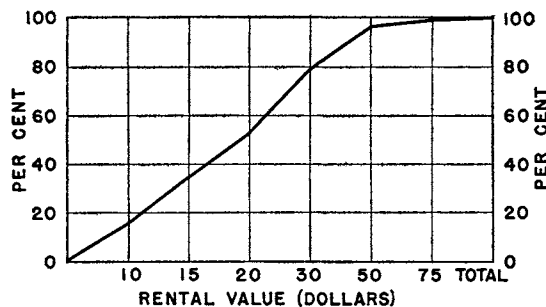
22.7 percent from \$20 to \$30, 13.4 percent from \$30 to \$50, and only 4.4 percent for \$50 or over.

#### AGE OF STRUCTURE

THE 64 cities experienced their largest building era during the period from 1914 to 1928 when there were added 869,991 dwelling structures to make up the grand total of 1,945,272 dwelling structures enumerated during this survey. (These fig-

ures, of course, do not take account of structures demolished). The amount of construction during the period 1929 to 1933 was the smallest on record for any 5-year period in more than 50 years, with the single exception of the 5-year period between 1894 and 1898 when only 81,577 structures were added to the residential group. The largest 5-year total in dwelling construction occurred between the years 1924 and 1928

CHART 8.—DISTRIBUTION OF VACANT RENTAL UNITS IN 64 CITIES BY MONTHLY RENTAL VALUE



when 370,992 dwelling structures were erected. Nearly 75 percent of the enumerated structures have been built for more than 10 years.

#### VALUE OF OWNER-OCCUPIED DWELLINGS

ALMOST 90 percent of the 1-family owner-occupied dwellings in the 64 cities were valued at less than \$7,500, with approximately 65 percent being valued at between \$2,000 and \$7,500 (chart 9). These figures

CHART 9.—DISTRIBUTION OF OWNER-OCCUPIED SINGLE-FAMILY DWELLINGS BY VALUE, JANUARY 1, 1934

UNDER \$1,000	8.0%
\$1,000 - 1,499	7.2%
1,500 - 1,999	8.4%
2,000 - 2,999	18.0%
3,000 - 4,999	29.1%
5,000 - 7,499	17.1%
7,500 - 9,999	5.4%
10,000 - 14,999	3.6%
15,000 - 19,999	1.3%
20,000 & OVER	1.5%
NOT REPORTED	0.5%

represent the values as estimated by the owner as of January 1934. No information pertaining to value was obtained for rental properties, nor for owner-occupied properties on which the dwellings were other than single-family structures.



# Commission, Bonus, and Discount

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

**T**O THE home-owner borrower the difference between a premium and a commission, bonus, or discount is academic. They are all means of increasing the cost of his loan and as such the experience of the last five years has crystallized his opposition to all of them. From the point of view of the building and loan association, however, there seems to be sufficient difference between the premium and the other three charges to justify treating them separately.

Unlike the premium, which originated as a justifiable charge for priority in the use of mutual funds at a time when the demand for such funds was greater than the supply, commissions, bonuses, and discounts have no historic functional place in the building and loan movement. They belong rather to other segments of this country's home-financing structure. Thus, the commission is associated primarily with the mortgage broker who acts as agent for an investor in making a mortgage loan. The commission is the broker's fee for his service.

Other types of home-financing agencies have frequently employed the bonus as building and loan associations originally used the premium, that is, as a charge for priority in the use of funds. However, there is this vital difference: Whereas building and loan associations (at least, in their early days) used the premium to *determine* priority rather than to increase income, the usual purpose of the bonus has been to increase income, and its amount has been fixed entirely by what the traffic would bear.

The discount has been perhaps most used by lenders on second mortgages. It has enabled junior-lien holders to get around State usury laws and to obtain from the borrower payments for the use of funds considerably higher than the legal or nominal interest rates. When so used the discount has performed a function similar to that now performed in some States by the building and loan premium (see article on Premiums in May REVIEW).

Looked at from the point of view of their origins and usual functions, then, it would seem that commissions, bonuses, or discounts serve no essential purpose in the operations of building and loan associations. The principal reason for adopting them appears to be to increase the income of the lender and to raise the effective cost of the loan to the borrower. We need not be surprised, therefore, to discover that their adoption by building and loan associations has often led to undesirable results for the associations.

## COMMISSIONS LEAD TO UNWISE LOANS

FOR one thing, the use of the commission or bonus encourages an association to make unwise loans. These charges usually represent a percentage of the amount loaned so that the larger the loan the greater the commission. As a consequence, the association is exposed to a variety of temptations. One of these is to boost the amount of the loan. In prosperous times, a borrower who appears to be a good risk is urged to take \$6,000 when he asks for \$5,000. Another is to make too many loans to the same individual, for

example, a speculative builder. A third is to let down the bars to properties that are undesirable as securities or to borrowers who are poor risks.

Again, when competition for loans among lending institutions is keen, the speculative builder may offer the lending institution a large discount in return for a high-percentage loan. The high mortgage enables the builder to put up the sales price of his property. The purchaser thus pays for something he doesn't get and the mortgagee has an inadequate security for its loan.

The commission or bonus becomes an unmitigated evil, of course, when it is paid to an executive of an association. In such instances the payment is usually not entered on the books and the shareholders have no record of what their officers are receiving. This situation subjects directors and officers to pressure to grant loans which is not only unfair to them but may result disastrously for the association. Their judgment warped by their personal interest in the commission, executives may grant loans completely out of line with the value of the security. The diversion of any kind of commission or fee to a director, officer, or employee of an association for the granting of a loan should be universally and permanently outlawed.

#### COMMISSIONS, BONUSES, AND DISCOUNTS ARE LIABILITIES

IN view of their functional unimportance and the unwise practices they encourage, it may be questioned whether commissions, bonuses, and discounts are not rather liabilities than assets to building and loan associations. To drop them entirely would seem to be an easy step toward regaining the goodwill of a public which has become actively opposed to extra charges of all kinds on mortgage loans. Federal savings and loan associations are encouraged to eliminate commissions, bonuses, and discounts. In those States in which existing laws render necessary for the time being some charge in addition to the nominal in-

terest rate, Federal associations are urged to use the lump-sum returnable premium prorated over the life of the loan.

The ideal practice recommended for immediate or ultimate adoption by all Federal savings and loan associations is the elimination of all extra charges other than the loan-closing fees for specific services. All costs to the borrower for the use of the money would then be incorporated in the interest rate, and the nominal rate would be the effective rate. This ideal is urged for a very practical reason: It would give the Federal associations considerable advantage in the tightening competition for mortgage loans.

The most desirable type of home-owner borrower is being catered to by financing institutions as never before. He is in a position to demand better terms, and better terms mean more than lower interest rates; they mean the maximum of simplicity and frankness in the mortgage transaction. The borrower wants to know exactly how much he is paying, for what, what the effective rate is, and when he will be through paying. The bitter experiences of the depression have made it more difficult and less profitable to confuse the borrower with low nominal interest rates and relatively hidden charges represented by premiums, commissions, service charges, and the like.

#### SINGLE CHARGE AN ASSET IN ADVERTISING

SOME associations that would like to drop these extra charges and incorporate all costs in the interest rate may feel that to do so would place them at a disadvantage in competition with institutions that retain the lower nominal interest rate but remain silent about the extra charges. As a matter of fact, such a situation would give the single-charge institution an opening for most effective advertising. The temper of the borrowing public being what it is at present, the elimination of premiums, commissions, and service charges is bound to prove a trump card to any home-financing institution.

# Chicago Association Finds Large Market For Refinancing Loans

**E**XTENSIVE refinancing of existing mortgages enabled a \$6,000,000 building and loan association in Chicago to make in the first quarter of 1935 the largest volume and number of home-mortgage loans of any 3-month period since its organization in 1925. The association has submitted to the REVIEW the accompanying series of tables revealing the progress of its operations during the last few years.

Table 1 reveals the number and volume of loans made and the purposes for which they were made in the last quarter of 1934 and the first quarter of 1935. Of the total of \$375,900 loaned between January 1 and March 31, 1935, 8.2 percent was for purchase of homes, 0.5 percent for repairs, and

91.3 percent for refinancing. No loans for new construction were made during this period, but the association reported on April 19 that it has approved or is considering approval of 15 construction loans involving approximately \$75,000. The secretary comments that this constitutes by far the largest volume of prospective construction loans that the association has had under consideration at any one time for the past 5 years. The overwhelming percentage of loans for refinancing suggests that the time has come when even the most conservative building and loan associations can find profitable business in refinancing short-term loans on a long-term basis.

TABLE 1.—Number and volume of loans according to purpose made during the last quarter of 1934 and the first quarter of 1935

	Last quarter 1934			First quarter 1935		
	Number	Amount	Percent of total amount	Number	Amount	Percent of total amount
Purchase of homes.....	10	\$27, 800	9. 7	9	\$30, 800	8. 2
Reconditioning.....	8	17, 600	6. 1	1	2, 000	. 5
New construction.....	3	20, 000	7. 0	0	0	0
Refinancing.....	72	220, 600	77. 2	106	343, 100	91. 3
Total.....	93	286, 000	100. 0	116	375, 900	100. 0

The effect of the 3-month spurt in lending activity on the association's volume of loans outstanding is revealed in table 2. The slow but steady shrinkage of the preceding three years was reversed. The figures in table 2 on the percent of loan to the appraised value of the property are interesting. The secretary reports that

though the percentage of value loaned has recently averaged approximately 40 percent, the association is making loans as high as 65 percent of value. The average is brought down, however, by the number of loans made in amounts representing less than 40 percent of appraised value. This again suggests how large is the volume

of highly desirable refinancing now waiting to be done by energetic institutions making long-term amortized loans.

TABLE 2.—*Loans outstanding by years*

Date	Amount	Number	Percent of loan to appraised value of property
Jan. 1, 1928.....	\$1, 102, 500	315	32. 0
Jan. 1, 1929.....	2, 155, 400	449	44. 0
Jan. 1, 1930.....	3, 292, 800	769	46. 0
Jan. 1, 1931.....	4, 132, 900	975	46. 0
Jan. 1, 1932.....	4, 954, 300	1, 183	46. 7
Jan. 1, 1933.....	4, 895, 400	1, 227	44. 5
Jan. 1, 1934.....	4, 883, 100	1, 305	40. 7
Jan. 1, 1935.....	4, 777, 400	1, 401	39. 3
Apr. 1, 1935.....	5, 016, 300	1, 457	39. 2

Table 3 on real estate owned and real estate sold on contract seems to indicate that although there was no diminution in the volume of foreclosures in the first quarter of 1935, the market for the sale of fore-

closed properties improved considerably over the preceding year.

TABLE 3.—*Real estate owned and sold on contract by years*

Year	Real estate owned at end of year	Real estate sold (cumulative to end of year)
1931.....	\$20, 591. 58	0
1932.....	21, 039. 56	\$133, 995. 77
1933.....	60, 889. 65	177, 498. 82
1934.....	127, 600. 26	179, 102. 65
Apr. 1, 1935.....	138, 989. 10	198, 170. 93

Table 4 throws light on the experience of this association with share purchasers. Withdrawals fell from a peak of \$858,777 in 1932 to \$520,253 in 1934. The low in new investments was reached in 1933 but 1934 revealed a come-back which carried the association beyond its maximum for any preceding year.

TABLE 4.—*Withdrawals and new investments by years*

Date	Withdrawals			New investments		
	Instalment shares	Paid-up shares	Total	Paid-up shares during year	Number of instalment shares during year	Shares in force at end of year
1930.....	\$147, 672. 50	\$350, 400	\$498, 072. 50	\$613, 800	19, 828	100, 714
1931.....	246, 744. 25	470, 700	717, 444. 25	790, 800	20, 302	112, 511
1932.....	374, 777. 85	484, 000	858, 777. 85	607, 800	16, 907	108, 378
1933.....	364, 656. 50	356, 600	721, 256. 50	490, 700	14, 827	106, 101
1934.....	288, 753. 72	231, 500	520, 253. 72	791, 600	22, 496	115, 109
First quarter of 1935.....	68, 261. 50	115, 900	184, 161. 50	172, 500	9, 709	121, 410

#### CHICAGO REAL-ESTATE MARKET REVIVING

The association reports that its resumption of lending activity on a large scale reflects the recent improvement in the Chicago real-estate market. Analyzing the situation in Chicago, the association reports that values of properties in the \$4,000-\$6,000 class rose approximately 15 percent during the year ended March 31, 1935. Rentals in all classes of dwellings are said to have increased during the same period. Evidence that distressed properties are fast leaving the market is given by prospective

home purchasers who report that delay in purchase frequently results in the sale of the property to other buyers.

Finally, the association states that the vacancy situation is improving. As of December 31, 1932, it was estimated that there were 886,000 dwelling units in the city of Chicago. The high point of vacancies in 1- to 3-family dwellings was reached in the fall of 1932, when the percentage was 9.7. A survey completed in December 1934 indicated a drop in this vacancy percentage to 5.6 percent, representing approximately 50,000 units.

# Residential Construction Activity in the United States

THE average daily value of residential construction for the first 15 days of May exceeded that of any month since November 1931. The considerable increase in residential building for the period May 1-15 over the same period in 1932, 1933, and 1934 is shown in chart 1. In thus continuing the expansion in residential construction registered during the first four months of this year, the May activity brought the total value of such construction for the period January 1-May 15 to \$135,000,000. This surpassed the total for the same period of 1934 by 47.6 percent and even exceeded the 1932 period by 7.3 percent (chart 2). According to a statement recently published by the F. W. Dodge Corporation, "This improvement over a year ago in residential building bids fair to continue for the remainder of the current year, judging from the figures on contemplated projects."

Satisfaction in this increased volume of residential building must still be tempered by the low average daily value as compared with the 10-year period 1925-1934 (chart 3). The \$135,000,000, which represents the total value of residential construction for January 1-May 15 of this year, is only 16.5 percent of the \$817,255,000 which had been expended in the same period of 1929, and 1929 was considerably below the 1928 peak.

Furthermore, the value of all construction continues behind that of 1934 because of greatly decreased activity in nonresidential construction. For the initial half of May, nonresidential construction amounted to only \$38,888,000 which was 24 percent less than in the comparable period of 1934. For the period January 1-May 15, total construction amounting to \$483,000,000 ran 26 percent behind the volume of \$655,000,000 for the corresponding period in 1934. The

VALUE OF RESIDENTIAL CONSTRUCTION CONTRACTS AWARDED IN 1932-1935

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

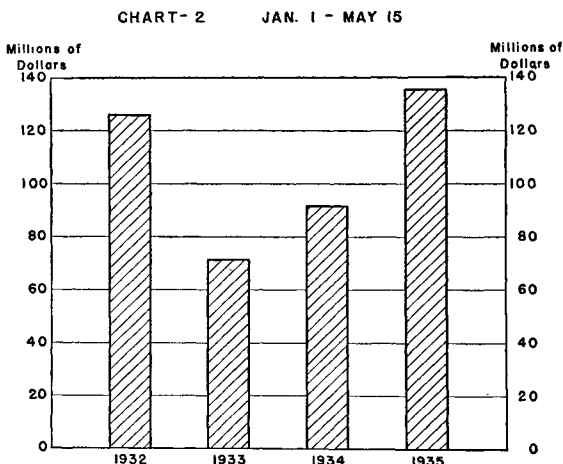
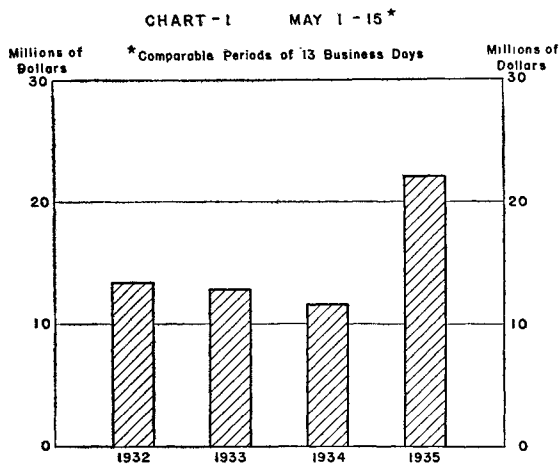
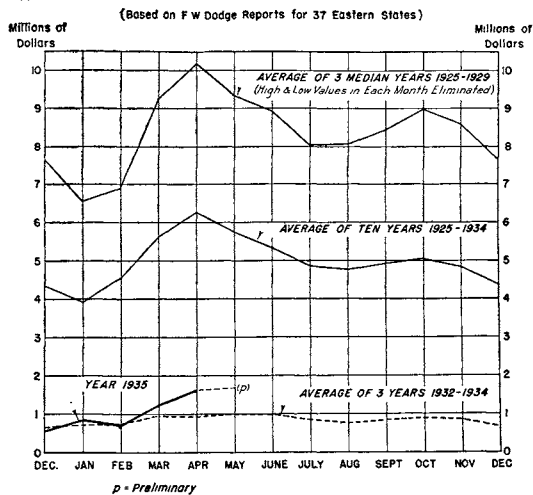


CHART 3.—AVERAGE DAILY VALUE OF RESIDENTIAL CONSTRUCTION CONTRACTS AWARDED IN 1935 COMPARED WITH SELECTED PERIODS



average daily value of nonresidential and total construction in May 1935 both registered declines from April 1935 as well as from May 1934 (table 1).

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

THE 6,990 housekeeping units provided by new residential building permits in April in cities of 10,000 population and over represent an increase of 140 percent over

the 2,915 dwelling units provided in April 1934. The 1-family type of home accounted for more than 4,200 units of the April total, and multifamily dwelling structures provided 2,320. All types of housing units showed an increase in construction in comparison with a year ago (table 2), but as in earlier months the greatest increase occurred in the multifamily dwellings with 300 percent more than April of last year.

In the first four months of 1935 multifamily dwelling provided 33.5 percent of all dwelling units. In the same period in 1934, they provided only 22.0 percent. An interesting fact is the greater importance of the multifamily unit in the larger cities. During the first four months of this year multiple home units provided 5.4 percent of all family units built in cities having a population of 10,000 to 25,000; 6.5 percent of the units in cities ranging from 25,000 to 50,000; 9.7 percent in cities of 50,000 to 100,000; and 47.6 percent in cities having more than 100,000 population. As construction of multifamily units was the first to fall off when the depression began, it is perhaps a hopeful sign that this type of dwelling should take the lead in the revival

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

[Source: F. W. Dodge Corporation]

Type	Total for the period						Average daily <sup>1</sup>					
	May 1-15			Jan. 1-May 15			(000 omitted)			Percent change		
	(000 omitted)		Percent change	(000 omitted)		Percent change	May <sup>2</sup> 1935	April 1935	May 1934	May 1935 from April 1935	May from April 3-year average <sup>3</sup>	May 1935 from May 1934
	1935	1934		1935	1934							
Residential.....	22, 073	11, 522	+91. 6	135, 589	91, 865	+47. 6	1, 698	1, 626	955	+4. 4	+10. 0	+77. 8
Nonresidential <sup>4</sup> . . .	38, 888	51, 044	-23. 8	347, 419	563, 384	-38. 3	2, 991	3, 147	4, 213	-5. 0	+20. 8	-29. 0
Total . . . . .	60, 961	62, 566	-2. 6	483, 008	655, 249	-26. 3	4, 689	4, 773	5, 168	-1. 8	+18. 2	-9. 3

<sup>1</sup> Based on the following number of business days: May 1935—13; April 1935—26; May 1934—26.

<sup>2</sup> Based on preliminary reports for the first 15 days (13 business days).

<sup>3</sup> Represents the average of the percent change in May from April for the 3 years 1932-34.

<sup>4</sup> Includes contracts for commercial buildings, public works, and utilities.

of building. As these are strictly income-producing properties none of them would be built if the real-estate market were not growing healthier.

The average cost of constructing a family unit declined more than 7 percent this

April from April 1934 in each type of dwelling structure. The average cost of a 1-family unit in April 1935 amounted to \$3,758, as compared with \$4,076 in April 1934. The 2-family dwelling unit averaged \$2,782 this April, and \$3,053 last April.

TABLE 2.—Number and estimated cost of new housekeeping dwelling units for which permits were issued in all cities of 10,000 population or over in the United States in April 1935<sup>1</sup>

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

Type of structure	Number of family units provided			Total cost of units (000 omitted)			Average cost of family unit		
	April 1935	April 1934	Percent change	April 1935	April 1934	Percent change	April 1935	April 1934	Percent change
All housekeeping dwellings..	6,990	2,915	+139.8	.....	.....	.....	.....	.....	.....
Total 1- and 2-family dwellings.....	4,670	2,340	+99.6	\$17,197.1	\$9,283.6	+85.2	\$3,682	\$3,967	-7.2
1-family dwellings.....	4,266	2,059	+107.2	16,032.1	8,391.8	+91.0	3,758	4,076	-7.8
2-family dwellings.....	358	244	+46.7	996.1	744.9	+33.7	2,782	3,053	-8.9
Joint home and business <sup>2</sup> ..	46	37	+24.3	168.9	146.9	+15.0	.....	.....	.....
Multifamily dwellings.....	2,320	575	+303.5	.....	.....	.....	.....	.....	.....

<sup>1</sup> Estimate is based on reports from communities having approximately 95 percent of the population of all cities with population of 10,000 or over.

<sup>2</sup> Includes 1- and 2-family dwellings with business property attached.

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

THE TOTAL estimated cost of all new residential dwellings for which permits were issued in cities of 10,000 and over in April increased 120 percent over a year ago, as shown in table 3. In eight of the Federal Home Loan Bank Districts, the total cost of new residential dwelling units this year exceeded last year's cost by more than 100 percent. The smallest increase occurred in

the Boston Bank District, which evidenced a gain of only 2 percent over April 1934. The April gain of 85 percent from last year which occurred in the total cost of all 1- and 2-family dwelling structures was not as large as occurred in total residential building. However, each Bank District and every State, except three, showed a sizeable advance in the total cost of all 1- and 2-family dwellings provided in this April over a year ago.

TABLE 3.—Estimated cost of new residential buildings for which permits were issued in all cities of 10,000 population or over, in April 1935, by Federal Home Loan Bank Districts and by States <sup>1</sup>

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

Federal Home Loan Bank Districts and States	Cost of all new residential building (000 omitted)			Cost of all 1- and 2-family dwellings (000 omitted)		
	April 1935	April 1934	Percent change	April 1935	April 1934	Percent change
UNITED STATES .....	\$24, 742. 6	\$11, 238. 3	+120. 2	\$17, 197. 1	\$9, 283. 6	+85. 2
No. 1—Boston .....	1, 718. 6	1, 682. 6	+2. 1	1, 711. 1	1, 671. 9	+2. 3
Connecticut .....	339. 7	261. 4	+30. 0	339. 7	261. 4	+30. 0
Maine .....	122. 8	44. 4	+176. 6	122. 8	44. 4	+176. 6
Massachusetts .....	937. 2	1, 061. 5	-11. 7	929. 7	1, 055. 8	-11. 9
New Hampshire .....	34. 3	81. 4	-57. 9	34. 3	81. 4	-57. 9
Rhode Island .....	243. 1	209. 4	+16. 1	243. 1	204. 4	+18. 9
Vermont .....	41. 5	24. 5	+69. 4	41. 5	24. 5	+69. 4
No. 2—Newark .....	7, 369. 5	2, 813. 7	+161. 9	2, 586. 4	1, 869. 3	+38. 4
New Jersey .....	631. 3	627. 1	+0. 7	602. 0	547. 2	+10. 0
New York .....	6, 738. 2	2, 186. 6	+208. 2	1, 984. 4	1, 322. 1	+50. 1
No. 3—Pittsburgh .....	1, 195. 3	721. 9	+65. 6	1, 005. 7	698. 7	+43. 9
Delaware .....	35. 0	67. 5	-48. 1	35. 0	67. 5	-48. 1
Pennsylvania .....	930. 6	620. 2	+50. 0	851. 1	603. 0	+41. 1
West Virginia .....	229. 7	34. 2	+571. 6	119. 6	28. 2	+324. 1
No. 4—Winston-Salem .....	4, 434. 7	1, 345. 8	+229. 5	2, 181. 4	1, 018. 8	+114. 1
Alabama .....	49. 4	12. 4	+298. 4	46. 8	12. 4	+277. 4
District of Columbia .....	941. 1	717. 0	+31. 3	706. 6	548. 9	+28. 7
Florida .....	367. 6	121. 7	+202. 1	362. 6	121. 7	+197. 9
Georgia .....	2, 201. 0	36. 5	+5, 930. 1	217. 0	36. 5	+494. 5
Maryland .....	203. 9	70. 9	+187. 6	201. 6	70. 9	+184. 3
North Carolina .....	267. 3	245. 7	+8. 8	264. 4	102. 7	+157. 4
South Carolina .....	120. 7	61. 0	+97. 9	98. 7	54. 0	+82. 8
Virginia .....	283. 7	80. 6	+252. 0	283. 7	71. 7	+295. 7
No. 5—Cincinnati .....	1, 009. 1	636. 0	+58. 7	976. 3	636. 0	+53. 5
Kentucky .....	168. 2	33. 7	+399. 1	156. 8	33. 7	+365. 3
Ohio .....	727. 3	549. 3	+32. 4	705. 9	549. 3	+28. 5
Tennessee .....	113. 6	53. 0	+114. 3	113. 6	53. 0	+114. 3
No. 6—Indianapolis .....	1, 273. 9	483. 2	+163. 6	1, 268. 2	471. 5	+169. 0
Indiana .....	200. 3	57. 3	+249. 6	194. 6	57. 3	+239. 6
Michigan .....	1, 073. 6	425. 9	+152. 1	1, 073. 6	414. 2	+159. 2
No. 7—Chicago .....	1, 034. 7	473. 2	+118. 7	1, 034. 7	445. 9	+132. 0
Illinois .....	569. 8	225. 5	+152. 7	569. 8	225. 5	+152. 7
Wisconsin .....	464. 9	247. 7	+87. 7	464. 9	220. 4	+110. 9
No. 8—Des Moines .....	1, 414. 9	1, 056. 4	+33. 9	1, 414. 9	518. 9	+172. 7
Iowa .....	237. 2	134. 2	+76. 8	237. 2	134. 2	+76. 8
Minnesota .....	381. 5	89. 6	+325. 8	381. 5	89. 6	+325. 8
Missouri .....	697. 6	828. 4	-15. 8	697. 6	290. 9	+139. 8
North Dakota .....	66. 6	0	( <sup>3</sup> )	66. 6	0	( <sup>3</sup> )
South Dakota .....	32. 0	4. 2	+661. 9	32. 0	4. 2	+661. 9

<sup>1</sup> Estimate is based on reports from communities having approximately 95 percent of the population of all cities with population of 10,000 or over.

<sup>2</sup> Includes 1- and 2-family dwellings with business property attached.

<sup>3</sup> Represents an infinite amount of change due to comparison with zero in the particular period.



TABLE 3.—Estimated cost of new residential buildings for which permits were issued in all cities of 10,000 population or over, in April 1935, by Federal Home Loan Bank Districts and by States—Continued

Federal Home Loan Bank Districts and States	Cost of all new residential building permits (000 omitted)			Cost of all 1- and 2-family dwelling permits <sup>2</sup> (000 omitted)		
	April 1935	April 1934	Percent change	April 1935	April 1934	Percent change
No. 9—Little Rock.....	1, 203. 0	523. 1	+130. 0	1, 132. 2	513. 4	+120. 5
Arkansas.....	67. 1	8. 1	+728. 4	61. 0	8. 1	+653. 1
Louisiana.....	96. 3	46. 4	+107. 5	57. 0	46. 4	+22. 8
Mississippi.....	26. 3	3. 5	+651. 4	26. 3	3. 5	+651. 4
New Mexico.....	6. 5	2. 4	+170. 8	6. 5	2. 4	+170. 8
Texas.....	1, 006. 8	462. 7	+117. 6	981. 4	453. 0	+116. 6
No. 10—Topeka.....	690. 3	200. 9	+243. 6	630. 3	197. 7	+218. 8
Colorado.....	291. 1	82. 1	+254. 6	236. 1	82. 1	+187. 6
Kansas.....	155. 4	20. 6	+654. 4	155. 4	20. 6	+654. 4
Nebraska.....	92. 6	70. 7	+31. 0	92. 6	70. 7	+31. 0
Oklahoma.....	151. 2	27. 5	+449. 8	146. 2	24. 3	+501. 6
No. 11—Portland.....	590. 5	160. 8	+267. 2	511. 7	157. 1	+225. 7
Idaho.....	30. 3	2. 5	+1, 112. 0	30. 3	2. 5	+1, 112. 0
Montana.....	39. 8	31. 3	+27. 2	39. 8	31. 3	+27. 2
Oregon.....	109. 3	45. 6	+139. 7	97. 3	45. 6	+113. 4
Utah.....	46. 8	6. 0	+680. 0	46. 8	6. 0	+680. 0
Washington.....	343. 8	75. 4	+356. 0	277. 0	71. 7	+286. 3
Wyoming.....	20. 5	0	( <sup>3</sup> )	20. 5	0	( <sup>3</sup> )
No. 12—Los Angeles.....	2, 808. 1	1, 140. 7	+146. 2	2, 744. 2	1, 084. 4	+153. 1
Arizona.....	22. 6	0	( <sup>3</sup> )	22. 6	0	( <sup>3</sup> )
California.....	2, 772. 0	1, 140. 7	+143. 0	2, 708. 1	1, 084. 4	+149. 7
Nevada.....	13. 5	0	( <sup>3</sup> )	13. 5	0	( <sup>3</sup> )

<sup>2</sup>Includes 1- and 2-family dwellings with business property attached.

<sup>3</sup>Represents an infinite amount of change due to comparison with zero in the particular period.

# Growth and Lending Operations of the Federal Home Loan Banks

**P**RELIMINARY reports from the 12 Federal Home Loan Banks reveal that their combined balance of loans outstanding increased nearly \$1,000,000 between April 30 and May 25. This is encouraging evidence that the increased use of Bank resources by member institutions which began in April is continuing.

In accordance with its policy to encourage at this time the use of Federal Home Loan Bank funds by member institutions in order that these institutions may make more loans at more favorable terms to home owners, the Board on May 23 authorized the 12 regional Banks to reduce interest rates on long-term advances to 3 percent. The resolution reads as follows:

*Be it resolved* that the Federal Home Loan Banks be authorized to make loans to members for periods of not exceeding ten years on a quarterly amortization basis at rates of interest not less than 3 percentum per annum and not more than 5 percentum per annum.

*Be it further resolved* that the resolution of May 1, 1935 authorizing interest rates be, and the same is hereby, repealed.

The Board's action is merely an authorization, and decision to reduce rates to 3 percent is left with each regional Bank. However, the principal obstacle in the way of such reduction was removed when Congress repealed the provision in the Federal Home Loan Bank Act requiring the cumulation of a 2-percent dividend on Bank stock subscribed for by the United States Treasury. Henceforth, Treasury stock will share in dividends on the same terms as the stock of member institutions.

If building and loan associations are able to obtain guaranteed 10-year investments (and that is what long-term advances from the Federal Home Loan Banks are) at 3 percent, there is no reason why these associations cannot offer funds to home owners on the most favorable terms in the history of this country. Such economical financing must encourage the purchase and construction of homes and the consequent restoration of all real-estate values and of the building industry.

To have their full effect in achieving these objectives, the benefits of lower rates on advances from Federal Home Loan Banks must be passed on to the home owner. In this connection, J. A. Pratt, building and loan supervisor of Texas, made some pertinent remarks to the Texas Building and Loan League at Dallas on May 7. After giving evidence to indicate that various home-financing agencies were making money available to borrowers, he said:

I want to say here, as I have said to many of you, that you are going to have to give lower, cheaper interest rates based upon the class of security if you expect to have in your portfolio choice loans. The question of a reduction of interest rate is of no small importance in the home-mortgage loan program of building and loan associations. The associations that have made this change have found it so acceptable that it is now difficult for them to see why its accomplishment was delayed so long. Along with the reduction in interest charges, an almost universally adopted principle in building and loan has during the depression period become discredited to the extent that it is now rapidly becoming obsolete. I refer to the share-loan

plan. This scheme of operation has, without question, been responsible for much sales resistance to the building and loan plan and has afforded convenient argument to those who would discredit, or destroy building and loan associations.

INTEREST RATES ON FEDERAL HOME LOAN BANK  
ADVANCES

THE first of the 12 regional Banks to act on the Board's authorization to reduce rates to 3 percent was that at Boston. Beginning July 1, 1935, the Boston Bank will charge 3 percent on advances written for

one year or less. On all long-term advances the rate will be 3½ percent.

The Portland Bank cut its previous rates of 4 percent and 4½ percent to a flat 3½ percent on all loans, effective May 28. The directors of other Banks have not, at time of going to press, had time to decide what action they wish to take.

During May, the Los Angeles Bank also made some modification in its interest rates. A special rate of 4 percent was fixed on all secured advances made under Titles I and II of the National Housing Act.

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

Month	Members		Line of credit (cumulative) (000 omitted)	Loans advanced (cumulative) (000 omitted)	Loans advanced (monthly) (000 omitted)	Repayments (monthly) (000 omitted)	Balance outstanding at end of month (000 omitted)	Unused line of credit <sup>1</sup> (000 omitted)
	Number	Assets (000 omitted)						
1932								
December.....	118	\$216, 613	\$23, 630	\$837	\$837	.....	\$837	\$22, 793
1933								
June.....	1, 337	1, 846, 775	146, 849	48, 817	8, 825	\$270	47, 600	99, 249
December.....	2, 086	2, 607, 307	211, 224	90, 835	7, 102	859	85, 442	125, 782
1934								
June.....	2, 579	3, 027, 999	232, 926	111, 767	2, 950	3, 143	85, 148	147, 778
December.....	3, 072	3, 305, 088	254, 085	129, 545	2, 904	3, 360	86, 658	167, 426
1935								
January.....	3, 131	3, 320, 975	254, 930	131, 778	2, 232	6, 905	81, 985	172, 945
February.....	3, 161	3, 332, 545	255, 836	133, 103	1, 326	6, 741	76, 570	179, 266
March.....	3, 203	3, 339, 977	256, 343	135, 219	2, 116	6, 049	72, 637	183, 706
April.....	3, 242	<sup>2</sup> 3, 323, 055	257, 037	139, 302	4, 083	2, 708	74, 011	183, 026

<sup>1</sup> Derived by deducting the balance outstanding from the line of credit.

<sup>2</sup> Decline due to adjustments based on current reports from State building and loan commissioners. In this connection it should be stated that assets of member institutions are reported when they join the System and are subsequently brought up to date once a year as periodic reports are received either from the institutions or from State building and loan supervisors.

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

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

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

<sup>1</sup> Effective July 1, the Boston Bank's rate on all advances written for 1 year or less will be 3 percent.

FEDERAL HOME

Combined statement of

	Combined	Boston	Newark	Pittsburgh	Winston-Salem
ASSETS					
Cash on hand in Banks and U. S. Treasury	\$30,958,337.79	\$3,171,583.75	\$1,327,165.73	\$614,384.50	\$2,671,665.17
Loans outstanding:					
Members.....	74,006,579.21	2,193,721.05	13,590,475.42	9,770,508.44	5,029,510.29
Other.....	4,225.85	0	0	0	0
Total loans.....	74,010,805.06	2,193,721.05	13,590,475.42	9,770,508.44	5,029,510.29
Accrued interest receivable.....	321,843.35	18,560.73	62,132.94	38,659.83	19,085.37
Investments, U. S. Government.....	5,265,459.86	2,105,437.50	109,293.75	137,900.00	0
Other assets.....	38,626.08	2,726.88	2,596.19	2,459.76	4,312.20
Total assets.....	110,595,072.14	7,492,029.91	15,091,664.03	10,563,912.53	7,724,573.03
LIABILITIES AND CAPITAL					
Liabilities:					
Current.....	3,474,066.02	413,511.20	25,000.00	114,091.38	0
Fixed.....	0	0	0	0	0
Total liabilities.....	3,474,066.02	413,511.20	25,000.00	114,091.38	0
Capital:					
Capital stock fully paid, issued and outstanding:					
Members.....	21,516,600.00	1,967,100.00	2,839,500.00	1,586,400.00	1,862,600.00
U. S. Government.....	81,645,700.00	5,000,000.00	11,500,000.00	8,500,000.00	5,700,000.00
	103,162,300.00	6,967,100.00	14,339,500.00	10,086,400.00	7,562,600.00
Subscription to capital stock:					
Members and applicants.....	2,220,400.00	21,000.00	665,400.00	187,800.00	72,400.00
Less balance due.....	945,553.13	12,975.00	258,500.13	99,525.00	29,325.00
	1,274,846.87	8,025.00	406,899.87	88,275.00	43,075.00
U. S. Government.....	43,095,300.00	7,467,500.00	7,463,200.00	2,646,300.00	3,508,200.00
Less balance due.....	43,095,300.00	7,467,500.00	7,463,200.00	2,646,300.00	3,508,200.00
Surplus:					
Reserves:					
As required under section no. 16 of act.....	882,682.77	42,745.44	105,902.92	92,399.09	61,700.44
U. S. Government, 2-percent dividend.....	817,830.72	32,876.72	75,616.44	55,890.42	37,479.44
Surplus, unallocated.....	983,345.76	27,771.55	138,744.80	126,856.64	19,718.15
Total surplus.....	2,683,859.25	103,393.71	320,264.16	275,146.15	118,898.03
Total capital.....	107,121,006.12	7,078,518.71	15,066,664.03	10,449,821.15	7,724,573.03
Total liabilities and capital.....	110,595,072.14	7,492,029.91	15,091,664.03	10,563,912.53	7,724,573.03

# LOAN BANK SYSTEM

condition as at April 30, 1935

Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	Portland	Los Angeles
\$3,435,084.59	\$3,535,460.43	\$2,026,307.45	\$2,628,137.65	\$4,014,924.17	\$3,156,187.49	\$2,294,488.76	\$2,082,948.10
15,050,576.35 0	4,215,175.70 0	11,069,670.73 0	3,222,396.80 0	2,928,798.30 0	2,694,737.12 0	1,622,768.28 0	2,618,240.73 4,225.85
15,050,576.35	4,215,175.70	11,069,670.73	3,222,396.80	2,928,798.30	2,694,737.12	1,622,768.28	2,622,466.58
65,585.18	18,685.02	36,359.82	12,080.12	21,985.47	8,770.63	10,142.58	9,795.66
511,464.00	490,248.69	456,686.65	63,557.53	1,077,000.00	50,000.00	213,871.74	50,000.00
2,232.77	2,984.00	5,470.02	1,813.85	1,437.86	2,361.45	1,172.03	9,059.07
19,064,942.89	8,262,553.84	13,594,494.67	5,927,985.95	8,044,145.80	5,912,056.69	4,142,443.39	4,774,269.41
658,644.05 0	103,468.91 0	1,197,559.18 0	328,767.85 0	425,656.88 0	26,932.85 0	172,630.26 0	7,803.46 0
658,644.05	103,468.91	1,197,559.18	328,767.85	425,656.88	26,932.85	172,630.26	7,803.46
4,652,600.00	1,948,500.00	2,010,400.00	947,600.00	1,252,100.00	953,100.00	499,200.00	997,500.00
12,775,700.00	6,000,000.00	10,000,000.00	4,500,000.00	6,100,000.00	4,700,000.00	3,310,000.00	3,560,000.00
17,428,300.00	7,948,500.00	12,010,400.00	5,447,600.00	7,352,100.00	5,653,100.00	3,809,200.00	4,557,500.00
575,300.00	101,000.00	144,200.00	74,900.00	187,300.00	60,900.00	35,300.00	94,900.00
165,468.00	65,600.00	91,540.00	30,200.00	118,745.00	23,275.00	19,450.00	30,950.00
409,832.00	35,400.00	52,660.00	44,700.00	68,555.00	37,625.00	15,850.00	63,950.00
0	577,400.00	4,173,900.00	2,894,900.00	2,672,400.00	2,633,600.00	2,650,000.00	6,407,900.00
0	577,400.00	4,173,900.00	2,894,900.00	2,672,400.00	2,633,600.00	2,650,000.00	6,407,900.00
189,598.81	75,743.41	120,917.40	43,781.64	67,243.19	30,951.21	24,952.88	26,746.34
84,004.60	39,452.05	65,753.43	29,589.05	40,109.58	153,846.57	108,719.33	94,493.09
294,563.43	59,989.47	147,204.66	33,547.41	90,481.15	9,601.06	11,090.92	23,776.52
568,166.84	175,184.93	333,875.49	106,918.10	197,833.92	194,398.84	144,763.13	145,015.95
18,406,298.84	8,159,084.93	12,396,935.49	5,599,218.10	7,618,488.92	5,885,123.84	3,969,813.13	4,766,465.95
19,064,942.89	8,262,553.84	13,594,494.67	5,927,985.95	8,044,145.80	5,912,056.69	4,142,443.39	4,774,269.41

# Federal Savings and Loan System

**A**PRIL was the third successive month in which the reporting Federal associations converted from State charters recorded a net increase of 1.3 percent in loans outstanding (table 1). (The number of converted Federals reporting ranged from 150 in February to 172 in April, but the comparison between successive months is made in each case for identical associations reporting in both months.) This net growth in new business is at the rate of 16.7 percent a year, which would be recognized as extraordinary for a mature institution in any line of business.

The percentage net growth in the business of newly organized Federal savings and loan associations is, of course, much greater as they have all started from scratch within the last 18 months. Thus, the 400 new Federals reporting showed a net gain of 10.7 percent in loans outstanding at the end of April as compared with the end of March.

For both converted and new associations, the greatest increases in new loans during April over March were for new construction, the gain by converted associations being 35.4 percent and by new Federals 32.1 percent. Refinancing accounted for 59 percent of the new loans made by converted and for 50 percent of the new loans made by new Federals during April.

Withdrawals from converted Federals continued to decrease, dropping 16.8 percent in April. An increase of 5.9 percent in advances obtained from the Federal Home Loan Banks was reported by converted associations and of 25.6 percent by new Federals. At the same time both types reduced their borrowings from other sources.

The recent rapid growth in the number of associations converting from State to Federal charter continued, with 21 taking such action during April (table 2). This brought the total of converted associations to 246 or nearly one-third of all Federal associations.

## OPINIONS ON FEDERALIZATION

A STATE-chartered association in Michigan, seeking advice on the advisability of converting into a Federal savings and loan association, recently sent a questionnaire to a number of associations that had already converted; 124 replies were received. Through the courtesy of the Michigan association's secretary, the REVIEW is able to print a summary of the answers that were given to three major questions.

Question no. 1. *Are you pleased over the conversion of your institution to a Federal association?*

114 associations answered "yes"

2 associations answered "no"

8 associations were non-committal

Question no. 2. *Did you convert on a 100 percent basis?*

123 associations answered "yes"

1 association answered "no"

Question no. 3. *What results have you observed since federalization?*

The following are excerpts from some of the many replies that were received:

From January 1, to January 25, 1935, 46 new accounts.

Results we have experienced up to date have been a restoration of confidence in the institution and increased savings payments.

Two hundred percent increase in assets.

Complete restoration of confidence with all members.

We are now making real estate loans again after about three years idleness.

New life in every department.

More savings shares were purchased at our first meeting than in the past two years. Numerous applications for mortgage loans have been made.

We are receiving loan applications from a better class of risks than was the case formerly.

Confidence has been restored in the minds of investors, withdrawals have ceased except in extreme cases of absolute need.

New investments have been encouraged to a considerable extent and all withdrawals, except for actual necessity, have been eliminated.

The result of our federalization has been most gratifying in that confidence has again been restored, and the repurchase list has been eliminated.

A borrowing plan more easily understood.

Insurance of our accounts, in our opinion, will be quite valuable. We have closed more new loans since federalizing four months ago than we have made in the past four years.

The fact that the Federal Government has definitely gotten behind the building and loan program has shown the people that it certainly is a safe and sane program.

You will note that we are very much pleased with our change and the Government has been very generous in giving us service whenever we have needed it.

We are limited as to our loans, having less leeway under the Government set-up than under the State. However, this is not an unmixed evil, as our past experience has been that nearly all of our losses have occurred from loans which we cannot make in the future, so that we are confined to the best quality of loans with the least amount of losses.

With the insurance feature we will gain more new members than we will lose.

We will be more able to serve the general public, than we were before, under the State supervision.

We have done more active business in the last six months than we have in the preceding years of the depression.

Have no criticisms to offer either of the laws contained in the charter, the by-laws and the rules and regulations of the Federal Home Loan Bank Board. We consider the method of operation very well thought out and have yet to have one question arise that we could not find an answer for.

We are getting a better class of loans because of the change to direct reduction plan.

Previous to conversion, the association had passed three dividends and had approximately 18 percent of the capital filed for repurchase. Since conversion it has been possible for the association to take care of all repurchases, resume dividends at the rate of 4 percent per annum and actively reenter the loan field.

All the men I have talked to or come in contact with who were actively engaged in this work for the Government seem to be willing to cooperate in every respect and do not lay down any hard and fast rules as far as the supervision of our association is concerned.

The fact that we are now able to pay repurchases on 30 days' notice, make loans, and function as usual, is entirely due to the fact that we have federalized.

We are more than pleased with the results for it has been the means of adding many new shareholders to our association, many of whom invested substantial sums in our full paid shares.

Before conversion repurchases usually exceeded receipts but we are now going ahead quite rapidly.



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

	400 new associations			172 converted associations		
	April	March	Change March to April	April	March	Change March to April
<b>Total subscriptions at end of month:</b>			<i>Percent</i>			<i>Percent</i>
Private share accounts.....	41, 466	40, 079	+3. 5	150, 807	150, 930	-. 1
Shares privately subscribed.....	403, 711	396, 166	+1. 9	1, 887, 075	1, 897, 194	-. 5
Shares per account (average).....	9. 7	9. 9	-2. 0	12. 5	12. 5	0
<b>Share liability at end of month:</b>						
Paid on private subscriptions.....	\$10, 643, 955	\$10,331,529	+3. 0	\$109, 063, 751	\$110, 050, 836	-. 9
Treasury subscriptions.....	11, 926, 300	10, 609, 600	+12. 4	9, 007, 000	7, 896, 600	+14. 1
<b>Total.....</b>	<b>22, 570, 255</b>	<b>20, 941, 129</b>	<b>+7. 8</b>	<b>118, 070, 751</b>	<b>117, 947, 436</b>	<b>+1. 1</b>
Average paid on private subscriptions... ..	257	258	-. 4	723	733	-1. 4
Repurchases during month.....	171, 378	161, 041	+6. 4	1, 634, 480	1, 965, 490	-16. 8
<b>Mortgage loans made during month:</b>						
a. Reconditioning.....	283, 789	254, 701	+11. 4	240, 600	242, 409	-. 7
b. New construction.....	712, 818	539, 558	+32. 1	398, 520	294, 218	+35. 4
c. Refinancing.....	1, 567, 100	1, 556, 927	+1. 7	1, 805, 867	1, 567, 953	+15. 2
d. Purchase of homes.....	464, 837	477, 533	-2. 7	605, 203	513, 162	+18. 0
<b>Total for month.....</b>	<b>3, 028, 544</b>	<b>2, 828, 719</b>	<b>+7. 1</b>	<b>3, 050, 190</b>	<b>2, 617, 742</b>	<b>+16. 5</b>
Loans outstanding end of month.....	20, 688, 374	18, 699, 113	+10. 7	95, 124, 942	93, 910, 054	+1. 3
<b>Borrowed money from—</b>						
Federal Home Loan Banks.....	1, 205, 516	959, 630	+25. 6	7, 077, 846	6, 681, 760	+5. 9
Other sources.....	59, 029	69, 014	-14. 4	1, 738, 925	1, 835, 481	-5. 3
<b>Total.....</b>	<b>1, 264, 545</b>	<b>1, 028, 644</b>	<b>+23. 0</b>	<b>8, 816, 771</b>	<b>8, 517, 241</b>	<b>+3. 5</b>

<sup>1</sup> This total includes loans made for other purposes than those listed.

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

	Number					Assets
	Dec. 31, 1933	June 30, 1934	Dec. 31, 1934	Mar. 31, 1935	Apr. 30, 1935	Apr. 30, 1935
New.....	57	321	481	527	532	\$24, 888, 807
Converted.....	2	49	158	225	246	236, 832, 147
<b>Total.....</b>	<b>59</b>	<b>370</b>	<b>639</b>	<b>752</b>	<b>778</b>	<b>261, 720, 954</b>

# Federal Savings and Loan Insurance Corporation

**D**URING May the number of shareholders in building and loan associations whose savings were protected by Federal insurance passed the half million mark and the funds insured reached nearly \$300,000,000. The number of associations insured up to May 20 totaled 774, of which 37 were State-chartered associations. Applications had been received from 999 institutions, including 175 State-chartered, 327 converted Federal, and 497 new Federal associations.

The recent action of Congress in cutting the annual premium in half and otherwise liberalizing the conditions of insurance should make it possible for the majority of building and loan associations to acquire this aid to increased business for themselves. Just what the sales value of insurance means to building and loan associations was brought out in a speech made to the Texas Building and Loan League at Dallas on May 7, by Mr. J. A. Pratt, building and loan supervisor of Texas. The pertinent section of that speech is quoted herewith:

I think you will agree with me that the building and loan business in the past has been acquired mainly through the dividend rate paid. In other words, the building and loan associations have bought their business. We now have a situation wherein associations for the most part have lowered their dividends to a point in line with what money is worth today. Certainly, as money becomes more plentiful the loan rate

must be adjusted. Why not in the future sell your business on a sounder basis than rate? The building and loans now have something more than return to talk about and that is "Safety Through Share Insurance." In this operation you not only build confidence in your institutions but encourage home owning and thereby enhance the value of real estate. History of building and loan in its introductory chapter deals with the development of cooperative finance. As I have said, to have cooperation we must have confidence. No association can command a greater confidence in the community than that enjoyed by its officers and management. You have a sacred trust committed to your care and that is the handling of the savings of the people of your community. By insuring your shares you are relieving to some degree that burden which rests upon you. The question of insurance is not one for the management or even the directors to refuse. This should be determined by the stockholders.

A party was in my office a few days ago and asked the question: Why is it fewer Texas associations have obtained share insurance than most any other state? I am receiving letters from members asking why their association has not taken out the share insurance. It is with the building and loan associations as it was with the banks in March of 1933, and if the banks at as low an ebb as they reached in public confidence can with the single expedient of the insurance of bank deposits by the Federal Deposit Insurance Corporation reach the point they have reached today, I say it answers all the arguments that may be made against giving your shareholders this additional protection.

With the passage of the pending legislation in Congress providing for the reduction of insurance premiums, it is the opinion of the Banking Department that every association should give to their members this additional protection.

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

**APPLICATIONS RECEIVED**

	Number			Assets (as of date of application)		
	Dec. 31, 1934	Apr. 20, 1935	May 20, 1935	Dec. 31, 1934	Apr. 20, 1935	May 20, 1935
State-chartered associations.....	53	169	175	\$110,681,409	\$242,124,821	\$290,725,902
Converted F. S. and L. A.....	134	290	327	128,907,073	306,024,403	327,436,676
New F. S. and L. A.....	393	484	497	7,578,870	8,464,758	8,553,051
<b>Total.....</b>	<b>580</b>	<b>943</b>	<b>999</b>	<b>247,167,352</b>	<b>556,613,982</b>	<b>626,715,629</b>

**INSTITUTIONS INSURED**

	Number			Number of shareholders (as of date of insurance)	Share and creditor liabilities (as of date of insurance)	Assets (as of date of insurance)
	Dec. 31, 1934	Apr. 20, 1935	May 20, 1935	May 20, 1935	May 20, 1935	May 20, 1935
State-chartered associations.....	4	31	37	142,260	\$72,430,052	\$81,284,962
New and converted F. S. and L. A.....	447	711	737	376,315	226,756,181	249,326,449
<b>Total.....</b>	<b>451</b>	<b>742</b>	<b>774</b>	<b>518,575</b>	<b>299,186,233</b>	<b>330,611,411</b>

# Home Owners' Loan Corporation

## Applications received and loans closed by months

Month	Applications received (number)	Loans closed <sup>1</sup>	
		Number	Amount
1933			
From date of opening through Sept. 30 .....	403, 114	593	\$1, 688, 787
October .....	129, 504	3, 424	10, 164, 678
November .....	99, 232	10, 946	31, 445, 827
December .....	90, 946	22, 286	62, 621, 051
1934			
January .....	123, 189	30, 339	86, 143, 838
February .....	136, 132	32, 940	93, 499, 995
March .....	168, 273	52, 260	150, 213, 639
April .....	145, 772	56, 172	171, 490, 768
May .....	119, 791	64, 172	208, 293, 766
June .....	97, 679	71, 768	223, 440, 191
July .....	66, 157	78, 046	235, 467, 606
August .....	72, 022	69, 738	202, 442, 864
September .....	39, 317	59, 240	179, 299, 857
October .....	35, 675	65, 813	201, 211, 532
November .....	14, 171	54, 468	170, 544, 562
December .....	<sup>2</sup> 2, 344	54, 036	169, 018, 847
1935			
January .....		54, 990	166, 836, 150
February .....		36, 542	104, 919, 941
March .....		23, 140	70, 664, 400
April .....		13, 807	39, 475, 180
Grand total to Apr. 30, 1935 .....	1, 743, 318	854, 720	2, 578, 883, 479

<sup>1</sup> These figures are subject to adjustment.

<sup>2</sup> Receipt of applications stopped Nov. 13, 1934, and was not resumed until May 28, 1935. The December figures are the result of various adjustments and audits of the number of applications received during the preceding months.

### Reconditioning Division—Summary of all reconditioning operations to May 23, 1935

Period	Number of applications received for reconditioning loans	Total contracts executed		Total jobs completed	
		Number	Amount	Number	Amount
June 1, 1934 to Apr. 25, 1935 <sup>1</sup> .....	525, 694	239, 928	\$42, 909, 410	173, 117	\$29, 952, 830
Apr. 25, 1935 to May 23, 1935 <sup>2</sup> .....	19, 345	9, 481	1, 871, 614	11, 859	2, 481, 538
Grand total to May 23, 1935 .....	545, 039	249, 409	44, 781, 024	184, 976	32, 434, 368

<sup>1</sup> The totals for this period differ from those published in the May REVIEW due to subsequent corrections.

<sup>2</sup> The figures for this period are subject to correction.

Note: Prior to the organization of the Reconditioning Division on June 1, 1934, the Corporation had completed 52,269 reconditioning jobs amounting to approximately \$6,800,000.

# Resolutions of the Board

## I.—AMENDING THE RULES AND REGULATIONS FOR FEDERAL SAVINGS AND LOAN ASSOCIATIONS TO REQUIRE THE ESTABLISHMENT OF A RESERVE FOR UNCOLLECTED INTEREST

The Board adopted the following resolution on May 8, 1935:

*Be it resolved* by the Federal Home Loan Bank Board that the Rules and Regulations for Federal Savings and Loan Associations be amended by the insertion of a new section as follows:

“18. 1. *Accrued interest receivable.* On direct reduction loans interest shall be added to the account monthly and a ‘Reserve for Uncollected Interest’ shall be maintained equivalent at least to all interest earned but uncollected which is past due more than 30 days. Converted associations which have not heretofore accrued all interest and maintained a reserve as is herein required may upon application to the Board be permitted what appears to the Board to be a reasonable time for the accumulation of the reserve herein prescribed.”

## II.—AMENDING THE RULES AND REGULATIONS FOR FEDERAL SAVINGS AND LOAN ASSOCIATIONS GRANTING A RIGHT OF HEARING TO INTERESTED PARTIES IN CONNECTION WITH ANY PROPOSED CONVERSION

The Board adopted the following resolution on May 13, 1935:

*Be it resolved* by the Federal Home Loan Bank Board that the Rules and Regulations for Federal Savings and Loan Associations be amended by the insertion of a new section, as follows:

“34. 1. *Right of hearing.* Any person interested in the conversion of any member of any Federal Home Loan Bank into a Federal savings and loan association, including cases where it is proposed to segregate the assets of such institution or where a Federal savings and loan associa-

tion is to be organized to take over the assets of any institution, including cases where a portion of such assets are to be segregated, may appear in person or by attorney and submit any evidence pertinent to the questions at issue affecting such conversion or organization or segregation of assets before the Review Committee of the Board, which shall conduct a hearing and consider such matters and make recommendation to the Board, with report of such hearing, and the Board will take such action as may appear to be appropriate. Any person desiring such hearing shall within five days from the date of the filing of the application for conversion or for organization, as the case may be, file with the Federal Home Loan Bank Board, Washington, D. C., a request in writing to be heard on the pending application. In the event any such written request is filed, the Review Committee shall give notice to the person making such request and to other interested parties of the time and place of such hearing not less than five days before such hearing is to be conducted.”

## III.—AMENDING THE RULES AND REGULATIONS FOR FEDERAL SAVINGS AND LOAN ASSOCIATIONS GOVERNING THE PURCHASE AND SALE OF LOANS BY FEDERAL ASSOCIATIONS

The Board adopted the following resolution on May 13, 1935:

*Be it resolved* by the Federal Home Loan Bank Board that the Rules and Regulations for Federal Savings and Loan Associations be amended by the insertion of a new section as follows:

“46. 1. *Brokerage business and purchase and sale of loans.* No association shall engage in the mortgage brokerage business. Associations may originate insured mortgages and sell the same provided that an initial service charge is made and collected by the association sufficient to reimburse it for the expense incurred in originating such business and such mortgages are sold without recourse, and if under a contract to service the same, then on a basis to provide suf-

ficient compensation to the association to reimburse it for expenses incurred in the conduct of adequate service under its service contract. Associations may incidentally purchase loans of a type which they could make originally, but shall pursue the practice of lending their funds originally."

#### IV.—GOVERNING THE HANDLING OF DEMAND DEPOSITS BY FEDERAL HOME LOAN BANKS

The Board adopted the following resolution on May 8, 1935:

*Be it resolved* by the Federal Home Loan Bank Board that paragraph 3 of the resolution of February 26, 1935 providing for the acceptance of deposits by Federal Home Loan Banks be amended to read as follows:

"3. Demand deposits upon which no interest shall be paid may be accepted from members provided that such demand deposits shall be promptly re-deposited in a special account in the United States Treasury, or in a Federal Reserve Bank, or in a Federal Reserve Bank Branch, in the name of the Federal Home Loan Bank. Such demand-deposit funds shall be placed in a special account separate from any other funds, subject to be withdrawn on demand, and may be repaid to the depositing member by the check of the Federal Home Loan Bank to the depositing member with or without request in writing from such member."

#### V.—AUTHORIZING THE FEDERAL HOME LOAN BANKS TO ACT AS AGENTS OF THE BOARD IN DEALING WITH APPLICANTS

The Board adopted the following resolution on May 13, 1935:

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

The Federal Home Loan Banks are authorized to act as agents of this Board and of the Federal Savings and Loan Insurance Corporation under the following provisions:

Each Bank shall act as agent of the Board (including its functions as the Board of Trustees of the Federal Savings and Loan Insurance Corporation):

(1) To receive and transmit to the Board with its recommendations applications for membership, Federal charter, conversion, insurance or for specific approvals by the Board;

(2) To transmit to applicants, when requested by the Board, advice of action taken by the Board upon applications and instructions and other communications from the Board to members, Federal savings and loan associations, and insured institutions;

(3) To confer and negotiate, pursuant to instructions from the Board, with applicants, their officers, directors, members or creditors, individually or in group meetings and otherwise as the Board may request in writing.

# Directory of Member, Federal, and Insured Institutions

Added during April and May

## I. INSTITUTIONS ADMITTED TO MEMBERSHIP IN THE FEDERAL HOME LOAN BANK SYSTEM BETWEEN APRIL 29, 1935, AND MAY 25, 1935<sup>1</sup>

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

### DISTRICT NO. 2

#### NEW YORK:

##### Brooklyn:

Flatbush Co-operative Savings & Loan Association, 549 East Twenty-sixth Street.

##### Salamanca:

Salamanca Loan & Building Association, 10 Atlantic Street.

### DISTRICT NO. 3

#### DELAWARE:

##### Marshallton:

Marshallton Building & Loan Association.

#### PENNSYLVANIA:

##### Philadelphia:

Germantown Building & Loan Association, 902 East Chelton Avenue.

##### Pittsburgh:

Foster Building & Loan Association, 3509 Butler Street.

##### Sharon:

Sharon Building & Loan Association, McDowell National Bank Building.

### DISTRICT NO. 5

#### OHIO:

##### Columbus:

Clintonville Savings & Loan Company, 3527 North High Street.

Ohio State Savings Association, Gay & Third Streets.

##### East Liverpool:

Potters Savings & Loan Company, Washington & Broadway.

#### TENNESSEE:

##### Knoxville:

Home Building & Loan Association of Knoxville, 317 Clinch Avenue.

### DISTRICT NO. 7

#### ILLINOIS:

##### Chicago:

Advance Building & Loan Association, 1344 West Eighteenth Street.

Fullerton Building & Loan Association, Lorel & Belden Avenue.

<sup>1</sup> During this period 10 Federal savings and loan associations were admitted to membership in the System.

#### ILLINOIS.—Continued.

##### Mound City:

Mound City Building & Loan Association.

##### Mount Carmel:

Columbian Building & Loan Association of Wabash County, Illinois, First State Bank Building.

##### North Chicago:

North Chicago Building & Loan Association, Fourteenth & Victoria Streets.

##### Rock Island:

Rock Island Mutual Building, Loan & Savings Association, Suite 18, State Bank Building.

##### Streator:

Peoples Building & Loan Association of Streator, 115 South Monroe Street.

### DISTRICT NO. 9

#### LOUISIANA:

##### Lake Charles:

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

### DISTRICT NO. 10

#### COLORADO:

##### Denver:

Neighborhood Building & Loan Association, 430 University Building.

#### NEBRASKA:

##### Alliance:

Alliance Building & Loan Association.

#### OKLAHOMA:

##### Oklahoma City:

American Building & Loan Association, 514-15 Oklahoma Savings Building.

## WITHDRAWALS FROM THE FEDERAL HOME LOAN BANK SYSTEM BETWEEN APRIL 29, 1935, AND MAY 25, 1935

#### ALABAMA:

##### Montgomery:

State Building & Loan Association, 20 South Perry Street.

## II. FEDERAL SAVINGS AND LOAN ASSOCIATIONS CHARTERED BETWEEN APRIL 30, 1935, AND MAY 27, 1935

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

### DISTRICT NO. 1

#### CONNECTICUT:

##### New Britain:

New Britain Federal Savings & Loan Association, 148 Harding Street (companion to New Britain Co-operative Savings & Loan Association).

## DISTRICT NO. 2

## NEW YORK:

## Owego:

Owego Federal Savings & Loan Association, 44 Lake Street (converted from Owego Savings & Loan Association).

## Port Washington:

North Hempstead Federal Savings & Loan Association of Port Washington, 79 Main Street (converted from North Hempstead Savings & Loan Association).

## DISTRICT NO. 3

## PENNSYLVANIA:

## Pittsburgh:

Lang Avenue Federal Savings & Loan Association of Pittsburgh, 921 North Lang Avenue (converted from Lang Avenue Building & Loan Association).

## Williamsport:

Williamsport Federal Savings & Loan Association, 650 Woodland Avenue.

## WEST VIRGINIA:

## Charleston:

Equitable Federal Savings & Loan Association of Charleston (companion to Colonial Building & Loan Association).

## DISTRICT NO. 4

## ALABAMA:

## Huntsville:

First Federal Savings & Loan Association of Huntsville, 4 West Side Square (converted from Huntsville Building & Loan Association).

## GEORGIA:

## Albany:

Albany Federal Savings & Loan Association.

## Macon:

Macon Federal Savings & Loan Association, 450 Cherry Street.

## Marietta:

Cobb County Federal Savings & Loan Association of Marietta, 108 Winter Street (converted from Cobb County Building & Loan Association).

## McRae:

First Federal Savings & Loan Association of McRae.

## MARYLAND:

## Baltimore:

Pennsylvania Avenue Federal Savings & Loan Association, 2404 Pennsylvania Avenue (converted from Pennsylvania Avenue Permanent Building & Loan Association).

## DISTRICT NO. 5

## KENTUCKY:

## Louisville:

Louisville Home Federal Savings & Loan Association, 116 South Fifth Street (converted from Louisville Home Building Association).

## OHIO:

## Cleveland:

Women's Federal Savings & Loan Association of Cleveland, 22 Colonial Arcade.

## Columbus:

Park Federal Savings & Loan Association, 576 North High Street (converted from Park Savings & Loan Company).

## Ironton:

First Federal Savings & Loan Association of Ironton.

Lawrence Federal Savings & Loan Association of Ironton, 119 North Second Street (converted from Lawrence Savings & Loan Company).

## DISTRICT NO. 6

## MICHIGAN:

## Battle Creek:

Calhoun Federal Savings & Loan Association, 15 Capital Avenue, North-east (converted from Calhoun Savings & Loan Association).

## DISTRICT NO. 7

## ILLINOIS:

## Chicago:

Archer-Hoyne Federal Savings & Loan Association of Chicago, 3517 Archer Avenue (converted from Archer Avenue Building & Loan Association).

## DISTRICT NO. 8

## MISSOURI:

## Carthage:

Home Federal Savings & Loan Association of Carthage, 133 East Third Street (converted from Home Savings & Loan Association of Carthage, Missouri).

## Moberly:

First Federal Savings & Loan Association of Moberly, 210 North Williams Street (converted from Moberly Savings & Loan Association).

## St. Joseph:

Midwest Federal Savings & Loan Association of St. Joseph, 1924 Frederick Avenue (converted from Midwest Savings & Loan Association).

## DISTRICT NO. 9

## MISSISSIPPI:

## Cleveland:

Cleveland Federal Savings & Loan Association (converted from Cleveland Building & Loan Association).

## TEXAS:

## Wichita Falls:

North Texas Federal Savings & Loan Association, 822 Scott Avenue (converted from North Texas Building & Loan Association).

## DISTRICT NO. 11

## WASHINGTON:

## Aberdeen:

First Federal Savings & Loan Association of Aberdeen, Finch Building (converted from Security Savings & Loan Society).

## Centralia:

Centralia Federal Savings & Loan Association, 207 West Main Street (converted from Centralia Savings & Loan Association).

## Hoquiam:

First Federal Savings & Loan Association of Hoquiam, 624 Simpson Avenue (converted from Southwest Washington Savings & Loan Association).

## Seattle:

Standard Federal Savings & Loan Association, 307 McDowell Building (converted from Standard Savings & Loan Association).

## WYOMING:

## Rock Springs:

Sweetwater Federal Savings & Loan Association.

## DISTRICT NO. 12

## CALIFORNIA:

## San Francisco:

Slavic Federal Savings & Loan Association of San Francisco, 709 Buchanan Street.



CANCELATIONS OF FEDERAL SAVINGS AND LOAN  
ASSOCIATION CHARTERS BETWEEN APRIL 30,  
1935, AND MAY 27, 1935

ALABAMA:

Fort Payne:

First Federal Savings & Loan Association of Fort  
Payne.

NEBRASKA:

Hebron:

Hebron Federal Savings & Loan Association.

III. INSTITUTIONS INSURED BY THE FED-  
ERAL SAVINGS AND LOAN INSURANCE  
CORPORATION BETWEEN MAY 3, 1935,  
AND MAY 27, 1935 <sup>1</sup>

DISTRICT NO. 3

WEST VIRGINIA:

Point Pleasant:

Point Pleasant Building & Loan Association.

<sup>1</sup> During this period 26 Federal savings and loan associations were  
insured.

DISTRICT NO. 5

OHIO:

Cleveland:

Broadview Savings & Loan Company, 3344 Broad-  
view Road.

DISTRICT NO. 9

LOUISIANA:

Natchitoches:

Progressive Mutual Building & Loan Association.

DISTRICT NO. 10

KANSAS:

Topeka:

Topeka Building & Loan Association, 119 West  
Sixth Avenue.

DISTRICT NO. 11

WASHINGTON:

Spokane:

Fidelity Savings & Loan Association, 108 Howard  
Street.

# FEDERAL HOME LOAN BANK DISTRICTS

