

STOCK OF THE FEDERAL SAVINGS AND LOAN ASSOCIATIONS AS AN
INVESTMENT

BY

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PREFACE

This Thesis is to analyze the Stock of the Federal Savings and Loan Associations as an investment and point out specifically for the small investor how this investment ranks with United States Government Savings Bonds, Postal Savings, and Deposits in Savings Banks, as to Safety, Yield, and Liquidity. It is hoped that the results arrived at may be of assistance to the Small Savers and the future Students who are interested in the study of investments in the Department of Business Administration.

The research was carried on by means of a study of books, pamphlets, magazine articles, newspapers, and personal interviews with the personnel of the First Federal Savings and Loan Association in Roanoke, Virginia.

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CHAPTER I

INTRODUCTION

Purpose. The purpose is to analyze stock of the Federal Savings and Loan Association as an investment for small investors, as to safety, yield, and liquidity. The investors with limited means must formulate a financial policy in which the purchase of securities will offer a high degree of safety and assure a reasonable return. With such ideas in mind a thorough investigation of stock of the Federal Savings and Loan Association was made and the findings were set forth in the contents of this report.

Problems of the small investors. There might be many different problems that would face the investor with limited means, though it is of universal opinion that there are three factors that should be given due consideration. (a) To achieve safety. It is the common experience of all investors that safety is a primary factor, though most any investor realizes that "absolute safety" in a security commitment is an idealistic concept rather than a practical condition; therefore intelligent investors seek "adequate" rather than "absolute" safety.

All investment commitments are, in large measure, credit transactions. The investor is advancing his funds and expects to have them safely returned at some date in the future.

Certain factors of safety could be considered before commitment is made. The type of security may have definite safety priorities; such as, bonds are safer than stock; mortgage bonds are better secured than debenture bonds. The nature of the enterprise is a matter of prime importance. Loans of the governmental bodies dependent upon taxes rather than profits, are more secured than bonds of a corporation. Public

utility securities, by reason of their greater stability of revenues are intrinsically safer than industrial bonds.

The legality of issue is particularly significant with respect to public securities, such as municipal bonds. A corporation bond that has been issued illegally is usually valid and collectible; a similar municipal bond is invalid and uncollectible.

New securities are issued at arbitrary prices that may or may not be accepted by the market at large. The price tends to fluctuate over a seasoning period, which may vary from a few weeks to several months. Small investors should avoid new enterprises in the experimental stage, should endeavor to choose institutions that are sufficiently seasoned to show definite earning power.

The investor of limited means or small investor would be wise to follow the example of the largest financial institutions in the country at the present time and invest his savings where safety is assured, a reasonable income is certain, and it is possible to recall his investment on a short notice. Such a policy has been adopted by the Federal Savings and Loan Associations, Banking and other Financial Institutions.

(b) To achieve maximum yield. The relative size of the income, as related to the amount invested, usually indicates the degree of risk assumed. Investors who are willing to purchase securities with relatively uncertain futures, naturally, demand compensation in the form of a higher rate of return as a premium for the risk undertaken. While the investor who demands only security with assured futures must be willing to accept lower rates of return on his investments. The latter is especially true of the small investor, as he is generally investing his savings and must be

assured of the ability to recall the principal and a return on his investment which will be comparable to the yield that would be given on another investment of similar risk.

The annual rate of return, expressed in percentage relationship between the annual income and the amount invested, is called yield and is the most practical yardstick of investment quality. A low yield indicates a safe security, just as a high yield would indicate a security with a great amount of risk. Therefore, the small investor must satisfy himself by finding an investment with adequate safety and a reasonable yield.

(c) To achieve liquidity. Marketability is important to all investors, as emergencies frequently arise that require immediate liquidation of security holdings. Usually the more marketable securities give a lower yield, therefore, the small investor should seek a reasonable rather than a maximum return. A noteworthy feature of marketability is its close relationship to collateral value. Investors almost invariably find, when they offer securities as collateral for bank loans, that the bank is much less interested in the quality of the securities from a safety viewpoint than in the marketability of the issues.

The small investor must survey the field of investments and make his commitments where he can be assured of a degree of readiness with which his securities can be sold without sacrifice of value.

Description of various investments available for the small saver. The investment opportunities available to the person of limited means, who has only a few thousand or a few hundred dollars to invest are restricted, as the small saver must make commitments where he can obtain the qualities of sound investments. In general, the securities offered to the public by

corporations and investment companies present a greater risk than the small investor can accept and a lesser degree of liquidity than would be wise for an individual of limited means to undertake, even though these two factors may be off-set by a greater financial return on his investment than he would likely receive from an investment that offers adequate safety and a large degree of liquidity. Due to the financial position of the small saver the contents of this report will consider the four types of investments that are conveniently established for the use of the small saver.

(a) United States Savings Bonds. There are three classes of Federal Savings Bonds now available to investors. These bonds are nontransferable and may be redeemed through the Treasury Department, Federal Reserve Banks, and effective October 2, 1944, Series A and E could be redeemed at qualified commercial banks. In all cases, the redemption prices are so arranged as to provide yields at substantially lower rates than obtainable if the bonds are held to maturity.

(1) The Series E Savings Bonds are 10-year obligations, available to individual buyers only, in yearly amounts of not more than \$5,000.00 face value, redeemable any time after the first sixty days of issue.

(2) The Series F Savings Bonds are 12-year obligations, available to all buyers in yearly amounts of not more than \$50,000.00 face value, redeemable on 30 days' notice, after the first six months of issue, at value stated on the bonds.

(3) The Series G Savings Bonds are also 12-year obligations, offered to all buyers in yearly amounts of not more than \$50,000.00 face value; they are issued at face value and redeemable after six months from date

of bond on a 30 day notice.

(b) Postal Savings. Any person 10 years of age or older may open a saving account at any post office that is authorized to accept deposits, receiving a certificate which is used to evidence deposits. Certificates are issued in denominations of \$1.00 up to and including \$500.00, which are non-transferable. Deposits are made in round dollars; for amounts less than a dollar the depositor is given 10-cent savings stamps which are pasted on cards and are exchangeable for deposits in dollar amounts. Accounts have always been limited; the maximum was raised in 1918 to the present figure of \$2,500.00, and the depositor may have but one account. Withdrawals are permitted only at the depository post office, but accounts may be transferred from one office to another without the loss of interest.

(c) Deposit in Savings Banks. Savings banks have been established to safeguard the savings of people of limited means. The state laws under which mutual savings banks operate generally specify a limit to the total amount which these banks may accept for an individual savings account. New York State, for example, sets the limit at \$7,500.00.

The deposits in a savings bank are time deposits; that is, depositors may withdraw deposits only after the bank has been given notice of their intent to take money from the bank. Any person may be a depositor under the savings bank system as long as the requirements of the bank are maintained.

(d) Stock of the Federal Savings and Loan Associations. The investment position of the Federal Savings and Loan Associations has been greatly strengthened as the result of recent legislation which permits these associations to obtain Federal charters and to offer insurance protection

on accounts of shareholders. Share accounts are opened with buyers who may be home owners who have borrowed from the association or who may be investors seeking income on their savings. The funds of the association are ordinarily loaned on mortgages and installment contracts on residential property on a monthly repayment basis.

Accounts may be owned absolutely, or in trust, by any person, or by certain business organizations. All accounts are nonassessable and no membership or repurchase fee of any kind is charged. Repurchase of share accounts, in full or in part, as requested by the members, may be made by the association upon a written application given 30 days in advance.

Dividends, depending on earnings, are disbursed or credited on all share accounts on June 30 and December 31 of each year. When voted by the members, a bonus may be allowed on savings share accounts for regular and systematic savings over a specified period of time.

Investors are not required to subscribe to corporate shares with any fixed maturity of par value but instead, all accounts simply participate equally in the earnings of the associations, in proportion to the accumulated value of each amount.

CHAPTER II

ORIGIN AND DEVELOPMENT OF THE FEDERAL SAVINGS AND LOAN ASSOCIATIONS

What they are and conditions under which they may be organized.

Section 5 of the Home Owners' Loan Act of 1933 states, "that in order to provide local mutual thrift institutions in which the people may invest their funds and in order to provide for the financing of homes, the Federal Home Loan Bank Board is authorized under such rules and regulations, as it may prescribe, to provide for the organization, incorporation, examination, operation, and regulation of associations to be known as 'Federal Savings and Loan Associations', and to issue charters therefor, giving primary consideration to the best practices of local mutual thrift and home-financing institutions throughout the United States, serving each locality according to its needs."¹ The act also authorized the conversion of state building and loan institutions into Federal Associations with the consent of the state affected. The act of 1933 further provided that new Federal Savings and Loan Associations may be created by the granting of new charters or by the conversion of Savings and Loan Associations which are now members of the Federal Home Loan Bank System upon the proper vote of their shareholders.

A Federal Savings and Loan Association is specifically a privately managed local institution. Its lending operations are largely limited to the area within 50 miles of the home office. The Federal Association is organized for the purpose to serve its own community in both the savings and borrowing features of its operations. The savings of that community,

¹ Federal Savings and Loan Association—What They Are and How Charters Are Granted, Federal Home Bank Board, United States Government Printing Office, June 15, 1938.

if properly combined, will usually be sufficient to finance the home-loan needs of its citizens. All who contribute to the association's fund share equally in proportion to their contributions, therefore it is a mutual thrift and home-financing institution.

Before any step is taken to organize a Federal Savings and Loan Association, a survey must be made to determine whether an institution is really needed and if it has a real chance for success. In the determination of the need, a thorough survey should be made of the local mortgage situation from the point of view of demand for credit and supply of monthly payment mortgage money. The approximate total amount of mortgages on homes or combination homes and business property within a radius of 50 miles of a community must be determined. The percentage of mortgages to total value of such property varies from one place to another, though surveys usually show that the total of such mortgages will be about 20% of the total value of this type of property.

Any five responsible citizens of a community may make application to the Federal Loan Bank Board for permission to organize a Federal Savings and Loan Association. Such applications must be submitted through the Federal Home Loan Bank of the district, together with a report on the community where the proposed association is to be located and a report on the character and responsibility of the applicants. The application must set forth the following: (1) the need for a Federal Savings and Loan Association in the community, (2) the reasonable probability of its usefulness and success and, (3) evidence to the effect that the association can be established without causing undue injury to any properly conducted, existing, local thrift and home-financing institution.

The eligible state-chartered thrift and home-financing institution may apply for a Federal Savings and Loan Association charter upon a favorable vote of its shareholders on a plan of conversion previously approved by the Federal Home Loan Bank Board,* and by complying with all other necessary legal formalities. The vote required and action taken shall be in accordance with the local state law, if any, which expressly authorized conversion of such institutions. In the absence of a state law for conversion approval, then a vote on the plan for conversion may be taken by the shareholders in accordance with Federal statute, which provides that any eligible institution may convert into a Federal Savings and Loan Association upon vote of 51% of shareholders casting votes at a legal meeting called for the consideration of conversion. The notice to the shareholders must make specific mention of the plan for converting; votes may be cast in person or by proxy, as provided by state law, or by charter, or the by-laws of the association.

A successful association is directly connected with two of the most commendable attributes of every person, thrift and the desire for home ownership. These two virtues add greatly to the success, prosperity and happiness of a community and the modern American expects and requires such opportunities to be available to him. The thrift plan has been so divided to promote the regular weekly or monthly accumulation of savings in an institution that will pay a fair return and keep them adequately safe. As

* One of the basic requirements for conversion is that any institution desiring to qualify for a Federal charter must be a member of the Federal Home Bank System. Membership in this system, the largest mortgage reserve system in the world, makes its credit facilities available for meeting any emergency that may arise, and offers a more ample supply of funds for home-financing purposes.

for home-ownership, circumstances have forcibly brought the conviction that the only type of mortgage credit that really protects and fosters home-ownership is the monthly payment plan, the mortgage that never comes due but is completely paid off, leaving the home free and clear of debt. Much of the mortgage difficulty of the depression period resulted from the maturity of short-term mortgages which could not be renewed, except possibly by payment of an impossible lump sum of money.

In 1933, of the 3073 counties in the United States, 1554 were without local thrift and home-financing facilities. By the end of 1936 all but 265 of the nation's counties were able to be served by Federal Chartered Institutions. On July 15, 1937, there were 1274 Federal Savings and Loan Associations, of which 644 had been founded new and 630 had been converted from State to Federal charter. The number of Associations by June 30, 1940, had increased to 1429; 633 were founded new and 796 were transferred from State to Federal charters. Today, 1476 Federal Savings and Loan Associations are scattered throughout the United States, and are so well established and arranged that virtually anyone, even in the remote sections, has the opportunity to become a member of an institution.²

Laws and charters regulating the Federal Savings and Loan Associations.

A Federal Savings and Loan Association is not permitted to accept deposits, to issue certificates of indebtedness, or to conduct a commercial banking business. When so designated by the United States Treasury, a Federal Savings and Loan Association may act as a fiscal agent of the United States Government.

² Annual Report of Federal Savings and Loan Associations, 1936-1946 inclusive,
Federal Home Loan Bank Administration, Washington 25, D. C.

The associations must conform to uniform accounting practice, which contributes to a high degree of uniformity in general-operating policies.

Each member is entitled to 1 vote for each \$100.00, or fraction thereof, credited to his share account, at any annual or special meeting of the members, except no member may cast more than 50 votes in his own right at any meeting. A borrowing member may cast 1 vote as a borrower.

At least 5% of the net earnings of the association must be transferred to proper reserves at each dividend date unless the aggregate reserves, exclusive of reserves for bonus, of an association are equal to at least 10% of its outstanding capital.

Funds of a Federal Savings and Loan Association must be invested in First Mortgages on improved real estate, principally upon homes; except that investments may also be made in obligations of the United States, (obligations guaranteed as to principal and interest by the United States), stock or bonds of a Federal Home Loan Bank, and loans on the security of its own share accounts.

The association has perpetual succession and power to sue and be sued, complain and defend in any court of law or equity; to have a corporate seal; and the power to do all things reasonably incident to the accomplishment of its express objects and the performance of its express powers.

The share accounts shall be represented by share account books containing a certificate of membership and evidencing the participation value of the share account, except that investment share accounts may be represented by separate membership certificates.

At any time that funds are on hand for the purpose, the association shall have the right to redeem by lot, or otherwise as the Board of Directors

may decide all or any part of any of its share accounts' on a dividend date, by giving 30 days' notice by registered mail addressed to the holders at their last address recorded on the books of the association.

No Federal Association shall lend upon real-estate security beyond 50 miles radius of its home office except as permitted in its charter.

A copy of the association's charter and by-laws, which sets forth the rights and privileges of each member, is furnished to each investor and borrower at the time of becoming a member of the institution.

Every Federal Savings and Loan Association is authorized for existence and given greater security for operations by certain approved acts, such as, (1) Home Owners' Loan Act of 1933, approved June 13, 1933, (2) An Act to Guarantee the Bonds of the Home Owners' Loan Corporation, approved April 27, 1934, (3) The National Housing Act, approved June 27, 1934, (4) An Act to provide additional Home-Mortgage Relief, approved May 28, 1935. The charter and by-laws of the individual association supplement the rules and regulations of the Federal Government and provide for the management and the regulating policies of the institution.

Kinds of shares issued. The public may subscribe to four types of shares offered by the Federal Savings and Loan Associations. One person may subscribe to more than one type though he will be counted as only one shareholder.

(1) Installment Thrift Shares serve the purpose of those intending to follow a systematic saving program over a period of years. While all types of shares will participate alike in dividends, Installment Thrift Shares may receive a bonus of 1% per annum if payments are made regularly without default of more than 60 days at any time. The number of shares

for which any person may subscribe will be determined by the amount he wishes to save monthly and the estate he plans to accumulate in this manner. Payments are one half of one per cent monthly, therefore, a person must subscribe for the number of shares equal to twice the amount in dollars he intends to save per month. For example, if Mr. "M" wishes to save \$10.00 per month he will subscribe for 20 shares and will accumulate an amount of \$2,000.00 when the share payment and the dividends credited to them reaches par value. The subscriber under this plan must agree to pay in cash the first monthly payment before shares are issued. There is not a penalty or fine if payments are not maintained, though the shareholder will lose the reward for regularity in savings represented by the 1% per annum bonus. The amount paid in on the shares plus dividends credited to them will continue to receive the same dividend rate as other shares.

A holder may elect to pay more than the monthly required amount, the additional amount will receive dividends the same as any other payments on shares, which allows the shareholder to adjust his payments according to his net income.

(2) Optional Savings Shares are available for the individual whose income is irregular or whose circumstances are such that he cannot follow a regular saving program. The small investor under this plan can save amounts, according to his fluctuating net income, at irregular times, or in addition to a regular saving program as he could subscribe for under plan (1) , the investor can have increased savings at irregular intervals. Dividends on shares under this plan are not paid in cash but are added to the shares payment credits until the value of the shares reach par. Persons must subscribe for the number of Optional Savings Shares they

expect to have payments plus dividends to reach par within a reasonable time; at least one half of 1% of the par value must be paid in cash when the subscribed shares are issued.

(3) Prepaid shares are designed for the investor who wishes to make a lump-sum investment in the association; he intends to leave his investment intact and without taking dividends in cash, allowing dividends to be added to his investment thus constantly increasing the value. For example, Mr. "M" wishes to invest \$500.00 which he plans to have accumulate through the crediting of dividends until the investment has increased to \$1,000.00. Mr. "M", therefore, will subscribe for 10 shares and agree to pay \$500.00 when the shares are issued.

(4) Full-paid Income Shares are for the investor who wishes to make a lump-sum investment and receive the semi-annual dividends in cash. The subscriber will subscribe to a number of shares equal to 1% of the amount he wishes to invest and will agree to pay the amount when the shares are issued. For example, if Mr. "M" wishes to invest \$1,000.00, he will subscribe for 10 shares and pay \$1,000.00, after which he will be entitled to a cash dividend paid semi-annually.

In many respects this type of investment is comparable to that of the highest type of bonds, except the rate of return will no doubt vary, and should in most cases pay a higher return than investment of similar safety.

CHAPTER III

ANALYSIS OF SAFETY

Safety being one of the greater factors a small investor must consider, it is therefore wise when considering the stock of the Federal Savings and Loan Association as an investment for the small saver, to place great emphasis on the safety features. The Federal Associations have maintained a record of financial soundness since their debut in 1933 and their continuous growth in both number and assets should in itself reflect a security value upon the mutual thrift and home-financing institutions.

TABLE 1--GROWTH OF FEDERAL SAVINGS AND LOAN ASSOCIATIONS SINCE 1933*

Year	In the United States		In the Fourth District**	
	Number of Associations	Assets	Number of Associations	Assets
1933	59	\$ 513,203	18	\$ 226,380
1934	639	107,424,749	102	4,194,867
1935	1023	472,966,789	155	36,287,858
1936	1212	773,353,230	181	65,183,721
1937	1328	1,092,101,218	201	98,835,018
1938	1368	1,311,207,631	205	131,275,813
1939	1410	1,577,283,809	208	176,411,365
1940	1445	1,869,594,583	212	229,808,317
1941	1457	2,164,603,524	217	281,819,468
1942	1464	2,296,440,430	218	297,128,700
1943	1466	2,616,054,017	219	343,419,107
1944	1466	3,167,514,020	219	419,758,646
1945	1467	3,921,036,961	219	522,508,325
1946	1471	4,671,063,282	222	649,910,560
1947	1476	5,030,184,000		

* From Annual Reports of Federal Savings and Loan Association, 1936-1947.

**District No. 4, Federal Home Loan Bank of Winston-Salem, North Carolina: Alabama, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia

The safety features of the Federal Savings and Loan Associations may be attributed mainly to the rules and regulations under which these

institutions must operate. They are mutually operated and mutually owned therefore not involved with the speculative risk inherent in the enterprise in which a promoter's profit is the major incentive.

Nature and amount of safety offered investor. An important safeguard for the small investors in Federal Savings and Loan Associations is provided through the Federal Savings and Loan Insurance Corporation, created by an Act of Congress in June, 1934. It is the duty of the insurance corporation to insure the accounts of all Federal Savings and Loan Associations, for the protection of shareholders in such institutions. Each account is insured up to \$5,000.00; a man and his wife can have \$15,000.00 in insured accounts by each having an individual account and also holding a joint account. An account can be held by an individual, a corporation, a partnership, or in the form of a trusteeship. A trustee can have any number of insured accounts, the insurance applying to the individual beneficiary in each case.

Should an insured Federal Savings and Loan Association default, each of its shareholders would immediately be given the option of either transferring his insured account to another insured institution which is not in default, or of obtaining cash reimbursement up to \$5,000.00 in full from the Federal Savings and Loan Insurance Corporation, within three years.

Appraisals of property. There are no established bases of appraisal of property, as it will vary with the increase or decrease in property valuation. Appraisals are made on the basis of average valuation which will apply over a period of years and in the majority of cases are less than the current selling price, thereby making an allowance for a possible decrease in value of the appraised property. Under charter regulations the

Federal Savings and Loan Associations are permitted to make loans up to 80% of the appraised value, though in actual practice this percentage will not run over an average of 65 to 70%. The loans are limited to first mortgage liens on homes, or a combination of home and business property. The loan will be limited to buildings containing 1-2-3 or 4 family accommodations, as a loan will not be made on any building that is occupied by more than four families, and the dwelling must possess many of the characteristics of the individual home.

Federal Savings and Loan Associations must maintain a margin of safety for loans made on appraised property to allow for any decline in the valuation of mortgaged property. During the last several years many Federal Associations have made a large volume of "G.I. Loans" and are now holding these in their portfolios. On these loans the Veterans Administration guarantees up to \$4,000.00 or 50% of the loan, whichever is smaller. Approximately 42 per cent of the loans held by the First Federal Savings and Loan Association of Roanoke, Virginia, are "G.I. Loans".¹

Dangers of over-appraisal of property. Over-appraisal of property would have serious effects upon the Associations and every precaution must be taken to avoid possible losses. In case of declining real estate prices, care should be taken to make loans on a conservative basis. Annual reports are available for public inspection of the amount of first mortgage loans granted each year by the Federal Saving and Loan Associations. For the year ended 1946, \$3,360,039,743.00 in first lien loans were granted in

¹ Information was furnished by Mr. Peyton R. Keller, executive Vice-President, First Federal Savings and Loan Association of Roanoke, Virginia, as of June 30, 1948.

the United States. The appraisal value was determined on the basis of valuation of the property over a period of years and then the borrower was allowed a loan of 60 to 70% of the appraised value and gave a first mortgage lien on his property as security.

Kinds of Loans made by the Federal Savings and Loan Associations. Loans are limited to \$20,000.00 on any one piece of property, but to give greater flexibility, such an association is permitted to loan not more than 15 per cent of its assets on other types of improved real estate, and in all cases real estate loans must be first lien, that is, first mortgage, deed of trust, or similar type of obligation.

Federal Savings and Loan Associations may make loans to holders of share accounts on the sole security of their share accounts. The associations in case of such loans will take a lien or a pledge of the share account. Upon default the association may without notice cancel on the book of the shareholder all shares pledged as security and apply such shares in the payment on account of loan. The loan cannot exceed 90 per cent of the repurchase value of the shares pledged as security.

Rate at which loans are liquidated. Up until about 1943 a majority of loans made by the Federal Savings and Loan Associations were on the basis of a 6 per cent interest rate requiring an amortization of \$10.00 per \$1,000.00 of loan monthly, which means that it will be completely paid off in a period of eleven years and seven months. The increase in property values and consequent increase in the amount of loan required has had a tendency to extend the time required for paying off loans. There has also been gradual decline in the rate of interest which now averages around 5 per cent with most Associations. Loans can be made with a maturity of as

much as twenty years, however, the average would today (as of December, 1947) be about fourteen to fifteen years. (See Table 2, Page 20). Although it is difficult to foresee the trend of future real estate prices, most people in the real estate business feel the decline in property value will be gradual and all indications are that the value of dwellings will maintain a reasonable stable value after the post war boom; therefore, homes financed by Federal Savings and Loan Associations will have their mortgages liquidated at a rate that will take care of the possible decline in property values.

TABLE 2--LIQUIDATION OF LOAN, AMORTIZATION PLAN*

Time Yr. Mo.	Payment on		Balance of Loan	Time Yr. Mo.	Payment on		Balance of Loan
	Interest	Principal			Interest	Principal	
1 1	\$4.17	\$3.83	\$996.17	3 7	\$3.44	\$4.56	\$819.88
1 2	4.15	3.85	992.32	3 8	3.42	4.58	815.30
1 3	4.13	3.87	988.45	3 9	3.40	4.60	810.70
1 4	4.12	3.88	984.57	3 10	3.38	4.62	806.08
1 5	4.10	3.90	980.67	3 11	3.36	4.64	801.44
1 6	4.09	3.91	976.76	4 0	3.34	4.66	796.78
1 7	4.07	3.93	972.83	4 1	3.32	4.68	792.10
1 8	4.05	3.95	968.88	4 2	3.30	4.70	787.40
1 9	4.04	3.76	964.82	4 3	3.28	4.72	782.68
1 10	4.02	3.98	960.94	4 4	3.26	4.74	777.94
1 11	4.00	4.00	956.94	4 5	3.24	4.76	773.18
1 0	3.99	4.01	952.93	4 6	3.22	4.78	768.40
1 1	3.97	4.03	948.90	4 7	3.20	4.80	763.60
1 2	3.95	4.05	944.85	4 8	3.18	4.82	758.78
1 3	3.94	4.06	940.79	4 9	3.16	4.84	753.94
1 4	3.92	4.08	936.71	4 10	3.14	4.86	749.08
1 5	3.90	4.10	932.61	4 11	3.12	4.88	744.20
1 6	3.89	4.11	928.50	5 0	3.10	4.90	739.30
1 7	3.87	4.13	924.37	5 1	3.08	4.92	734.38
1 8	3.85	4.15	920.22	5 2	3.06	4.94	729.44
1 9	3.83	4.17	916.05	5 3	3.04	4.96	724.48
1 10	3.82	4.18	911.87	5 4	3.02	4.98	719.50
1 11	3.80	4.20	907.67	5 5	3.00	5.00	714.50
2 0	3.78	4.22	903.45	5 6	2.98	5.02	709.48
2 1	3.76	4.24	899.21	5 7	2.96	5.04	704.44
2 2	3.75	4.25	894.96	5 8	2.94	5.06	699.38
2 3	3.73	4.27	890.69	5 9	2.91	5.09	694.29
2 4	3.71	4.29	886.40	5 10	2.89	5.11	689.18
2 5	3.69	4.31	882.09	5 11	2.87	5.13	684.05
2 6	3.68	4.32	877.77	6 0	2.85	5.15	678.90
2 7	3.66	4.34	873.43	6 1	2.83	5.17	673.73
2 8	3.64	4.36	869.07	6 2	2.81	5.19	668.54
2 9	3.62	4.38	864.69	6 3	2.79	5.21	663.33
2 10	3.60	4.40	860.29	6 4	2.76	5.24	658.09
2 11	3.58	4.42	855.87	6 5	2.74	5.26	652.83
3 0	3.57	4.43	851.44	6 6	2.72	5.28	647.55
3 1	3.55	4.45	846.99	6 7	2.70	5.30	642.25
3 2	3.53	4.47	842.52	6 8	2.68	5.32	636.93
3 3	3.51	4.49	838.03	6 9	2.65	5.35	631.58
3 4	3.49	4.51	833.52	6 10	2.63	5.37	626.21
3 5	3.47	4.53	828.99	6 11	2.61	5.39	620.82
3 6	3.45	4.55	824.44	7 0	2.59	5.41	615.41

TABLE 2--LIQUIDATION OF LOAN, AMORTIZATION PLAN (CONTINUED)

Time		Payment on		Balance of Loan	Time		Payment on		Balance of Loan
Yr.	Mo.	Interest	Principal		Yr.	Mo.	Interest	Principal	
7	1	\$2.56	\$5.44	\$609.97	10	7	\$1.53	\$6.47	\$359.99
7	2	2.54	5.46	604.51	10	8	1.50	6.50	353.49
7	3	2.52	5.48	599.03	10	9	1.47	6.53	346.96
7	4	2.50	5.50	593.53	10	10	1.45	6.55	340.41
7	5	2.47	5.53	588.00	10	11	1.42	6.58	333.83
7	6	2.45	5.55	582.45	11	0	1.39	6.61	327.22
7	7	2.43	5.57	576.88	11	1	1.36	6.64	320.58
7	8	2.40	5.60	571.28	11	2	1.34	6.66	313.92
7	9	2.38	5.62	565.66	11	3	1.31	6.69	307.23
7	10	2.36	5.64	560.02	11	4	1.28	6.72	300.51
7	11	2.33	5.67	554.35	11	5	1.25	6.75	293.76
8	0	2.31	5.69	548.66	11	6	1.22	6.78	286.98
8	1	2.29	5.71	542.95	11	7	1.20	6.80	280.18
8	2	2.26	5.74	537.21	11	8	1.17	6.83	273.35
8	3	2.24	5.76	531.45	11	9	1.14	6.86	266.49
8	4	2.21	5.79	525.66	11	10	1.11	6.89	259.60
8	5	2.19	5.81	519.85	11	11	1.08	6.92	252.68
8	6	2.17	5.83	514.02	12	0	1.05	6.95	245.73
8	7	2.14	5.86	508.16	12	1	1.02	6.98	238.75
8	8	2.12	5.88	502.28	12	2	.99	7.01	231.74
8	9	2.09	5.91	496.37	12	3	.97	7.03	224.71
8	10	2.07	5.93	490.44	12	4	.94	7.06	217.65
8	11	2.04	5.96	484.48	12	5	.91	7.09	210.56
9	0	2.02	5.98	478.50	12	6	.88	7.12	203.44
9	1	1.99	6.01	472.49	12	7	.85	7.15	196.29
9	2	1.97	6.03	466.46	12	8	.82	7.18	189.11
9	3	1.94	6.06	460.40	12	9	.79	7.21	181.90
9	4	1.92	6.08	454.32	12	10	.76	7.24	174.66
9	5	1.89	6.11	448.21	12	11	.73	7.27	167.39
9	6	1.87	6.13	442.08	13	0	.70	7.30	160.09
9	7	1.84	6.16	435.92	13	1	.67	7.33	152.76
9	8	1.82	6.18	429.74	13	2	.64	7.36	145.40
9	9	1.79	6.21	423.53	13	3	.61	7.39	138.01
9	10	1.76	6.24	417.29	13	4	.58	7.42	130.59
9	11	1.74	6.26	411.03	13	5	.54	7.46	123.13
10	0	1.71	6.29	404.74	13	6	.51	7.49	115.64
10	1	1.69	6.31	398.43	13	7	.48	7.52	108.12
10	2	1.66	6.34	392.09	13	8	.45	7.55	100.57
10	3	1.63	6.37	385.72	13	9	.42	7.58	92.89
10	4	1.61	6.39	379.33	13	10	.39	7.61	85.38
10	5	1.58	6.42	372.91	13	11	.36	7.64	77.74
10	6	1.55	6.45	366.46	14	0	.32	7.68	70.06

TABLE 2—LIQUIDATION OF LOAN, AMORTIZATION PLAN (CONTINUED)

Time		Payment on		Balance	Time		Payment on		Balance
Yr.	Mo.	Interest	Principal		of Loan	Yr.	Mo.	Interest	
14	1	\$.29	\$7.71	\$ 62.35	14	6	\$.13	\$7.87	\$ 23.33
14	2	.26	7.74	54.61	14	7	.10	7.90	15.43
14	3	.23	7.77	46.48	14	8	.06	7.94	7.49
14	4	.20	7.80	39.04	14	9	.03	7.49	0.00
14	5	.16	7.84	31.20			Final Payment		<u>\$ 7.52</u>

* Monthly Payment Direct Reduction Loan Amortization Schedules, Financial Publishing Company, 1946.

5% Monthly Payment per \$1,000.00 is \$8.00. Term is 14 years and 9 months. The average loans today are for 14 to 15 years at a rate of 5 per cent interest, according to information available at the First Federal Savings and Loan Association of Roanoke, Virginia.

TABLE 3--SCHEDULE OF MONTHLY PAYMENTS REQUIRED AT VARIOUS YEARLY RATES OF INTEREST TO REPAY A \$1,000.00 LOAN*

Number of Years	4½%	5%	5½%	6%	6½%
5	\$18.64	\$18.87	\$19.10	\$19.33	\$19.57
6	15.88	16.11	16.34	16.57	16.81
7	13.90	14.13	14.37	14.61	14.85
8	12.42	12.66	12.90	13.14	13.39
9	11.28	11.52	11.76	12.01	12.26
10	10.36	10.61	10.85	11.10	11.36
11	9.62	9.86	10.12	10.37	10.62
12	9.00	9.25	9.50	9.76	10.02
13	8.48	8.73	8.99	9.25	9.51
14	8.03	8.29	8.55	8.81	9.08
15	7.65	7.91	8.17	8.44	8.71
16	7.32	7.58	7.85	8.11	8.39
17	7.02	7.29	7.56	7.83	8.11
18	6.76	7.03	7.30	7.58	7.87
19	6.53	6.80	7.08	7.36	7.65
20	6.33	6.60	6.88	7.17	7.46

* Thirty Reasons Why Federal Savings and Loan Associations Afford a Desirable Investment for Savings, Federal Home Loan Bank Board, U. S. Gov't Printing Office, 1939.

Direct-reduction Loan Plan, Amortization. The Federal Savings and Loan Associations use a direct-reduction loan plan. Under such a system, current monthly payments are applied directly to reducing the mortgage itself. There is always a definite unpaid balance on the mortgage which is decreased by such payment. Interest on the unpaid balance is calculated as of the first of each month and added to the face amount of the loan. The borrower makes a stipulated monthly payment which is subtracted from the balance due. In this way, a lesser proportion of the payment each succeeding month is needed for interest, and a correspondingly larger proportion is used for reduction of the principal. (See Table 2, Page 20.)

Under the Federal Savings and Loan plan the home owner, by constantly

reducing the principal of his mortgage, is steadily increasing his own equity in his home. If a period of reduced personal earnings or falling price levels arrives before the principal of the mortgage is entirely paid off, the amount of the debt will at least have been decreased from its original sum, and the home owner may therefore have a far greater equity in the property, particularly under reduced appraisals, than would be possible on an unamortized loan.

Federal Savings and Loan Insurance. The Federal Savings and Loan Insurance Corporation was created in 1934 under the provisions of the National Housing Act, to serve the investors in savings and loan associations in much the same manner as the Federal Deposit Insurance Corporation assisted bank depositors.

All Federal Savings and Loan Associations are obligated to insure their accounts with the Corporation; the maximum insurance for any one account is \$5,000.00. Each Association must pay an admission fee of \$400.00 per million, and an annual premium of one-eighth of one per cent of its aggregate insurable accounts plus any other obligations to its creditors. The Corporation is authorized to make an additional annual assessment up to one-eighth of one per cent to cover losses and expenses, but to date has not imposed such a charge. After the Corporation has created a reserve of 5 per cent of its potential liabilities, premium payments from the Associations will cease. Federal Savings Institutions which join later than the original members pay an admission fee as a fair contribution to the reserve already accumulated. All Associations insured by the Corporation must submit monthly reports and have their books examined annually by the Insurance Institution. The Corporation after a hearing may terminate the insured

status of any of the Federal insured Associations on 90 days' notice. The insurance system has grown steadily from year to year, and it has rarely had to cope with failures.

The small investor must remember that Federal Savings and Loan Insurance applies only after default of a Federal thrift and home-financing institution, and default does not necessarily occur when the investor is unable to get his money back for some reason other than insolvency.

Safety Features of the Federal Savings and Loan Associations in the opinion of the Conservative Student of Economics. The conservative student of economics is concerned over the possibility of another acute depression after the present war boom and expresses the opinion that the assets of the Federal Savings and Loan Insurance Corporation would be inadequate to protect the small saver against any conceivable catastrophe.

TABLE 4--FAILURES OF BUILDING AND LOAN ASSOCIATIONS - 1929 to 1933*

Year	Number of Associations	Assets	Number of Failures	Estimated Loss	Percent of Loss
1929	12,342	\$8,695,154,000	159	\$ 2,313,000	.03
1930	11,767	8,824,119,000	190	24,676,000	.28
1931	11,432	8,412,369,000	126	22,328,000	.27
1932	10,986	7,745,282,000	122	20,337,000	.26
1933	10,716	6,972,243,000	88	43,954,000	.63

* Statistical Abstract of the United States, 1934, United States Government Printing Office, 1934.

The total assets of all insured Savings and Loan Associations, as of December 31, 1946, amounted to \$7,318,604,000.00.¹ The Federal Savings

¹ Federal Home Loan Bank Review, Page 195, Vol. 13, No. 6, March, 1947, United States Government Printing Office.

and Loan Insurance Corporation had total assets of \$176,387,115.60 on December 31, 1946.² In analyzing the margin of safety, it is found that the assets of the Federal Insurance Corporation are 2.41 per cent of the assets of the Insured Savings and Loan Associations. During the last depression the greatest loss occurred in 1933 but the rate of loss was only 0.63 per cent; the total loss from 1929 to 1933 inclusive was 1.47 per cent. Assuming similar conditions during another depression, the assets of the Federal Savings and Loan Insurance Corporation would be more than adequate to repurchase the share accounts up to \$5,000.00 of all Federal Savings and Loan Associations that are in default. Should there be a prolonged serious depression and the Federal Savings and Loan Associations were unable to collect their mortgage payments and were to foreclose, forcing large quantities of property on the market at one time, prices would naturally drop and the valuation of real estate would decrease at a rapid rate. Then, if declining property values deplete the reserves and the Associations were to become insolvent and if all of the small investors (2,925,000 as of December 31, 1946) demanded the repayments from the Insurance Corporation at one time, or maybe over a period of a few years, there would be at least a possibility that the Corporation would not be able to pay each account in full. But, who is to say that there will be an acute depression; and should there be, who can foretell the reactions or the effects it might have upon the Federal Savings and Loan Associations? The individual investors are the ones to weigh the factors and then decide where they should invest their savings.

² Federal Home Loan Bank Review, Page 174, Vol. 13, No. 6, March 1947, United States Government Printing Office.

The conservative economist also believes the reserves held by the Federal Savings and Loan Associations are too small in view of the fact that these Associations have a large per cent of mortgages as assets. The Federal Deposit Insurance Corporation (for banks) released in a report dated May 24, 1940, that every bank should have a minimum net sound capital equal to at least 10 per cent of the appraised value of its assets. At the end of December 31, 1946, the Federal Savings and Loan Associations had total assets of \$4,671,063,282.00, with reserves, excluding reserve for bonuses, of \$276,314,000.00, giving a rate of 5.9 per cent, which is exceedingly low. There need not be a reserve maintained for Cash and United States Government obligations held by the Federal Associations, which amounts to \$1,178,758,000.00 of the total assets; nor is it necessary to be too concerned about the amount of \$3,195,000.00 in Real Estate owned by the Federal Institutions. Omitting the latter, the assets will be \$2,181,282,000.00 (mostly mortgages) with a reserve of \$276,314,000.00, or a rate of 13.13 per cent, which would indicate a practice of sound financial policy favorable to the small investors. The conservative investor will survey the reserve rate of the Association before investing his savings, as the rate will vary from less than 10 per cent to a high of approximately 50 per cent. The larger the percentage of total reserves to total assets, greater would be the safety offered the small investor by the individual Association. At each dividend date each Association is required to transfer 5 per cent of its earnings to a reserve account until the aggregate is equal to 10 per cent of the appraised value of its assets.

Comparision of safety of the stock of the Federal Savings and Loan Associations with other available investments for the small investor.

(1) United States Government Bonds. The safety quality of the bonds of the United States Government depends primarily upon the ability and willingness of the American people to carry the national debt. Retirement of the National Debt in the near future is not essential to keep American credit secure. The task of carrying the present debt, even at its astronomical level, does not impose an impossible financial burden because the annual interest charge is a very small percentage of the national income.

Government Bonds with the backing of the United States Treasury Department offers the safety that would be satisfying to small investors. Any true American has faith in his Federal Government, and as long as the real Americans maintain complete faith in their United States Government, bonds issued by their Government will have more than adequate safety to the investor.

Government Bonds being secured by the Federal Government would attract the small investor who is demanding safety of investment and is willing to forego yield to be free of risk; such an investor would be wise to invest in Bonds instead of stock of the Federal Savings and Loan Association, as the latter would be likely to vary in the amount of security, due to changes in the economic conditions and decreases in the value of real estate. The stock is not guaranteed by the Federal Government, though it is insured by a Corporation whose capital stock is owned by the National Government.

(2) Postal Savings. The facilities provided by the Federal Government through the post offices afford a government-guaranteed depository for small accounts. The Postal Savings System is supervised by the Postmaster-General;

he designates the post-offices that may function as depositaries and has charge of directing the investing of the funds collected by the post-offices.

The Postal Savings System was established by Congress in 1910. Under the law, 5% of the funds deposited with the post-offices must be kept in lawful money with the Treasurer of the United States as a reserve, the remaining portion may be invested in bonds or other securities of the United States Government. The post-offices can obtain permission to invest the excess of 5% in approved local depositary banks, which either insure the deposits or pledge sufficient approved public bonds to cover and protect the funds. The depositary banks are required to pay interest on the deposits, at a rate above that paid by the post office to the depositor.

Non-negotiable registered certificates are given the depositor with the drawee being the National Government. Additional safety could not be expected by any investor. Again, the small investor must decide whether he wants complete safety of investment and less yield or be willing to accept some risk for additional yield.

(3) Deposits in Savings Banks. The saving bank is regarded as the logical depository for the investor of limited means, especially is this true of the mutual, or trustee type of savings bank, which is operated solely for the depositors. Such institutions exist primarily for the small investor who requires a large degree of safety and who is not in a position to select his own securities. Safety on this type of investment varies from state to state, also as to the type of insurance carried by the bank, and if the bank is a member of the Federal Reserve System; therefore the small investor must ascertain the safety factors for himself before making

an investment. Under the Banking Act of 1933, the Federal Deposit Insurance Corporation was opened to all banks to insure each deposit up to \$5,000.00; all banks under the Federal Reserve System are required to become members, and the state, mutual and commercial banks have permission to make application for membership. Today there are some 500 Mutual Savings Banks and less than 15% of this total are insured by the Federal Deposit Insurance Corporation. The states of New York and Massachusetts are providing their own type of insurance for the Mutual Savings Banks, while the State of Connecticut, which ranks third in number and importance, has not required her banks to apply for the Federal Deposit Insurance, nor has she created a guarantee fund. Connecticut has taken the position that Mutual Savings Banks do not need deposit insurance and there is no justification for forcing their depositors to bear the costs of such insurance.

Most savings deposits in the United States are covered in whole or in part by insurance; however, the greatest hope for the safety of savings depends upon development of sound banking practices.

The Federal Deposit Insurance Corporation was chartered by the Federal Government under the provisions of the Banking Act of 1933. All of its capital is owned by the Federal Government and the twelve Federal Reserve Banks. The subscription made by the Government was \$150,000,000.00 and is equal to the amount which the Federal Reserve Banks had paid to the Government as a franchise tax. The subscription of the banks of \$139,300,000.00, is equal to one-half of their surplus on January 1, 1933, though \$26,500,000.00 of this amount has been returned to the Federal Reserve Banks to be used by them under the provisions of the Federal Reserve Act. The Corporation is authorized to borrow up to three

times the sum of its capital stock plus the amount collected as assessments from insured banks during the year 1936, in all about one billion dollars. The United States Treasury is directed to buy any obligations which may be available or offered for sale by the Corporation in an aggregate amount of \$250,000,000.00, if the insurance scheme should necessitate such a purchase.

There are total deposits with the member banks of the Federal Reserve System of \$144,970,000,000.00 as of December 31, 1947, according to the Federal Reserve Bulletin dated July, 1948. These banks have time deposits as of the same date of \$54,089,000,000.00; therefore the small investor should consider his investment adequately safe if made with a bank which is a member of the Federal Reserve System, as each account is insured up to \$5,000.00 by the Federal Deposit Insurance Corporation. The Bulletin further shows, that \$21,575,000,000.00 is deposited with banks that are non-members of the Federal Reserve System; of this amount there was \$12,574,000,000.00 in savings deposits, \$5,553,000,000.00 in Mutual Savings Banks, and \$7,021,000,000.00 in Commercial Banks. As previously mentioned some States do offer a type of insurance for these non-member banks, therefore the small investor should investigate the insurance offered by any bank before making a deposit of his savings.

The Federal Savings and Loan Insurance Corporation was created by Congress under the Housing Act of 1934, to authorize an insurance account to protect savings of the Federal Savings and Loan Associations. The capital stock of \$100,000,000.00 is owned by the Government and was subscribed by the Home Owners' Loan Corporation. The details of this insurance plan were discussed fully in the preceding pages. The investor of

limited means must remember that insurance under this plan is of no effect until the Association actually goes into default and is taken over by the Federal Savings and Loan Insurance Corporation and declared insolvent.

While the safety factor would be considered adequate in any of the four types of investments, it seems only logical that United States Government Bonds and Postal Savings would offer the more absolute type of safety as they are secured by the National Government. Deposits in Savings Banks and Stock of the Federal Savings and Loan Associations would offer sufficient safety in most cases to attract small savers, though under changing economic conditions the degree of safety may vary and the investment may become less secured. Therefore intelligent investing is adequate safety with reasonable income.

CHAPTER IV

ANALYSIS OF YIELD

Dividends paid to investors. Dividends of the Federal Savings and Loan Associations are payable twice annually on June 30 and December 31, in cash or credit depending on the kind of shares the investor holds. All holders of share accounts shall participate equally in dividends pro rata to the participation value of their share accounts. Dividend rates varies though currently being made at rates between 2 and 2½ per cent, but as in other types of business the amount of dividend will depend upon the amount of earnings.

TABLE 5—TREND IN THE RATE OF DIVIDENDS PAID*

Year	Total for the United States			Total for the Fourth District		
	Share Accounts	Dividends Paid	Rate	Share Accounts	Dividends Paid	Rate
1936	\$ 647,208,575	\$18,787,467	2.92%	\$ 53,003,971	\$ 1,571,311	2.97%
1937	903,485,502	27,714,510	3.06%	78,272,562	2,582,509	3.30%
1938	1,097,658,571	34,660,567	3.15%	107,160,448	3,630,507	3.38%
1939	1,339,444,179	40,759,506	3.05%	148,952,108	4,864,216	3.27%
1940	1,583,109,882	46,379,716	2.93%	188,882,522	5,863,946	3.10%
1941	1,835,497,988	52,143,229	2.84%	239,433,154	7,303,798	3.05%
1942	1,890,792,324	55,110,874	2.91%	247,962,722	7,793,905	3.14%
1943	2,264,285,950	56,891,697	2.51%	304,172,834	8,154,483	2.68%
1944	2,767,222,709	61,209,313	2.21%	371,130,701	8,737,979	2.35%
1945	3,354,395,938	68,883,024	2.05%	448,897,562	9,561,523	2.13%
1946	3,977,221,370	79,809,137	2.01%	542,246,829	10,944,687	2.02%

* Annual Reports of Federal Savings and Loan Associations, 1936 through 1946, Federal Home Bank Board, United States Government Printing Office, Washington, D. C.

Trends in the rates of dividends paid. The trend in dividend rates has averaged 2½% since 1936, though the rate varies between the different Associations. In December, 1947, the Federal Savings and Loan Association in Charleston, West Virginia, paid dividends at the rate of 3%, while the

Federal Institution in Roanoke, Virginia, paid $2\frac{1}{2}\%$ dividends to their stockholders, and the same rate was paid by the First Federal Savings and Loan Association of Evansville, Indiana.

Comparison of Yield with other investments. To be consistent with the analysis of the Stock of the Federal Savings and Loan Associations, the same kinds of investments will be compared as considered under safety.

(1) United States Government Bonds. The Class E bonds do not bear any stated rate of interest but are issued for a term of years and are sold at a large discount; therefore the holder of a bond does not collect any interest until the bond is redeemed. Under the present plan, the Class E bonds are issued for 10 years and are sold at 75 per cent of face value. The 25 per cent profit collected when the bond is due represents interest for the period and is equivalent to an annual rate of $3\frac{1}{3}$ per cent simple interest and 2.9 per cent compound interest for the period. Class F bonds are issued for 12 years and will pay a return of 2.53 per cent per annum on investment value if left until maturity. Class G bonds, also issued for 12 years, will give the holder simple interest at the rate of $2\frac{1}{2}$ per cent annually, payable semi-annually starting six months from date of issue. In the event that bonds are redeemed prior to maturity, the rate of income as indicated by the established redemption prices will be somewhat less than that obtainable if the bonds are held until the maturity date.

TABLE 6—REDEMPTION VALUE DURING EACH HALF-YEAR PERIOD*

Half-Year Period After Issue Date	Redemption Value and the Percentage of Yield During Each Half-Year Period					
	Series E	Yield	Series F	Yield	Series G	Yield
Issue Price	\$ 75.00		\$ 74.00		\$100.00	
$\frac{1}{2}$ to 1	75.00	.00	74.00	.00	98.80	.10
1 to $1\frac{1}{2}$	75.50	.67	74.20	.27	97.80	.30
$1\frac{1}{2}$ to 2	76.00	.88	74.50	.45	96.90	.44
2 to $2\frac{1}{2}$	76.50	.99	74.90	.61	96.20	.61
$2\frac{1}{2}$ to 3	77.00	1.06	75.40	.75	95.60	.75
3 to $3\frac{1}{2}$	78.00	1.31	76.00	.89	95.10	.88
$3\frac{1}{2}$ to $4\frac{1}{2}$	79.00	1.49	76.70	1.03	94.80	1.04
4 to $4\frac{1}{2}$	80.00	1.62	77.60	1.19	94.70	1.20
$4\frac{1}{2}$ to 5	81.00	1.72	78.60	1.34	94.70	1.35
5 to $5\frac{1}{2}$	82.00	1.79	79.70	1.49	94.90	1.51
$5\frac{1}{2}$ to 6	83.00	1.85	80.90	1.63	95.20	1.66
6 to $6\frac{1}{2}$	84.00	1.90	82.20	1.76	95.50	1.79
$6\frac{1}{2}$ to 7	86.00	2.12	83.50	1.87	95.80	1.89
7 to $7\frac{1}{2}$	88.00	2.30	84.80	1.96	96.10	1.98
$7\frac{1}{2}$ to 8	90.00	2.45	86.10	2.03	96.40	2.05
8 to $8\frac{1}{2}$	92.00	2.57	87.40	2.09	96.70	2.12
$8\frac{1}{2}$ to 9	94.00	2.67	88.70	2.14	97.00	2.18
9 to $9\frac{1}{2}$	96.00	2.76	90.00	2.19	97.30	2.23
$9\frac{1}{2}$ to 10	98.00	2.84	91.40	2.24	97.60	2.27
10 to $10\frac{1}{2}$			92.90	2.29	97.90	2.31
$10\frac{1}{2}$ to 11			94.50	2.34	98.20	2.35
11 to $11\frac{1}{2}$			96.20	2.40	98.60	2.39
$11\frac{1}{2}$ to 12			98.00	2.46	99.20	2.44
Maturity Value	\$100.00	2.90	\$100.00	2.53	\$100.00	2.50

* Questions and Answers About United States War Savings Bonds, 1941, United States Government Printing Office, Washington, D. C. (Series F and G).

Yield at Beginning of Each Half-Year Period, United States Treasury Report, United States Government Printing Office, Washington, D. C. (Series E).

A Class E Bond issued for \$75.00 will 10 years hence have a maturity value of \$100.00, or the holder will receive interest on his investment at the rate of 2.9 per cent compounded annually. Should the same individual

make an investment of \$75.00 in shares of the Federal Savings and Loan Associations and receive the current rate of interest of $2\frac{1}{2}$ per cent compounded semi-annually for a ten year period, his investment will have a maturity value of \$96.15. Under the described plan the investment in bonds would realize a greater financial gain for the investor, but should the small saver need his money and redeem his bonds the rate of interest would be decreased, provided the redemption date was prior to the maturity date, whereas the investor in the shares of the Federal Associations would receive the current rate of interest compounded semi-annually from the investment date* to the day the shares are repurchased. Assuming our investor holds a Class E Bond issued for \$75.00 and has it redeemed five years after the issue date he would receive \$81.00, while if the same investor had placed his \$75.00 in stock of the Federal Savings Associations his investment would have increased to \$84.92 in 5 years at $2\frac{1}{2}$ per cent interest compounded semi-annually. Therefore the small investor must bear in mind from the viewpoint of yield that while the bonds would net him a larger return over a period of ten years than he would realize from the shares of the Federal Savings Institutions, his gain on bonds would be realized in the last 5 years of the period invested, since the rate of return on bonds is substantially less than 2.9 per cent compounded annually if redeemed prior to maturity. The small investor would be sacrificing yield for liquidity by redeeming bonds before maturity date.

* The date of investment shall be the date of actual receipt of such share accounts by the associations from the individual investors, unless the board of directors fix a date, not later than the tenth of the month, for determining the date of investment. Share accounts, affected by such determination date, shall receive dividends as if invested the first day of the month. Rules and Regulations for the Federal Savings and Loan System (effective June 1, 1938), United States Government Printing Office, Washington, D. C., 1939.

(2) Postal Savings. The Postal Savings branch of the Postal Service is the world's largest bank. There are 4,115,000 accounts with deposits of \$3,110,000.00.¹ The postal savings certificates bear simple interest at the rate of 2 per cent per annum. Interest accumulates at the rate of 2 per cent for each full year or $\frac{1}{2}$ of 1 per cent for each quarter. Compound interest is not permitted but a depositor may withdraw interest payable and include it in a new deposit subject to the restrictions that a deposit will not be received for fractions of a dollar; interest therefore can only be collected in this manner through the exchange of an old certificate for a new one. Interest begins on the first day of the month following the day on which the deposit is made; deposits made on August 1, 1948, would start bearing interest on September 1, 1948. Stock of the Federal Savings and Loan Associations earns interest from the date of investment.* At the current rate of $2\frac{1}{2}$ per cent compounded semi-annually, the small saver, strictly from the yield viewpoint, would perhaps prefer investments with the Federal Savings rather than investing in Postal Savings since the former would reap him greater financial gains.

(3) Deposits in Savings Banks. The maximum rate of interest that can be paid on savings accounts by banks who are members of the Federal Reserve System is $2\frac{1}{2}$ per cent and this rate has been in effect since January 1, 1936, according to the Federal Reserve Bulletin, dated July, 1948. Maximum rates that may be paid by insured non-member banks as established by the Federal Deposit Insurance Corporation, effective February 1, 1936, are the same as those in effect for member banks. Under the regulations for banks that are

¹ The American Annual, W. B. Conkey Company, Hammond, Indiana, 1946.

* See Footnote, Page 36.

members of the Federal Reserve System, in no event can the banks pay an interest rate that exceeds the maximum rate payable by State Banks or Trust Companies on like deposits under the law of the State in which the member bank is located.

In the State of Virginia as of January 1, 1948, most banks are currently paying an interest rate of $2\frac{1}{2}$ per cent on savings deposits up to \$5,000.00, and 2 per cent on those deposits that exceed \$5,000.00. Today, according to the cashier of a local bank in Blacksburg, Virginia, interest is credited twice annually in June and December, though if there are as many as three withdrawals from the savings account during either six months period, there will be no interest paid on the account for the period in which the three withdrawals were made. Under such a plan the small saver could benefit financially by investing in the stock of the Federal Savings and Loan Associations, as there is not a limit on the number of times he may have part of his shares repurchased, as long as he meets the requirements that may be in force by the individual association as to the request for repurchase; therefore he would still share equally in the dividends paid twice annually in the ratio of his holdings at the time dividends are paid.

CHAPTER V

ANALYSIS OF LIQUIDITY

Meaning of Liquidity. In a discussion on the subject of liquidity it is important to bear in mind that a financial institution may be 100 per cent solvent and still not be liquid. Liquidity is dependent upon the assumption that all of the public will not demand its funds at one and the same time because there is not enough money in the world to go around if the public should want to liquidate all investments, large or small, at one and the same time.

American Finance teaches that, outside of certain types of Government Obligations, such as United States Government Bonds and Postal Savings, a high degree of liquidity and absolute safety for the whole of the principal has seldom been known to go hand in hand. Whatever correlation may exist between safety and liquidity, there is ample ground for the premise that there is a degree of insecurity which attaches too many so-called liquid investments which is in direct proportion to the degree of their liquidity. Actually there is no such thing as a 100 per cent liquid investment in either the savings account of the commercial banks or in the shares of the Federal Savings and Loan Associations as the economic conditions will have a great bearing upon the liquid position of these investments. Under normal conditions the liquidity of any of the above mentioned investments would be considered to have absolute safety and a very high degree of liquidity.

Provisions of liquidations for the stock of the Federal Savings and Loan Associations. The Association has the right to repurchase its share accounts at any time upon application and to pay to the investor the

repurchase value. Holders of share accounts have the right to file with the association their written applications to repurchase their share accounts, in part or in full, at any time. Upon the filing of such written applications to repurchase, the association shall number and file the same in the order received and shall either pay the holder the repurchase value of the share account, in part or in full as requested, or, after 30 days from the receipt of such application to repurchase, apply at least one-third of the receipts of the association from holders of share accounts and borrowers, to the repurchase of such share accounts in numerical order.

Weakness of the provisions. It will be recognized that the provisions would be invoked by the individual association only in extreme cases, as according to the available information today, all institutions have repurchased any of their share accounts upon request and seldom have requested the holder to file an application 30 days in advance. However, let's consider the extreme conditions, when the prices begin to fall and the people begin to need their savings or else become excited over the changes in economic conditions and are anxious to determine if their savings are still liquid and therefore make application to repurchase. During a depression period the influx of new accounts will no doubt drop sharply, then the association can apply the provisions as stipulated under its charter, and the holder perhaps will not be able to receive his savings upon demand.

Assuming that Mr. "F" is the 99th individual in First Federal Savings and Loan Association of Anywhere in Virginia who wants to have his shares repurchased, during a period of serious depression, the Association will assign number 99 to the application. This means that there are 98 people

who are ahead of Mr. "F" who will receive up to \$1,000.00 each on their share accounts before account number 99 will receive any money, then the holder can receive only \$1,000.00, and should he still have shares remaining in the Association he will be informed that his application will be placed on the bottom of the list of requests for repurchase and he must wait his turn. In the interim, 950 more people may have applied for repurchase, therefore, the time involved before Mr. "F" receives another \$1,000.00 might drag on through the depression.

The amounts would be paid by the Association out of one-third of its cash receipts, since installment payments and interest on mortgages will undoubtedly decrease during the depression period, which would extend the time our holder would need to wait for his money.

Other thinkers in the field of investments, claim these provisions should be recognized for their true worth, that in reality they are merely safety valves which enable individual associations which are solvent to keep operating as going concerns even when confronted by great repurchase demands. It can be seen, therefore, that these provisions could be considered valuable to the investment public, as many financial institutions might be forced to close their doors for business because they did not have such provisions (safety valves), even though they might have been 100 per cent solvent.

Liquidity Position of Federal Savings and Loan Associations. The resources of each individual association consist in the main of Cash on Hand and in Banks, United States Government Securities, and first lien mortgages on American Homes. It should be remembered that the home mortgages are not the old types that become due in a lump sum, like so many of

the ones that became due during the last depression and were unable to be met by the would be home owners. The mortgages held today by the Federal Savings and Loan Associations are of the modernized direct-reduction monthly payment, amortized type. Also a large portion of the mortgages today are insured or guaranteed by the Federal Housing Administration or the Veterans Administration, which usually means there is a market for their sale, if so desired. In addition, each Federal Savings Association has a credit line with its Regional Home Loan Bank equal to 50 per cent of the aggregate amount standing to the credit of its savings and investing members, a factor which should not be overlooked when appraising the potential strength of these institutions.

Comparison of Liquidity with Other Investments. The comparison of liquidity will be between the stock of the Federal Savings Associations and the other types of investments that have been used previously in this report.

(1) United States Government Savings Bonds. The bonds are redeemable at the option of the holder at any time after the first two months of purchase at a fixed price schedule under which the redemption price gradually increases from the purchase price during the first year to the face value at the end of the last year. Under this plan the small investor is protected against any depreciation in the value of his investment during the entire period. The bonds are direct obligations of the United States Government which are redeemable at the pleasure of the owner. Rarely will any advance notice be required or necessary, especially for the Class E Bond after the first two months of purchase. Even under uncertain economic conditions the bonds are redeemable and are free from price fluctuations;

the fixed cash redemption values, which are never less than the purchase price, are printed on the face of each bond. During favorable economic conditions, that have existed since the establishment of the Federal Savings and Loan Associations, the liquidity of share accounts would be excellent but should the country be faced with a period of falling prices or a depression the share accounts would no doubt become less liquid and the Associations would be likely to employ the redemption provisions that are provided for by their charters.

TABLE 7—UNITED STATES SAVINGS BONDS—SERIES E, F, AND G
SUMMARY OF SALES AND REDEMPTIONS
MAY 1, 1941 THROUGH JULY 31, 1946*

Fiscal Year	Sales**	No. of Units Issued	Redemptions***	Percentage
1941	\$ 664,345,000	2,138,600	\$ 614,000	.092
1942	5,993,306,000	58,077,200	74,682,000	1.2
1943	11,788,629,000	218,959,700	760,110,000	6.4
1944	15,497,614,000	309,855,400	2,291,619,000	14.7
1945	14,890,781,000	306,441,300	4,155,546,000	27.9
1946	4,794,651,000	64,125,400	3,832,541,000	79.9

* Annual Report of the Secretary of the Treasury on the State of the Finances, 1936 through 1946, United States Government Printing Office, Washington, D. C.

** Sales figures of E, F, and G Bonds are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

*** Redemptions are stated at current redemption values.

(2) Postal Savings. The United States Government stands behind a promise to allow any depositor in postal savings to withdraw, in part or full, his account at any time the small saver desires. Not even during the 1933 bank holidays was there any stoppage of payments on Postal Savings accounts. The investor with limited means who desires absolute safety and

100 per cent liquidity could not go wrong by investing in Postal Savings. Again, the investor in the share accounts of the Federal Savings Associations must bear in mind under certain economic conditions that he will be faced with the possibility of a waiting period to get his shares repurchased by the association, therefore the stock of these Associations does not have 100 per cent liquidity.

(3) Deposits in Savings Banks. Most all banks have reserved the right and have stipulated the privilege of requiring 30, 60, or 90 days' notice of intention to withdraw, such privilege is to give the banks the safety valve it might need under the more unfavorable economic conditions to continue business operations and remain in a solvent position. Under normal conditions the small investor can in most banks withdraw any amount of his savings without the required notice, and the banks usually are very considerate and willing to help each individual depositor meet his obligations by withdrawing from his savings account. The Federal Deposit Insurance Corporation requires all insured banks to meet certain reserve requirements and to deposit part of the savings of the individual investors in Government obligations which can be converted into cash without difficulty, thereby making liquidity of deposits in savings banks more favorable for the depositor. The share accounts of the Federal Savings and Loan Associations are perhaps in a liquid position similar to the deposits in savings banks. Though, should economic conditions cause people to start draining their investments out of these institutions, the savings banks would offer the more favorable liquidity to the small investor. The Federal Deposit Insurance would assure repayment of any savings up to \$5,000.00 if the depositor elects to demand payment, while the investor

in share accounts of the Federal Savings Associations would likely be subjected to the repurchase provisions of the charter.

CHAPTER VI

CONCLUSIONS

The small investor should make a study of the types of investments that have been conveniently established for his savings to determine which of the available investments meets his particular needs. The thrifty individual, though inexperienced in the field of investments, will give deep consideration to the three primary qualities for any investment before making a commitment, these qualities being, adequate safety, reasonable yield, and a high degree of liquidity.

The Government has made available to the small investor certain investments, namely, Postal Savings and United States Savings Bonds, that are direct obligations of the National Government, giving absolute safety, a fair yield, and 100 per cent liquidity. If the small saver is interested primarily in safety of principal and sure liquidity, he would be wise to invest only in Government security.

The deposits in Savings Banks and the stock of the Federal Savings and Loan Associations are in operation mainly for the small investor. The two afford the investor similar protection of principal, approximately the same financial return on investment, and a fairly high degree of liquidity. The individual must bear in mind that he is a depositor when dealing with a Savings Bank, and is a shareholder when purchasing stock of the Federal Savings Institution, and the regulations that will command each investment may be different in many respects. These, the investor should survey before investing his savings.

The purpose of this report has been to analyze the stock of the Federal Savings and Loan Associations as an investment for the small

investor and throughout the contents the strong and weak points were brought to the attention of the small saver, thereby giving the investor a better understanding of the investments offered by the Federal Savings Associations and allow the privilege of deciding the worth of these investments directly with the small investor.

The investor could review the two roads of thought concerning stock of the Federal Savings and Loan Associations as an investment. The first trend of thought being that the stock would be a sound investment and it meets all requirements of any good investment; these thoughts, of course, are backed by the firm believers in the Federal Institutions. It would be wise to remember that these beliefs are based on the success, which is very predominant, that the Associations have achieved since their organization in 1933, though the fact that they have been operating under very favorable economic conditions must not be overlooked.

The conservative student of economics, presents the other trend of thought, maintaining that stock of the Federal Savings and Loan Associations holds many dangers and risks for the small investor. The basis for his beliefs is that the reserve requirements are inadequate to meet large repurchase demands, and the provisions of the Insurance Corporation do not afford a high degree of liquidity should a Federal Association become default. The conservative economist has formulated his conclusions when considering the worst economic conditions, such as a serious depression or a period of uncertain economic changes. This may be placing an injustice upon the investment soundness offered by the Federal Institutions, mainly because there have never been any Federal Savings and Loan Associations in operation during a serious depression and to foretell

how well they could meet their operation demands or what the Government would do to help keep them a going concern under extreme economic conditions would be impossible today.

Who is going to be the judge of our tomorrow from the economic and political viewpoint? Even the economists are in disagreement as to the future trend in our economic evolution. Some firmly express the opinion that a serious depression is within our reach, while others forecast a depression is in the making but will be delayed for several years, and others maintain that a serious depression cannot be seen at the present time. Then too, the entire world is faced with the problem of great restlessness which may lead, according to many of our great thinkers and leaders, to World War III. Another World War would definitely bring about many radical changes in our economic system which cannot be foretold in advance. You, the reader, the economists, the great thinkers and leaders, the small investors, or even the President of these United States cannot foretell with any accuracy the future operations of the Federal Savings and Loan Associations or the soundness of their stock as an investment, should our country face a serious depression. And, the effects upon our economic and financial system should there be another war are unpredictable. It could be that all small investors will be required to wait before redeeming their bonds, withdrawing their savings from the post offices and savings banks, or before the stock of the Federal Savings and Loan Associations can be repurchased. Should such event occur the thoughts of all true Americans would turn to another type of investment, which would require far greater financing than most small investors would be capable of doing; therefore, their savings would be deposited

with the American Government and be invested in preserving our Democracy,
an investment that would pay greater returns than any financial institution
could ever offer, to the large or small investor.

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