

**COLLECTION OF DELINQUENT ACCOUNTS  
BY SAVINGS AND LOAN ASSOCIATIONS  
IN THE STATE OF VIRGINIA**

**by**

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# CHAPTER I

## INTRODUCTION

### History and Growth of the Industry

In 1852, the Virginia General Assembly authorized the creation of building fund associations.\* The savings and loan industry in the state began in 1859, at Norfolk where the earliest recorded association was founded.<sup>1</sup>

At the beginning of this study, a definition of the term savings and loan association should be understood.

"A savings association may be defined as a locally owned and privately managed savings and home financing institution. As such, it accepts savings accounts from individuals and other sources. These funds are invested principally in monthly payment loans for the construction, purchase, or repair and modernization of homes."<sup>2</sup>

Approximately 41 per cent of the nation's non-farm mortgages are presently held by the various savings and loan associations.

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\*The term, building fund associations, is rarely used today. It is felt that savings and loan more accurately reflects the two-fold purposes of the business.

<sup>1</sup>Mark W. Saur, "Savings and Loan Associations," Virginia Record, LXXXI, No. 12 (December, 1959), 6.

<sup>2</sup>Lawrence V. Conway, Savings and Loan Principles (Chicago: American Savings and Loan Press, 1960), p. 17.

Therefore, these organizations are the major source of mortgage funds.<sup>3</sup>

Prior to 1962, the Internal Revenue Code affecting savings and loan associations was fairly lenient. \*\* However, the amendments to these laws passed by the 87th Congress has complicated the tax picture regarding allowable deductions for future losses considerably.<sup>4\*\*\*</sup>

This new situation means that it is even more important for savings and loan associations to operate efficiently. Reduction of delinquent accounts is one area in which greater efficiency can be achieved.

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<sup>3</sup>Savings and Loan Fact Book (Chicago: United States Savings and Loan League, 1961), p. 38.

\*\* Broad deductions for (1) operating expenses, (2) payments of dividends to savers, and (3) generous additions to reserves to meet future losses were allowed.

<sup>4</sup>U. S. , Revenue Act of 1962, Section 6 (P. L. 87-834, 87th Congress, 2d Session (H. R. 10650), approved October 16, 1962).

\*\*\*The provisions of this act apply specific limits to the percentage of assets that can be invested in different areas. Then the allowable additions to reserves for future losses in each category have been restricted. A substantial increase in the amount of taxation to be paid by each association is expected, but until court decisions clarify the exact requirements imposed, it will be impossible to determine the impact on the industry.

## The Problem

The primary purpose of this thesis is to determine the most desirable method or methods of treating delinquent accounts by savings and loan associations in Virginia. This involves the following problems: (1) to show the various methods used by savings and loan associations in handling and collecting their delinquent accounts; (2) a review of these methods, and research to determine which method or procedures would enable the savings and loan institutions to serve the best interests of the associations, their depositors, and their borrowers.

Ultimate collection of payments due to the association is not the only aspect of the problem to be considered in this study. Losses result when borrowers do not remit their monthly payments on time as specified in the mortgage contract. Unless penalty or additional interest charges are collected from the delinquent borrowers, the association may incur an economic loss of interest on the late payments. \*\*\*\* For example, if a payment due on the first of the month is made on the eleventh of that month, the association has lost the use of that money for ten days.

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\*\*\*\* State chartered savings and loan associations in Virginia would not suffer an economic loss of interest in this situation. The different methods of interest calculation will be covered in the next chapter.

### Need for the Study

The policies which are generally followed by savings and loan associations with regard to the supervision and control of delinquent accounts could have a significant influence on the progress of the savings and loan associations involved. This progress is important to the economy of the State of Virginia because the demand for funds to finance the construction of new homes has been steadily increased by the expanding population. In recent years the assets of savings and loan associations in Virginia have grown at a very rapid rate, reaching \$86,867,000 at the end of 1945. In that year there were fifty-six associations chartered by the State of Virginia, and twenty associations chartered by the Federal Government. By October, 1963, the assets of the savings and loan associations serving Virginia had grown to one billion dollars.<sup>5</sup> The number of state chartered organizations, however, fell to forty, while the number of federal chartered organizations climbed to twenty-nine.<sup>6</sup>

Outstanding mortgage loans and the assets of associations have increased at about the same rapid rate. Maintenance of a low rate of

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<sup>5</sup>Pat Bryant, "Keys to Home Ownership," Virginia Record, LXXXV, No. 10 (October, 1963), 7.

<sup>6</sup>C. Q. Nugent, Jr., "Foreword," Membership Directory, Virginia Savings and Loan League (1962), 33.



delinquency is necessary if the individual association is to receive a sufficient return from its investments to pay dividends on its deposits. Therefore, it is extremely important that improvements in management techniques used by these organizations keep pace with their increases in business volume.

### The Limitations

This problem is limited to a study of the handling of delinquent accounts by savings and loan associations in Virginia. Particular attention is directed toward the problems faced by the smaller organizations of this type. Both state and federally chartered associations were considered in preparing this study. Recommended improvements are intended to apply primarily to the savings and loan industry in Virginia and secondarily to associations in other states operating under similar laws and situations.

### Definitions

"Savings and Loan Associations," as referred to in this thesis, includes all of the organizations in this field which operate in the State of Virginia. Unless otherwise stated, both state and federally chartered organizations are included when the term savings and loan association is mentioned.

"Delinquent accounts" refers to those loan payments which are not made when they fall due, or which are still unpaid at the expiration of any grace period allowed by the individual associations. \*\*\*\*\*

The term, "refinance," as it applies to the savings and loan industry and as used in this study, concerns the practice of renegotiating the terms of the loan and repayment contract between the parties involved when the existing agreement becomes unsatisfactory. Usually this occurs when the borrower is unable to meet the payments called for in the mortgage contract because of temporary economic conditions, but is willing to resume payment of his obligation as soon as he is able.

### Procedures

Four separate procedures were used in developing this thesis. First, the text and reference books that were made available by officers of individual savings and loan associations, the savings and loan trade associations, and the Newman Library of the Virginia Polytechnic Institute were studied. The portions of these texts that pertained to the collection of delinquent accounts were noted and used as background information. To determine the regulations of federal

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\*\*\*\*\*The grace period allowed before regarding an account delinquent varies with the different associations. From five to fifteen days is not unusual in these cases.

and state governmental agencies which supervise the operations of savings and loan associations in Virginia, the appropriate government documents were obtained and studied.

Second, the governmental organizations supervising the savings and loan industry, including the Federal Home Loan Bank of Greensboro, and the State Commissioner of Banking for Virginia were contacted. These and other organizations made various books and publications available, which provided specific information concerning credit and collection policies for savings and loan associations.

Third, a questionnaire was mailed to each of the individual savings and loan associations in the State of Virginia. The results of this questionnaire provided the specific information regarding the practices and conditions of delinquent account collections by savings and loan associations in Virginia.

Fourth, officials of selected savings and loan associations in near-by towns and cities were interviewed. These discussions provided a further source of specific information for the study.

The fifth procedure, that of writing this report, was accomplished after research and study. Materials considered important and necessary as data for the final draft were rechecked for accuracy and applicability to the purpose of this thesis.

### Review of Previous Research

Previous research applicable to this thesis was relatively limited. There have been no previous studies published on this subject for the State of Virginia. Some general information has been published by the United States Savings and Loan League, a national trade organization for savings and loan associations. However, this material did not apply directly to associations operating in Virginia.

## CHAPTER II

### THE PRESENT PRACTICES OF DELINQUENT ACCOUNT COLLECTION IN VIRGINIA

In this chapter the relationship between delinquent accounts and the operating practices of Virginia savings and loan associations will be considered. Data for the chapter was secured from the questionnaire mailed to all of the savings and loan associations in the State and by personal interviews with officials of selected associations.\* The response to the questionnaire was approximately 50 per cent, and is adequate to present an accurate picture of current conditions in the savings and loan industry.

#### Procedure Followed When Making Loans

The best method of keeping delinquent accounts within reasonable limits is to grant loans only to customers who will treat their obligations seriously and make payments on time. Therefore, the technique of choosing customers is of paramount importance in maintaining a low delinquency rate. All associations, of course, use slightly different procedures when processing loan requests. However,

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\*A copy of this questionnaire is included in the appendix.

somewhat similar procedures were followed by most of the organizations when considering loan applications.

The first step involved in granting a loan is an interview with the applicant by the officer in charge of approving loans. The loan officer may have the authority to make the final decision concerning the loan application. This is usually the case in the larger associations serving Virginia. In the smaller savings and loan associations the loan officer passes the application, along with his recommendation and other information, to the board of directors of the association or to a committee of the board for final approval.

During the first interview the loan officer has the prospective borrower complete an application requesting the loan. The exact content of this form will differ from association to association, but in general certain questions are asked. Such information as income, size of family, location and other details concerning the property to be purchased, name of employer, and references are desired by most of the savings and loan associations. Also, a personal financial statement is required by many associations.

During this first interview, the loan officer attempts to make an estimate of the character of the individual requesting the loan. Particular attention is given to detecting indications of extravagant

living or financial irresponsibility. Desirable customers should consider their financial obligations to be of the utmost importance.

The next step is a credit check of the applicant for a loan. There are usually a number of sources of reliable information available to the association. Retail Merchants Associations are active in most areas, and can make desired information available to the savings and loan associations. Also, the bank which the prospective borrower patronizes is a good source of information and is frequently utilized. A record of overdrafts, post-dated checks, or other banking problems is likely to cause the officials in charge of loan approvals to hesitate before approving the application. If the individual has a habit of borrowing from small loan or finance companies, many savings and loan associations will refuse to grant the loan.

The employer of the person applying for the loan is an additional source of information. In fact, some savings and loan associations study the employment records of both husband and wife for indications of the reliability and stability of the parties involved.

From the information gathered and the impressions which the association officer or officers have obtained, a decision on whether to approve or to disapprove the loan must be made. This decision will usually be based on their interpretation of the prospective borrower's characteristics and qualifications in relation to two factors.

The first of the two factors is the ability of the individual to meet the monthly amortized payments on the loan as they fall due. A careful check of the individual's financial situation will provide the needed information. This ability to pay must be reinforced by the desire of the borrower to liquidate the loan by meeting the payments. This is the second factor and the one which involves sound judgment on the part of the persons who make the decisions whether to grant the loan or not.

The next step in the loan granting process, as followed by all of the savings and loan associations, is the appraisal of the property involved. Frequently, however, the loan under consideration will involve a home which has yet to be constructed. In which case, appraisal is not possible and other factors must be reviewed. For example, most associations require that certain minimum standards of construction be met to insure that the sales value of the property will remain relatively stable.

All of the associations in Virginia require the borrower to have a certain minimum equity in the property being purchased or built. Conservative practices followed by many officials, however, require a larger percentage of investment by the customer. The amount varies from one association to another. Loans which are guaranteed by the



Federal Housing Administration or the Veterans Administration, of course, must comply with the requirements of federal laws which set up these loans. Most associations prefer conventional loans as opposed to those insured by the Veterans Administration and Federal Housing Administration. The time required to close government insured loans and the "red tape" involved are the primary reasons for this preference.

Equity requirements for conventional loans range between 10 per cent and 40 per cent of the appraised value of the property. Most of the associations require at least 20 per cent or 25 per cent equity on the part of the home owner. On the other hand, at least one Virginia association lends funds for new home construction if the borrower holds clear title to the land on which the home is to be constructed. In general, the equity requirements are lower in the larger cities. Competition among the different suppliers of mortgage funds for financing the purchase of homes is the primary reason for this.

#### Procedures Followed When Loans Become Delinquent

The procedures followed in handling delinquent loans differ greatly from one association to another. A customer whose payment is considered to be past due by one association may not be judged delinquent by another. Generally speaking, however, the borrower is

expected to make payment on the first day of each month. If the payment is not sent to the savings and loan association on time or shortly thereafter, most organizations mail notices to the borrower at regular intervals to remind him that the payment is past due. Usually, the first notice is sent on the tenth or the fifteenth of the month. A second notice is likely to be sent on the twentieth or the twenty-first day of the month. If the payment is not received by the first day of the following month, many associations refuse to accept less than the total amount due unless the customer arranges an interview with the loan collection officer. Any reasons for the delinquency would be discussed at this time and the customer encouraged to prevent similar situations in the future. In cases of chronic delinquency, the customer is usually requested to come in for such a conference.

Federally chartered organizations require payments to be made on the first day of the month. This payment will include interest charges for that entire month. For example, a payment due on January 1, 1963, includes interest charges for the month of January, 1963. Therefore, the association does not actually lose interest if the customer remits his payment sometime during the month. \*\* State

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\*\* Although no loss of interest occurs from the accountant's point of view when a customer is a few days late making his payment, the association does not have the use of this money and, therefore, incurs an economic loss.

chartered associations have payments coming due at different times during the month. A loan closed on the fifteenth day of the month usually requires that payments be made on the fifteenth day of each succeeding month. The interest charges are not collected in advance as in the case of federal associations. Therefore, delinquent accounts are a matter of greater concern for state chartered associations.

Many of the organizations which mail notices to delinquent borrowers send first a gentle reminder to the effect that the payment must have been overlooked or forgotten. The second notice is a somewhat harsher reminder and the third notice is a warning of the consequences of failing to meet payments. The exact wording of notices are, of course, different in almost every organization. The United States Savings and Loan League has published recommended form letters which are available to the associations for use as guides in preparing letters which will fit the needs of the individual association. Samples of suggested notices are included in the appendix of this study. If the notices are not successful, in many cases the association has its attorney write to the delinquent customer. This letter informs the customer that unless immediate settlement is made with the mortgage holder, foreclosure is the only alternative left to the association. This is a drastic step and is used only as a last resort.

Many associations make wide use of the telephone in contacting the borrower who is in arrears with his payments. A small number of organizations rely entirely on the telephone. Such calls to the customer at his home is the most effective means of encouraging the payment of past-due accounts. This is usually resorted to after a number of notices concerning the past-due payments have been ignored by the customer.

A few associations use other methods of contacting delinquent borrowers. For example, registered letters or telegrams are sent to the customer or, in some instances, personal calls are made on the customer.

All of the associations personally contacted are required to furnish the directors with monthly reports on delinquent accounts. A few of these reports include the name, amount of original loan, the unpaid balance, months in arrears, and any information available concerning the reasons for the delinquency. Many of the reports, however, give only the number of delinquent accounts and the amounts of money involved.

Another last resort method used by a few organizations involves sending an appraiser to estimate the current market value of the house on which the loan was made. This also seems to be an effective means

of encouraging a delinquent borrower to make his past-due payments assuming that the customer realizes the purpose of the appraiser's visit.

Different combinations of notices, telephone calls, telegrams, and personal calls are used in Virginia. No two savings and loan associations use the same procedures, and many associations use different methods for different customers. For example, a borrower with a record of frequent arrearages will, in most cases, receive much less consideration than a borrower who misses only one payment.

Because of widely varying practices and procedures followed by the different organizations in the savings and loan field in the State, the difficulties involved in presenting a completely clear picture of the practices followed must be appreciated.

### Delinquent Loans

It is difficult to present and explain the per cent of the outstanding loans that are delinquent. The difficulty arises from the fact that different associations use different criteria to determine what they shall classify as delinquent loans. The questionnaire used to obtain the basic data defined a delinquent loan as one on which payments are not made when due or which are still unpaid at the expiration of any grace period allowed by the association. Since the grace periods are

of different lengths in different associations, and also because many associations do not have such periods, the percentages which are presented must be viewed with these limitations in mind.

The per cent of delinquencies reported by savings and loan associations in Virginia range from a high of 12 per cent to a low of zero per cent. In general, the associations with assets between \$5,000,000 and \$15,000,000 have the highest rate of delinquencies. There were, of course, several organizations in this group with very low delinquency rates. But for the most part, the percentages reported by these associations range between 4 per cent and 10 per cent.

Several of the larger associations reported relatively high delinquency rates of from 7 per cent to 10 per cent. A few others reported rates of 3 per cent or 4 per cent. This can be partly explained by the competition for business in the areas where the larger organizations operate. Many of the savings and loan associations that are in the \$25,000,000 and over class reported delinquency rates of one per cent or less, therefore the size of the association alone cannot be considered as any indication of the rate of delinquency to be expected.

Most of the smaller associations, that is, those with assets of less than \$5,000,000, reported rather low delinquency rates. One

association in this group did, however, have the highest rate reported, 12 per cent. Many factors contribute to the low rates in this group. For example, the smaller associations are usually operating in the less populated areas of the State and there are more personal contacts between the borrower and the employees of the institution loaning the money. The lower delinquency rates are thus due to possession of more first-hand knowledge of the abilities to pay of prospective borrowers and of their attitudes relative to their obligations. Also, the associations operating in less populous areas encounter less competition and can require the borrower to have a larger equity in the property being financed.

There seems to be at least four major reasons and several minor reasons for delinquency as indicated by replies to the questionnaire mailed to each of the savings and loan organizations in Virginia. The four leading reasons why borrowers become delinquent in their payments are: (1) over-buying on installment purchases, (2) domestic differences, (3) decrease in family income, and (4) too much house in relation to family income. Other reasons listed as causes of delinquency by some of the associations were illness, poor management of income, indifference or disregard for obligations, and rising costs of other living expenses.

Most associations replying to the questionnaire gave too many installment plan purchases by customers as the most outstanding reason for delinquency. This is a result of mismanagement of income. Since the average age of both husband and wife interested in buying a home has decreased in recent years, the down payment for a home may take most of their savings and leave little to acquire needed home furnishings. Heavy mortgage payments, plus payments on an automobile, insurance, and furniture may strain the family budget to the point that there is no reserve for any sort of an emergency. \*\*\*

Another important reason for delinquency is domestic difficulties. The majority of the associations listed this as the second most important reason for late payments, and a few organizations placed this as the most important single explanation of delinquency. Marital problems such as separations, divorces, or other disruptions in the home life of the borrower can, and often do, lead to an end of the desire to own the home. These and other problems are more important in the eyes of the borrower than repayment of his obligations. In such cases some sort of settlement must be worked out to satisfy the interests of all the parties involved as early as it is possible to do so.

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\*\*\*Customers with histories of conservative financial habits prior to obtaining a loan and acquiring a house may decide that a new car and furniture are necessary for their new "status" as a home owner. Since this tendency occurs after the loan has been closed, the association can do nothing to prevent the problems that may then arise.



Decreases in family income are another reason for delinquent accounts. There are any number of factors which can cause this problem to arise. Economic conditions in an area may change and a worker who formerly held a well-paying job may be layed off or his work-week shortened. He may become ill or a strike may reduce his income. Factory shutdowns, for instance, can be responsible for one association having a higher delinquency rate than another association of similar size. Death may remove the head of the family and cause a serious reduction in earnings for the remaining members. Unemployment insurance, life insurance, etc. may provide a temporary cushion, but usually such receipts are insufficient to cover all the needs of the family. Insurance which will assume the mortgage obligation in case of death or incapacitation of the borrower is desirable. Besides the obvious advantages of this type of protection for the customer, the association benefits because potential collection difficulties are eliminated.

A fourth reason for delinquent accounts is the purchase of a larger home than the borrower's income justifies. This is sometimes due to the small down payments required and low monthly payments which are required in some areas for the purchase of homes. This problem can and should be avoided by a careful analysis of the

financial situation of the prospective borrower before the loan is granted. This analysis should determine whether or not the borrower can meet the payments. Both the present and expected future earnings of the prospective borrower should be considered at this time.

Another reason for high delinquency rates seems to be the rapid increase in the size of these organizations. As pointed out in the first chapter of this study, the savings and loan field is one of the fastest growing industries in the State. In some associations, improvements in managerial techniques have not kept pace with the growth of assets. This idea will be examined more completely in the next chapter in which the weaknesses of savings and loan associations in Virginia are considered.

Loans in excess of \$15,000 seem to have the lowest rates of delinquency. This is attributed to the fact that these customers usually have a social and employment situation which would be harmed by impairing their credit reputation.

Poor management of income is another reason for late payments that can cause problems for the savings and loan associations. This is often difficult to detect when the individual is applying for a loan. One association in the State asks the prospective borrower if he owes money to any small loan companies. If the answer is yes, this is a

fairly good indication that the person is not a very good manager of his funds.

Indifference too, or disregard for obligations can also result in delinquent accounts. Firm action with this type of borrower is about the only solution available to the association unfortunate enough to have such a customer.

Also mentioned as a cause of delinquency is the rising costs of living while income remains stable. Increasing taxes as well as other expenses places the borrower in a tight budget situation.

### Foreclosure Policies

Legal action to foreclose is the only alternative after normal means of collection are exhausted. Since the actual number of foreclosures is very small in comparison with the total number of customers, few associations follow definite guide lines. The final decision to start foreclosure proceedings, to refinance the loan, or to make other arrangements with the borrower may be made by the manager on advice from the loan collection officer or by the board of directors. Generally speaking, in the larger associations, the manager or a committee of officers of the association have authority to make such decisions. Smaller organizations, those with \$7,500,000 or less in

assets, usually require action by the board of directors or a committee of directors in these cases.

A review of the actual number of foreclosures reported by the associations answering the questionnaire will explain why it is unnecessary to establish general policies in this area. For savings and loan associations with assets in excess of 20 million dollars, the average is approximately three foreclosures per year. The average is approximately 3.4 foreclosures per year for associations with between ten and twenty million dollars in assets. Those organizations with less than ten million dollars in assets reported an average of less than one foreclosure per year.

Because the actual number of cases requiring legal action is small, each situation is usually treated individually and due consideration is given to the personal aspects involved. A typical association starts foreclosure proceedings when an account is approximately three months in arrears. Those associations with assets in excess of ten million dollars usually allow a slightly longer period of time to elapse before legal steps are initiated. For these savings and loan associations an average of 3.2 months are allowed before formal action is started. The smaller organizations reported waiting approximately 2.5 months from the date that payments first became delinquent.

If conservative appraisal principles are followed in granting loans, the association is not likely to incur direct financial loss when foreclosure becomes necessary. Expenses such as legal fees, advertising, deed and settlement costs are additional charges to be borne by the delinquent customer. These costs as well as the balance owed to the association are deducted from the sales price received for the property. Proceeds over and above these costs, are of course, given to the customer. A substantial equity requirement based on a conservative appraisal will insure a market value well in excess of the mortgage. The average cost of foreclosures in Virginia is approximately \$300.00 for a \$10,000 house. Actual reported costs ranged between \$125.00 and \$650.00, depending on the value of the property and the location of the association.

If an agreement can be reached between the delinquent borrower and the mortgage-holding savings and loan association to sell the house to the association, the costs are considerably reduced. Approximately \$75.00 covers the deed, settlement costs, and legal fees. This method is, of course, easier for all concerned. The customer is spared the embarrassment of legal proceedings. From the association's point of

view, a time-consuming problem would be eliminated, reducing the possibility of creating an unfavorable public image. \*\*\*\*

### Refinancing

Refinancing is the practice of renegotiating the terms of a loan if for some reason the existing terms and conditions become unsatisfactory to the parties involved. For example, if the income status of the borrower changes and he desires to reduce the amount of his monthly payments, the association may agree to change the terms of the contract. The number of loans refinanced is very small. Occasionally, however, the terms of the loan will be changed to help the individual borrower. Only 20 per cent of the associations answering the questionnaire stated they would not refinance loans. The remaining associations will either refinance the loan or extend the payment period to lower the monthly payments of the borrower.

The customer's past record of payments is the major factor to consider when deciding whether or not to reduce the amount of monthly payments. If the customer has a good record with no delinquencies,

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\*\*\*\*,"This practice is not used widely, but it is not unusual." Federal Home Loan Bank. "State chartered associations probably would allow customers to transfer title to the association if the borrower was in this frame of mind. The general feeling is that by the time you get to this stage, relationships are strained and cooperation between the parties is at a minimum." Virginia Savings and Loan League.

the associations usually do all they can to help the borrower arrange payments in relation to his ability to pay. Many of the associations allow the customer to reduce his payment without additional charge.

Decisions to reduce the amount of payments are usually made by the board of directors. In very large organizations it would be impractical to have the board of directors act on each of the cases of this nature. In such associations either the manager or a committee of officers and/or members of the board of directors decides on the course of action to be followed. Their decisions are, of course, governed by the policies set by the full board of directors to be followed in cases of this type. A few associations extend the life of the contract for a few months if temporary financial difficulties cause a customer to miss one or two payments. This is done only when the situation is likely not to recur and the borrower has an otherwise good record. Another approach to temporary financial difficulty is to allow payments of interest charges only for one or two months.

#### Small vs. Larger Associations

For the purpose of comparison, those savings and loan associations with assets of \$7,500,000 or less are considered as "small" organizations. Associations having assets in excess of this amount will be treated as "large" organizations.

The smaller associations possess certain distinct advantages from the viewpoint of controlling delinquent accounts. Officials of these associations, generally operating in the smaller towns and cities of Virginia, know their customers on a personal basis and can use this relationship to the advantage of the association. The reputation, financial history, and habits of the customer provide excellent guidance when considering loan applications. Because of the close relationships, reasons for delinquency are probably apparent and the methods selected to encourage prompt payment are more likely to prove effective.

On the other hand, because of the smaller scale of operation, fewer employees are necessary and less specialization is possible. Operating officers must perform all of the functions necessary and cannot, therefore, develop their abilities to the maximum in any given area of the business.

The larger associations can assign specific functions in given areas to different employees and with training and experience expect a high degree of proficiency from their personnel. With operations on a large scale, computers and other automatic or semi-automatic record keeping machinery can be profitably utilized.

Because of competition from other savings and loan associations and different types of financial institutions, the large associations in Virginia's major centers of population cannot always be as selective in



choosing their customers as the smaller associations. This usually means that delinquency problems will increase because of the lower standards required for loan applicants. Many of the larger associations are entering into participating agreements with associations in rural areas to utilize their funds. An association or bank in another locality with demand for more mortgage funds than it can provide, makes the loans and services the accounts, using a combination of its own resources and funds supplied by the large associations. The amount of this participation by the larger associations cannot exceed 50 per cent of the amount of an individual loan, nor can more than 20 per cent of the association's total assets be invested in mortgages of this type.

## CHAPTER III

### APPARENT WEAKNESSES OF EXISTING PRACTICES

Material for this chapter was obtained from a questionnaire circulated to savings and loan associations in Virginia and by interviews with officers of selected representative organizations.

#### Failure to Appreciate Problem

Several areas of weakness are apparent in the methods and practices followed by Virginia's savings and loan associations in their treatment of delinquent accounts. A major weakness is the failure to fully appreciate the difficulties involved in delinquent account control. Since virtually all associations have methods of ultimately collecting accrued interest, management usually is not too concerned. State chartered organizations rely on straight payment reduction loans. When a payment is missed, the interest continues to accrue and the customer ultimately either pays all the interest due or the association forecloses to prevent loss. In fact, those associations utilizing penalty charges appear to make a small profit from delinquent customers. However, the additional record keeping and man-hours of work involved in processing delinquent accounts usually offsets these profits.

Federally chartered organizations, as pointed out earlier, include interest charges for the entire month in the payment due on the

first of the month. This appears to downgrade the importance of control of delinquent accounts for these organizations. Because the interest is collected in advance, the officers tend to ignore overdue payments until near the end of the month.

One federally chartered association with approximately 650 loan accounts reports mailing 100 first notices, ten to twelve days after the first of the month. Five days before the end of the month, about 40 second notices are mailed to customers who are still delinquent. On the average, only about fifteen accounts are still in arrears by the time the next payment is due on the first of the following month. A flat charge of one dollar is made for each late payment by relatively new customers. Older customers are fined one-twelfth of one per cent of the late payment. Because the major portion of delinquent accounts are brought up-to-date before the next payment falls due, very little attention is given to this situation. Nevertheless, the association loses the use of the money involved in these late payments.

The failure to apply prompt remedial action to encourage customers to keep their accounts up-to-date is a major weakness of many savings and loan associations in Virginia. Each customer cannot, of course, be contacted the day after a payment is due and missed, but he should be requested to come in for an interview if he is late with two or three consecutive payments.

The rapid rate of growth enjoyed by the savings and loan industry in Virginia has created definite weaknesses. Many associations have a larger supply of loanable funds than the demand in their particular area can absorb. To put these funds to work, the association may be forced to reduce its standards for loan approval. \* When an association lowers the minimum standards that must be met by its customers, delinquent accounts tend to increase.

Sufficient numbers of adequately trained employees are often not available to control and supervise customer accounts. This is largely due to the fact that employment of additional personnel has not kept pace with the rapid expansion of assets in most organizations. The "United States Savings and Loan League," through its "American Savings and Loan Institute," provides extensive training programs for employees of member associations. But not all associations seem to be interested in utilizing the opportunities available.

### Policy Guidelines

Uniform and consistent procedures should be used in dealing with delinquent customers. Some accounts will be delinquent no matter how

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\*One method of reducing the standards to be met by the customers are to lower the equity requirement that he must have in the property to be financed. By reducing the initial investment, more people are eligible for loans.

efficient the review process when granting loans. But, a firm collection policy, utilizing established procedures involving reports, notices, personal contacts and other techniques are necessary to insure that delinquency does not become a major problem. Such a policy should be formulated by the board of directors and implemented by the officers of the association. Employees involved in the control of delinquent customer accounts could function more uniformly and be sure their efforts are in conformity with the wishes of the directors. This seems to be a major weakness of many Virginia savings and loan associations.

The larger associations with \$7,500,000 or more in assets, allow their managers to make most decisions concerning steps to be taken to collect past-due payments. The managerial prerogatives of this officer must be respected. But he is entitled to have the general policies outlined for information and reference.

Approval by the board of directors is usually required in the smaller associations before remedial action can be taken in connection with delinquent accounts. Notices and telephone calls are about all the managing officers can authorize without approval from the directors. Definite policies concerning the handling of delinquent accounts are necessary to insure uniformity of approach by the directors themselves.

### Loan Collection Officer

All of the associations contacted having assets of \$7,500,000 or more reported that an officer of the organization is assigned to supervise delinquent accounts as a loan collection officer. However, personal interviews with officials of selected associations indicate that although a specific individual may have been assigned over-all responsibility, the duties involved are frequently divided among several employees. To insure uniform operating procedures and techniques, it is important that one individual actually supervise the collection system of the association. Only with experience and training on the job can an employee develop his skills to the maximum. Dividing the collection responsibilities between several employees of the association and overloading the loan collection officer with other duties reduces his efficiency in collecting delinquent payments. Unless specific steps are taken to keep all concerned employees informed about actions taken in connection with each overdue payment, duplication of effort may result and the customer could receive extra notices or telephone calls. Because the maintenance of customer goodwill is extremely important, this situation must be avoided. Some associations require that all steps taken to encourage payment of delinquent accounts be noted on the payment card of the borrower. Since this record is reviewed by the employee prior to contacting the individual, duplication is

eliminated. Misunderstanding between customer and association, as well as wasted motion by employees, is undesirable and costly.

The smaller associations usually have between two and five employees, consisting of perhaps a manager, assistant manager, a bookkeeper, and two tellers. Fewer than 50 per cent of these associations replying to the questionnaire indicated that the responsibility for supervising collection is assigned to a specific employee. The possibility for a lack of consistency is readily apparent in this type of organization. Organizational improvements and increases in staff have not kept pace with the rapid expansion of assets in these associations.

Even in those organizations having loan collection officers, few of such officers seem to have sufficient time or clerical assistance to perform their duties effectively. Frequently, supervision of delinquent accounts is only a small part of the duties assigned to them and little opportunity is available for personal calls on customers or office interviews with delinquent customers. Much time is lost screening the records to determine which accounts are overdue. The loan collection officer of one major association spends from two to four man-days per month in such activity. Lack of time to effectively perform the duties expected of a loan collection officer is a problem of large and small associations. This need not be. Accounting systems are available

which can improve this area of operations to a major extent. \*\*

### Loan Granting Processes

During the initial interview with the prospective customer, some of the savings and loan associations fail to obtain enough financial information from the prospective borrower although a majority do require a financial statement. Information concerning cash on hand, liabilities, property owned, etc. should be obtained from all prospective customers. The equity requirement of the association should be met from resources of the individual. \*\*\* With a small investment in his house, the homeowner is more likely to become delinquent because he has less to lose if he does not meet his obligations. Therefore, all associations should require information which will insure that the customer has a sufficient investment in the property to insure his concern for his obligations. Since the first mortgage claim should be sufficient to prevent financial loss to the association, a limited number of organizations

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\*\* Descriptions of suggested accounting systems will be given in Chapter IV.

\*\*\* Almost all associations require that the borrower have a down payment on the property being purchased. The equity requirements of Virginia associations range from 10 per cent to 40 per cent. Homeowners who obtain funds for this down payment from second mortgage companies or other similar sources have less interest in meeting their obligations.



grant loans to customers whose investment in the home is too small. Most associations, however, are very careful to insure that the customer has an equity of 20 per cent to 25 per cent in the property.

Some sort of credit investigation is required by most associations operating in Virginia. Among those associations with assets in excess of \$7,500,000, only one organization does not require a credit report. It is interesting to note that this particular association reported a very high delinquency rate of 11 per cent. The equity requirement of this association is only 15 per cent, and the average length of time permitted to elapse between the time when an account becomes delinquent and foreclosure procedures are started is six months.

Credit investigations by retail merchants' associations and other reputable credit reporting agencies provide an excellent source of information concerning the financial stability of prospective customers. Thirty-six per cent of the associations with assets of less than \$7,500,000 report that credit checks are not required as part of their loan granting process. As part of good management and conservative operation, it would seem that all associations should make use of credit investigation reports when considering requests for loans. The prospective customer's banker and his employer should also be contacted for information. Decrease in income is one of the major

reasons for delinquencies as reported in Chapter II. Therefore, the nature and stability of employment for both the husband and wife, if she is employed, should be considered. Overdrawn checks or other financial difficulties should also be considered as possible indications of irresponsibility.

Complete understanding of the obligation and of the possible consequences of delinquency must be impressed upon both husband and wife. Obtaining a home loan is likely to be a once-in-a-lifetime affair for a customer. Years of savings and work have likely led to the purchase of a home, so the very real possibility exists that in the excitement of realizing their dreams, much of the details of terms and conditions may be overlooked or forgotten by the customers. Often both husband and wife are together with officials of the association for the first time during the loan closing process. In all reported instances, the conditions of the mortgage agreement are explained at this time. But as stated above, an explanation and discussion of the situation may not be fully effective at this time. Normally the husband has made all of the arrangements and should have complete understanding of the terms of the loan agreement, but the wife may be hazy concerning their exact obligations. Few associations make a real attempt to talk with both husband and wife prior to the loan closing time. Since the

attorneys of the organization may close the loan rather than the operating officers of the association, the loan collection officer would, in many cases, not talk to the wife.

Failure to insure that the borrower has a complete understanding of the conditions of the mortgage agreement is a weakness which can contribute to the delinquency rate of the association. When a face to face meeting between the loan collection officer and both husband and wife is difficult or impossible, some other procedure may suffice. An excellent practice followed by less than 20 per cent of the associations contacted involves the writing of letters explaining the terms and welcoming the new customers to the association within ten or fifteen days after the closing process has been completed. This will insure that both parties understand what is expected.

### Collection

Review of the collection techniques used by savings and loan associations revealed some weaknesses in the procedures followed. The use of modern accounting systems which enable the operating officers to determine which accounts are delinquent immediately upon the expiration of any grace period are desirable. Not only should current delinquents be shown, but also any history of past delinquencies and the actions that were taken to bring the account up-to-date.

All of the larger associations contacted report that they utilize some system which permits the early detection of delinquency. Only one organization in this group did not have provisions for keeping a record of late payments. However, some of the methods used require several workdays per month to obtain the desired information. This is time-consuming and is a definite handicap to loan collection personnel who are usually overburdened with many other unrelated duties.

The smaller associations, those with less than \$7,500,000 in assets, are not as up-to-date in this area as their larger competitors. Twenty-three per cent of the reporting associations indicate that they do not maintain records or files of delinquent customers and fifteen per cent do not have accounting systems which give a current picture of delinquent accounts.

One association reported that its system of keeping up-to-date with the payment habits of its customers consists of the "long memories" of its personnel. It would seem that regardless of the past success of this and similar informal procedures, they should be reinforced by an up-to-date accounting system. The rapid expansion of the business in recent years and prospects for continued growth indicate that anything less than well-organized procedures now will mean many difficulties in the forthcoming years. Interviews with officials

of selected associations revealed that many of the accounting systems need modifications to make their methods fully efficient from the point of view of controlling delinquent accounts. \*\*\*\*

As mentioned before, the necessity for consistency and firmness must be particularly considered when the collection policies of savings and loan associations are being established. A helpful but firm attitude can do much to encourage a heretofore chronically delinquent customer to keep his account up-to-date. All too few associations make a determined effort to bring delinquent customers into the office for a discussion of their problems. Most organizations help the individual to plan a budget which will assist him in meeting his obligations if requested to do so. Whenever an account shows a history of late payments, the customer should be requested to come in for an interview with the loan collection officer. Such a procedure should impress the individual with the interest of the association and reduce the likelihood of future delinquency. A letter outlining the association's objectives and explaining the importance of meeting obligations should be sent to all customers who are delinquent with payments for two succeeding months. Every effort must be made to make these customers feel that

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\*\*\*\*Suggested accounting systems for the smaller associations will be discussed at length in the fourth chapter.

they are a part of the savings and loan association. Quarterly letters discussing the progress of the organization and other information which brings the customer closer to the association are desirable.

Very few associations actually attempt to maintain the goodwill of their borrowers; however, most organizations are careful not to encourage ill feeling on the part of these individuals. But serious efforts should be made to improve relations with borrowers which could mean increased deposits and a lower delinquency rate. If a satisfactory relationship has been maintained throughout the period of indebtedness, the customer may be interested in remaining a member of the association as a depositor.

A firm collection policy is necessary to insure that customers do not mistake attempts to create goodwill as an indication of laxness in collection techniques. Many of the suggestions presented in this chapter require additional effort from the employees of the association. However, this additional work will result in a more efficient and profitable operation.

## CHAPTER IV

### MODEL SYSTEM FOR CONTROLLING DELINQUENT ACCOUNTS

This chapter presents a model system of policies and procedures that will assist savings and loan officers in their efforts to reduce the number of delinquent accounts. Suggested methods for controlling delinquent accounts were developed by analyzing information obtained from questionnaires mailed to all Virginia savings and loan institutes and from interviews with officers of selected associations.

#### Organization of Responsibilities

The foundation of this suggested model system is an organization of responsibilities that delineates the different functions to be performed. A definite set of procedures in writing approved by the board of directors will eliminate confusion and increase efficiency. The following provisions, if approved by the directors as a resolution, will indicate the course of action to be followed in reference to any situation that is likely to arise:

(1) Designation of a specific employee to be responsible for the supervision of all collection activities of the association.

(2) Periodic reviews of payment records to determine accounts that are in arrears.

(3) Schedules of first, second, and third notices to be mailed to delinquent borrowers. \*

(4) The use of telephone calls, registered letters, telegrams, and personal contacts with delinquent borrowers at the discretion of the loan collection officer.

(5) Imposition of penalties for late payments.

(6) A system of records that will disclose the successive steps taken to encourage payment of delinquent accounts and provide a permanent listing of late-remitting customers.

(7) Interviews with any customers whose payments are 30 days or more in arrears. \*\*

(8) Periodic reports to the board of directors giving the number of accounts that are delinquent and any known reasons for the arrearages.

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\*For example, a first notice to be mailed when the scheduled payment is ten days delinquent, a second notice twenty days following the due date, and a third notice thirty days following the due date.

\*\*The financial status of the customer and his ability to meet the mortgage repayment obligations should be discussed at this time.



(9) Special reports to the board of directors concerning accounts that become sixty days overdue with contemplated action to be taken in each case for information and/or approval. \*\*\*

(10) An outline of policies governing foreclosure actions.

Preparation and approval of such a resolution will not remove all of the difficulties faced by loan collection personnel, but it is an important beginning.

The second step in preparing a model system of policies and procedures is the assignment of responsibilities to the loan collection officer. The necessity for assigning the over-all responsibility to this one individual cannot be over-emphasized. This will insure that attention is given to all overdue payments and that appropriate action is taken in each case. The duties of this officer will be directed toward achieving consistency, fairness, and firmness in treating delinquent customers. A uniform approach should be used for every account that is in arrears. The steps required to correct any particular case of delinquency may be different, but the approach to each situation should be similar.

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\*\*\*Larger associations should give the manager wide latitude in this area. This report should review both the actions already taken and those planned for the future. In the small association where most decisions must be made by the directors, the manager's recommendations for clearing up the problem would be presented in this report.

Tellers and clerical personnel will assist the loan collection officer by performing many of the miscellaneous details involved in monitoring the payment habits of the association's customers. \*\*\*\* But the authority and responsibility of this officer should be firmly established and understood by all concerned.

The position of loan collection officers for associations with assets less than \$10,000,000 would not likely be a full-time job. Only in the very large associations would the complete attention of this employee be directed toward the delinquency problem.

After an individual has assumed responsibility for control of delinquent accounts, he must be given an opportunity to acquire on-the-job experience. Familiarity with the borrowers will develop within a reasonable time and enable the loan collection officer to determine the best approach to be used in each case.

### Loan Approval Procedures

The best method of insuring that delinquency does not become a problem is a careful selection of customers. Therefore, association employees involved in processing loan applications must use every available opportunity to accumulate facts and impressions concerning

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\*\*\*\*A description of the duties to be performed by other employees in the control of delinquent accounts will be found in the section concerning accounting systems in this chapter.

the prospective borrower. Information obtained in this manner will assist the loan approval officers to decide if requested loans should be approved.

During the initial interview, an application requesting the loan and a personal financial statement will be completed by the prospective customer. The suggested format of these forms is derived by combining the desirable features of similar applications and statements currently used by many Virginia associations. \*\*\*\*\* The loan application will contain datum concerning the location, description of the property, amount of the requested loan, employment credit references and family information. Information regarding the assets and liabilities of the prospective customer will be obtained by studying the personal financial statement prepared by the applicant. Financial details are important to insure that the customer has sufficient resources to meet the equity requirements of the association.

During the initial interview, the association's representative should obtain as much information as possible from the prospective customer. If possible, both husband and wife should be present during this first interview. Certain items should be stressed during this first

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\*\*\*\*\* Samples of a suggested loan application and personal financial statement are included in the appendix.

contact. The importance of meeting payments as they become due and the possibility of foreclosure action if obligations are not met should be emphasized. The interest rate, legal fees, insurance and other charges should be reviewed so that the customer will understand exactly what is involved. The importance of maintaining the property to be purchased in a satisfactory state of repair should be mentioned, also. The attitude of the prospective borrower toward these and other matters will provide indications of his payment habits. Applicants for loans who intend to faithfully meet these obligations will be interested in finding out precisely what will be expected from them. \*\*\*\*\* Any indications that the purchase of a new home will start a customer on a spiral of additional "status" buying should be noted. This particular problem can develop even with individuals whose past financial histories reflect conservative management. Therefore, the association personnel who conduct the initial interview should insure that the opportunity to gather facts and impressions are utilized as completely as possible.

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\*\*\*\*\* Most customers requesting a loan likely intend to make the monthly payments, but financial obligations are of more concern to some customers than to others. The customers desired by the association are those who will do everything reasonable and proper to meet their obligations.

The next step in the loan approval procedure is a credit check and verification of the information given on the application form and personal financial statement. Retail merchants' associations should be contacted for information regarding the prospective customer's payment habits. The applicant's employer should be contacted to verify the employment and salary or wage details given by the applicant. If the borrower is self-employed, his Dun and Bradstreet rating will provide an excellent indication of his ability to retire a mortgage loan. The bank or banks patronized by the individual should also be contacted and his financial habits discussed.

After the property to be financed has been appraised, the next step is an evaluation of the accumulated information to determine if the loan should be approved. This can best be accomplished by the employee who conducted the original interview with the applicant. He will be able to compare the factual information compiled with the impressions obtained during the conversation with the prospective customer. This evaluation should be directed toward obtaining accurate answers for two key questions. First, the ability of the customer to meet the monthly payments and thereby retire the mortgage. To answer this question, all of the information concerning income, savings, employment and present obligations must be reviewed. Some associations require that certain tests or ratios be met as a condition

of approving the requested loan. For example, some organizations do not permit the total cost of the property to exceed the annual income of the borrower by more than two hundred fifty per cent. Another test requires that monthly mortgage payments, plus utilities and related housing expenses not exceed twenty-five per cent of the customer's monthly income. Guidelines such as those stated above should be considered, but not used as absolute requirements for loan approval. The ability of the prospective customer to meet the monthly payments should be evaluated by considering his particular financial situation rather than by some arbitrary "rule of the thumb."

The answer to the second question concerning the desire of the customer to meet his payments cannot be answered by studying facts and figures, only. Intangible factors such as attitude and desire must be weighed.

Recommendation for approval or disapproval of the requested loan should be passed to the managing officer for review. If the association involved is one of the smaller organizations, the application together with the recommendation is presented to the board of directors or loan approval committee for final action. \*\*\*\*\*

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\*\*\*\*\* Associations with assets of five million dollars or less normally submit loan applications to the board of directors for final approval or disapproval.

If the loan application is approved, the final step is the closing process. This is usually accomplished by the attorney for the association. The loan collection officer may or may not be present. But in any case, it is important that the terms and conditions of the mortgage contract are explained once again. The loan collection officer should be present, if possible, to encourage prompt remittance of the monthly payments.

A final reminder of the expected promptness of payments and the otherwise unpleasant possibility of foreclosure should be mailed to the customer approximately ten days after the loan has been closed. A suggestion that a savings account be opened to help provide for unexpected emergencies might be included if the customer is not already a depositor. But the expected performance as far as meeting payments on time should be stated in unmistakably clear terms.

### Control of Delinquent Accounts

Regardless of how efficient the selection and educational procedures of the association are, some customers are going to become delinquent. \*\*\*\*\* A few will suffer temporary financial

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\*\*\*\*\* As previously stated, the best method of holding the delinquency rate to a reasonably low level is proper selection of customers and thorough explanation of the terms of the obligation.

difficulties from time to time. In cases such as illness or other situations beyond the control of the customer, the association should be reasonably lenient. Payments of interest only for a few months may be a solution. Perhaps the entire loan will have to be refinanced and monthly payments reduced to a level within the financial capabilities of the customer.

Early detection of accounts that become delinquent is necessary to assist the loan collection officer in performing his duties. This allows sufficient time to plan an effective approach to the individual situation. Numerous accounting systems are available for savings and loan associations. Two of these systems seem to offer definite advantages from the viewpoint of the loan collection officer. The first, especially suited for the smaller organization, can be referred to as the ledger card method. \*\*\*\*\* If each account is maintained on a separate ledger card, no additional records are necessary. \*\*\*\*\* At the beginning of the month all account ledger cards are assembled in one file or tray. As payments are received, the ledger cards are annotated to that effect and moved to another location. In federally

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\*\*\*\*\* Smaller organizations refer to associations with assets of \$7,500,000 or less in this instance.

\*\*\*\*\* A sample ledger card is included in the appendix.



chartered associations, with all payments due on the first of the month, the loan collection officer can easily determine which customers have not paid on time. He can simply refer to the ledger cards remaining in the first tray. At any given time after the first of the month, the cards still in the original location are the accounts which are delinquent. For state chartered associations, with payments falling due on different dates during the month, a slightly different procedure is necessary. The ledger cards, as prepared at the beginning of the month, are separated by dividers representing work weeks. For example, all accounts with payments due during the first work week of the month are filed in the first section of the tray. At the end of this first week, those ledger cards remaining in this section represent delinquent accounts. The fact that payments due and unpaid are not discovered until the end of the week is a minor disadvantage of this system when used by a state chartered association. The second accounting system, sometimes called a "tickler" method, is intended to overcome this shortcoming. However, extra work on the part of the tellers is required. "Tickler" cards, actually ordinary three inch by five inch cards with the customer's name, address, and payment due date, are filed chronologically by payment due dates. This file will be reviewed by the tellers each day and cards representing accounts received that day are removed. Any "ticklers" remaining represent accounts that

are one day delinquent. At the close of business, these cards representing accounts in arrears are moved to the section containing cards of accounts due on the next work day. By reviewing the "tickler" file each morning, the loan collection officer insures that each delinquent account is considered for review or further action daily. In addition, a ready reference of customers behind with their payments is always available. If sufficient personnel are available, the "tickler" system is the most convenient for the loan collection officer. \*\*\*\*\* But the ledger card method is adequate in most cases.

In addition to an adequate accounting system, the loan collection officer needs other records. A file should be maintained on each delinquent borrower and also on borrowers who appear to be developing financial problems. The loan application, a personal financial statement, results of the credit check, and comments from the association's employee who interviewed the customer during the loan approval process must be available to the loan collection officer. When a customer becomes delinquent in his payments, this information should be assembled. All future contacts with the customer concerning

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\*\*\*\*\* If customer delinquency is currently a serious problem for the association, this method is best. However, in many situations there may not be sufficient personnel available to utilize the "tickler" system and the ledger card method will have to suffice.

collections should be noted. The Loan Arrearages Follow-Up Card, suggested by the United States Savings and Loan League, is ideally suited for this purpose. ~~\*\*\*\*\*~~ Use of this card will provide a uniform system of maintaining the necessary information for each delinquent borrower. Many customers, whose payments are in arrears, are just negligent. For these individuals, other files are unnecessary. However, in cases involving borrowers who are experiencing severe financial difficulties, the maintenance of more extensive records may be necessary. Pages for additional information attached to the Loan Arrearages Follow-Up Card will most likely be adequate in these cases.

The monthly report to the board of directors concerning the status of delinquent borrowers should be prepared several days in advance of its presentation. This will allow the managing officer sufficient time to review and approve the contents. This report should include the names, unpaid balances, amounts of monthly payments, number of days in arrears, and any known reasons for the delinquencies. Actions already taken by the loan collection officer to bring the individual accounts up-to-date should be noted. This report should

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~~\*\*\*\*\*~~ A sample of the Loan Arrearages Follow-Up Card is included in the appendix.

cover all accounts that are thirty days or more delinquent. In addition, for those borrowers who are sixty days or more in arrears, a suggested plan of action for each individual borrower would be prepared and included with the monthly report. The board can then approve projected steps to be taken or select alternative methods.

### System of Notices

As stated in the third provision of the suggested director's resolution, a schedule of first, second, and third notices should be used to hasten payments by delinquent borrowers. This is an essential part of the technique for maintaining a low rate of delinquency.

The first notice should be sent when the account is ten days in arrears. It should be merely a gentle reminder that the payment is past-due. No indication should be given that the association considers the matter as being particularly significant.

If the account is still in arrears twenty days following the payment due date, another notice should be sent to the customer. This notice is plainly labeled as a second reminder and urges prompt payment.

A third notice may be necessary if the account has not been brought up-to-date thirty days following the original due date. If used, this particular notice should be strongly worded and mention the

unpleasant possibility of foreclosure if payment is not received immediately.

In cases involving relatively new customers or borrowers who have not had previous payment difficulties, the loan collection officer may prefer to contact the individual by telephone rather than use a third notice.

If the second reminder fails to achieve the desired result, a telephone call or other means of contact with other than new customers may be more effective than a third notice. The specific techniques used to encourage payment will be tailored to the particular situation.

Other methods of contacting late-paying customers are also available. Telegrams, registered letters, and personal visits can be effectively utilized on occasion. Selection of the particular type of approach that will be best depends on the customer. In cases where ability to pay has not been impaired, a personal interview with the delinquent customer is often successful in encouraging payment. Personal interviews should be used as often as the time available to the loan collection officer will permit. With experience, the loan collection officer can accurately select the technique that will best encourage the customer to meet the mortgage obligation.

### Penalty Charges

Penalty charges obviously will not have a great deal of influence on a delinquent borrower who is in serious financial difficulties. But for the customer who is simply negligent, a small penalty for late payment may provide some degree of encouragement for prompt payment.

### Refinancing

Refinancing loans for customers who have suffered serious financial reverses will usually be a prerogative of the directors of the association. Therefore, the decisions reached in each case will be tailored to the circumstances involved. Definite guidelines cannot be prepared for such situations.

### Foreclosure

When all other collection possibilities have been exhausted and a customer is unable or unwilling to bring his account up-to-date, foreclosure action is the only solution available to the association. This step involves the attorney for the association and the loan collection officer is not ordinarily concerned. If the delinquent borrower is willing to either sell his property or allow the association to buy out his

interest, both parties may benefit. \*\*\*\*\* During the interviews conducted by the loan collection officer and the customers, the possibility of such solutions should be explained.

### Customer Goodwill

Customer goodwill should be maintained at the highest possible level. If the mortgage holder does not already have a savings account with the association, he should be encouraged to start one. After the loan has been retired, the customer should be urged to make regular deposits and build a savings fund for future needs. A firm collection policy may sometimes seem to be at odds with the desire to maintain customer goodwill. At times, the delinquent customers may be upset and the desired goodwill ceases to exist. Because the loan collection officer will be the person with whom the customer will often be in contact, it is the responsibility of this employee to maintain or rebuild a pleasant relationship with the borrower. To counteract any animosity which might arise, the loan collection officer should always display a genuine interest in the problems faced by the customers of his association.

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\*\*\*\*\*The embarrassment of foreclosure proceedings would be avoided by the borrower and the association will collect the unpaid balance of the account without unnecessary publicity.

## CHAPTER V

### CONCLUSIONS

Since World War II, the savings and loan industry of Virginia has enjoyed a period of rapid expansion. Managers of these associations have devoted most of their time and energies to attracting as much of this new business as possible. Consequently, improvements in the internal operating methods of many organizations are not keeping pace with the growth of the institutions.\* While most officers are interested in the collection of funds due from delinquent borrowers, the problems in this area have not become serious enough for major concern in most cases. But if the growth of the industry continues at its present rapid rate, collection problems may become significant in the future. Therefore, forward thinking associations should eliminate present weaknesses and strive for improvements in all stages of their internal procedures. This can best be accomplished by a complete review of present regulations and operating practices. Some improvements have been installed by most associations, but few organizations have undertaken comprehensive studies and attempted to bring all of their management techniques up-to-date.

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\*Generally, the managing officers are conservative and will not endorse procedural changes without detailed study and review.



This review brings to light several areas in which improvements are desirable. In many associations the most pressing need is for additional personnel to assist in the management of the rapidly growing associations. As outlined in the last chapter, a proper organization of responsibility is the cornerstone of any collection system. Particular attention should be directed to insuring that a loan collection officer is appointed and given sufficient authority to carry out his responsibilities. A uniform and effective system for controlling and reducing delinquency problems will be more easily obtained when all collection duties are centralized under the direction of one employee. In some cases where more personnel seem to be necessary, a reorganization of the present methods and procedures will result in major improvements. Often, additional training for present employees will do much to alleviate this personnel problem without hiring additional people. Many training programs, summer, and correspondence courses are sponsored by the state and national savings and loan trade associations. Too few associations make maximum use of these available opportunities.

The need for new accounting systems for some organizations will become obvious if an adequate review is conducted. Many of the larger

and more progressive institutions have already installed automatic or semi-automatic systems. \*\*

The proper procedures in loan extension will enable the association to minimize problems concerning delinquency. However, with rapid increases in assets and growing competition for customers, it is becoming difficult to enforce rigid standards in approving loan applicants. \*\*\* As the associations reduce the requirements to be met by their customers, the rather lenient foreclosure procedures must be tightened. From the public relations standpoint, this is an undesirable trend. But as the number of delinquencies increase, this is a necessary step.

From replies to questionnaires, two conclusions are drawn. First, larger loans, \$15,000 and higher, involve fewer instances of delinquency than smaller loans. It is difficult to determine why this is true. Perhaps the more expensive homes are purchased by individuals whose employment and position in their respective communities require

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\*\*In this instance, associations with assets of \$7,500,000 and over are considered as large associations.

\*\*\*The usual methods of lowering the standards to be met by borrowers include reducing the equity or down-payment required, and approving loans for individuals whose past payment habits are less than completely satisfactory.

reputations for financial stability. The second conclusion is that higher equity requirements decrease the likelihood of delinquency. This situation is relatively easy to understand because the more personal investment the borrower has in his home, the more concern he will have for his obligation.

In general, many of the problems of delinquent account collection can be solved. Few organizations have really severe difficulties in this area, but most could make improvements. The dynamic growth of this industry in the last twenty years has precluded management from devoting as much attention to all aspects of the business as desirable. But if this present rate of expansion continues, collection problems will become more serious unless available improvements are installed.

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## ABSTRACT

The problems of this study may be stated as follows: (1) to show the various methods used by Virginia savings and loan associations in handling their delinquent accounts, (2) to determine by research their major advantages and disadvantages, and (3) to determine which methods or procedures would serve the best interests of the associations and their customers.

Information concerning the current procedures and conditions were supplied by thirty (30) savings and loan officers, who answered questionnaires mailed to them. These replies represented over 50 per cent of the associations currently doing business in Virginia. In addition, selected representative associations were visited and operating personnel interviewed. The conclusions which were reached as a result of the analysis of the accumulated information have been stated.

The study shows that procedures followed by the different savings and loan associations vary to a considerable extent and that innovation in management techniques would benefit many of these organizations.

## **APPENDIX**

VIRGINIA POLYTECHNIC INSTITUTE  
Department of Business Administration  
Blacksburg, Virginia

Dear :

Handling delinquent accounts is a source of difficulty for many of the smaller Savings and Loan Associations in Virginia. By delinquent accounts, I mean those loan payments which are not paid when they fall due or which are still unpaid at the expiration of any grace period allowed by your Association. The small staff maintained by most of these organizations are frequently faced with difficult decisions because of a lack of standard procedures and policies where delinquent accounts are concerned. Until now no one has made a study of the type of difficulties faced by your organization.

I am very much interested in this problem and am currently engaged in some research dealing with the problem of delinquent accounts as faced by Savings and Loan Associations in Virginia. With your help, I will be able to complete my research and prepare a review of the methods currently being used in Virginia, and my conclusions as to the most desirable techniques available for handling this difficult phase of your business.

Please fill out the enclosed questionnaire which will provide the basic information and data from which my study will be prepared. The identity of the individual contributors of information will, of course, not be included in the study or known by anyone other than a faculty committee and myself.

Enclosed is a stamped self-addressed envelope for your convenience in returning the questionnaire. A summary of my findings will be available to you on your request.



I shall look forward to receiving your answers to the questions listed on the questionnaire and any other comments you might have on this subject. Thank you for your time and cooperation.

Sincerely,

G. Kaye Rakes  
Instructor, Business Administration

GKR:rt

Enclosure

## RESEARCH

The basic source of information for this study is a questionnaire circulated to all savings and loan associations in Virginia. A response of 59 per cent is considered sufficient to give an accurate account of conditions and practices in the industry.

Significant items were presented in the text of this study. The questionnaire is reproduced on the following pages with results tabulated and shown as answers to the questions. Explanatory comments are included where necessary to clarify the averages.

## QUESTIONNAIRE

### SAVINGS AND LOAN ASSOCIATIONS:: DELINQUENT ACCOUNTS

This information is to be used for advanced degree study. If actual figures are not available, please give estimates. If sufficient space is not provided, use the back of the sheet.

1. Please place the appropriate answers in the blanks provided.

- a. What are the assets of your association? \$16,500,000
- b. What is the number of savings accounts your association services? 5722
- c. What is the number of home loans you have outstanding?  
1788
- d. What is the average value of these loans? \$9,000

2. Please give the following percentages to the best of your knowledge. What is the per cent of your assets that are invested:

- a. For new home construction. 32 %
- b. For purchasing existing homes. 51 %
- c. For home improvement loans. 7 %
- d. In other fields. 10 %

(Other fields pertain to loans for churches, commercial buildings, refinancing, participating arrangements, investments in United States Bonds, stock in the Federal Home Loan Bank of Greensboro, and loans on savings accounts. Refinancing was indicated as the most significant type of investment in this category.)

3. a. What dividends does your association pay on savings accounts? 4 %

b. What interest rates does your association charge? 6 %

(A limited number of associations report charging rates as low as 5 1/2 per cent; however, a large majority of the associations indicate that 6 per cent is the usual charge.)

4. How many full-time employees does your association utilize ?  
\_\_\_\_\_

(Associations with assets under \$7,500,000 report an average of three full-time employees. Those associations with assets of \$7,500,000 and over report an average of 18.9 employees.)

5. a. Is part of your accounting or other work handled by other institutions? Yes \_\_\_\_\_ or No  X
- b. If the last answer was yes, what other institutions, and what type of work is performed for your association?

(The practice of employing outside accounting and collection services, as mentioned in various text books, is not followed by any of the associations replying to this questionnaire.)

6. What per cent of your loans are usually delinquent? \_\_\_\_\_ %  
(By delinquent accounts I refer to those loan payments which are not paid when they fall due or which are still unpaid at the expiration of any grace period allowed by your association.)

(Associations with assets under \$7,500,000 reported an average delinquency rate of 4.9 per cent, while institutions with assets of \$7,500,000 and over, reported a rate of 2.9 per cent. Very small associations, with assets of less than \$5,000,000 and the very large associations with assets of over \$25,000,000 generally reported low rates of delinquency.)

7. How long does your organization allow an account to be delinquent before action is taken to collect or foreclose?

(Collection action is started within one to two weeks after an account becomes delinquent. Those associations having assets of \$7,500,000 or more indicated that delinquent loans are an average of 3.2 months in arrears when foreclosure action is initiated. Smaller associations report that delinquent loans are 2.5 months in arrears when foreclosure action is started.)

8. How many foreclosures do you consider average for your association per year? \_\_\_\_\_

(Associations with assets in excess of \$20,000,000 averaged three foreclosures per year. Institutions with assets between \$10,000,000 and \$20,000,000 averaged 3.4 foreclosures per year. Associations with assets of less than \$10,000,000 reported an average of slightly less than one foreclosure per year. Interviews with officers of selective savings and loan associations indicate that these rates are increasing very rapidly as assets grow and competition for loan customers increase.)

9. What is the average cost of foreclosures in your area? \_\_\_\_\_

(Average cost of foreclosure in Virginia is approximately \$300 for a \$10,000 home. Reported costs range between \$125 and \$650, depending on the value of the property and the location of the association.)

10. Do you refinance loans if the terms originally agreed upon are beyond the capacity of the borrower? Yes \_\_\_\_\_ or No \_\_\_\_\_

(Approximately one-half of the associations with assets of less than \$7,500,000 reported that they would refinance loans. Almost all of the larger organizations replied that refinancing is usually allowed under certain circumstances.)

11. a. Do you have a set procedure to be followed to investigate prospective borrowers? Yes \_\_\_\_\_ or No \_\_\_\_\_
- b. If the last answer was yes, please outline the procedure your association follows in conducting the check.

(Seventy-eight per cent of the associations with assets of \$7,500,000 and over reported having set procedures to be followed in investigating prospective borrowers. Sixty-four per cent of the smaller associations also have set procedures. The normal investigation centers around the loan application

completed by the prospective customer. Credit checks, contacts with bankers and employers are generally used.)

12. a. Do you require the borrower to have a certain amount of equity in the real estate before you extend a loan?  
Yes X or No \_\_\_\_\_
- b. If the last answer was yes, please give the requirements of equity that you require. \$ \_\_\_\_\_ or \_\_\_\_\_ %

(Equity requirements for conventional loans range between 10 per cent and 40 per cent of the appraised value of the property. The average requirement reported in reply to this questionnaire was 25 per cent.)

13. Do you as a matter of practice attempt to impress upon the borrower the importance of meeting his obligations to your association on time? Yes X or No \_\_\_\_\_

(Only three associations indicated a negative reply to this question.)

14. Do you keep a record or file of frequently late payments?  
Yes \_\_\_\_\_ or No \_\_\_\_\_

(All but one of the associations contacted with assets of \$7,500,000 or over reported that they utilize some system which provides a record of late payments. Twenty-three per cent of the smaller associations reported that they do not maintain records or files of delinquent customers. Many of the methods used to provide this information are not completely satisfactory.)

15. Do you maintain an accounting system which gives a current record of delinquent accounts? Yes \_\_\_\_\_ or No \_\_\_\_\_

(Fifteen per cent of the associations with assets of less than \$7,500,000 reported that they do not utilize accounting systems which will provide a

current picture of delinquent customers. All of the larger associations indicated that they do use accounting methods that provide this information. However, in many instances the methods used require a considerable amount of time and effort to obtain the necessary information.)

16. Do you have an officer in charge of loan collection? Yes \_\_\_\_\_ or No \_\_\_\_\_

(All of the associations with assets of \$7,500,000 and over reported that an officer or employee of the organization is designated as a loan collection officer. Slightly less than fifty per cent of the smaller associations indicated that the collection responsibilities are assigned to one specific individual.)

17. Does this loan collection officer report to the Board of Directors at periodic intervals? Yes \_\_\_\_\_ or No \_\_\_\_\_

(Periodic reports concerning the status of delinquents are presented to the board of directors by 84 per cent of the associations replying to this questionnaire. In many cases, the report would be the responsibility of the managing officer. This is because the association does not have a loan collection officer or because he is classified as a clerical employee.)

18. a. Do you send notices of past-due payments to borrowers at stated intervals? Yes \_\_\_\_\_ or No \_\_\_\_\_
- b. If your answer to part a. of this question is yes, please list the intervals at which you send these notices.

(Only one reporting association indicated that notices of past-due payments are not used. The most common practice is to mail notices ten days after a payment becomes due, and at ten days intervals thereafter. However, there are many different procedures and no particular standard can be presented.)

19. a. Do you use any other collection methods besides written notices? Yes   X   or No
- b. If you do use other methods to collect past-due accounts, please list them below.

(All associations replying to this questionnaire indicated that other methods of contacting delinquent customers are used in addition to notices. Telephone calls to the delinquent borrower are second only to notices in usage. Other methods such as registered letters, telegrams, and personal contacts are used in some instances. Infrequently an appraiser may be sent to look over the property in order to influence the delinquent customer to bring his account up-to-date.)

20. Who decides whether to wait longer for payment or to start legal action:

<u>9.4%</u>	Loan Collection Officer.
<u>43.8%</u>	Managing Officer.
<u>25.0%</u>	Board of Directors.
<u>22.8%</u>	Others. (Please specify below.)

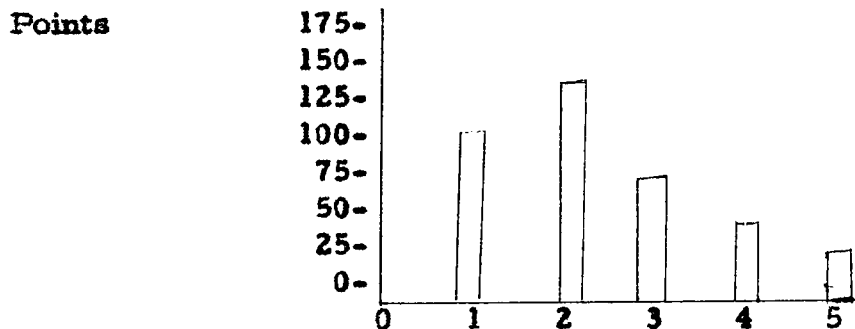
(Fifteen and eight tenths per cent of the associations replying to this questionnaire reported that the managing officer and the board of directors jointly decided whether to wait longer for payment or to start legal action. Seven per cent of the associations state that the seriousness of the case determines who will make the decision.)

21. Please number in the order of importance what you believe to be the chief reasons for delinquency.

<u>2</u>	Decrease in family income.
<u>1</u>	Overbuying on installment payments.
<u>3</u>	Domestic differences.
<u>4</u>	Too much house in relation to family income.
<u>5</u>	Others. (Please specify below.)



(A value of five points was assigned to the most significant reason for delinquency, four points to the second most significant reason and so on for each of the five reasons. The following bar graph shows the comparative importance of the chief reasons for delinquency as tabulated by this method.



Legend:

1. Decrease in family income.
2. Overbuying on installment payments.
3. Domestic differences.
4. Too much house in relation to family income.
5. Others.

Other reasons specified for delinquencies include illness, alcoholism, poor management, and indifference to obligations.)

22. Do you at any time allow the market conditions which would affect resale values of any foreclosed property to determine whether or not to refinance the loan or to begin foreclosure action?  
Yes \_\_\_\_\_ or No \_\_\_\_\_

(A majority of the associations replying to this questionnaire, 53 per cent, indicated that market conditions affecting resale values would affect their decisions to refinance the loan or to begin foreclosure action. The remaining 47 per cent of the associations indicate that market conditions will not affect their refinancing or foreclosure decisions.)

23. Please make any additional comments below.

VIRGINIA POLYTECHNIC INSTITUTE  
Department of Business Administration  
Blacksburg, Virginia

Dear :

Any new methods or suggestions which would help you to increase the efficiency and profitability of your association are sure to be of interest to you.

I hope the study I am preparing as a thesis for a Master of Science degree at V. P. I. will provide you with a few suggestions which can help you.

This study, "Methods of Collecting Delinquent Accounts by Savings and Loan Associations in Virginia," requires information which is available only from officials of the associations themselves.

I would like to discuss this subject with you, your loan collection officer, or other knowledgeable personnel at your convenience to obtain the necessary information to complete my study. I can travel to Blacksburg for this purpose any afternoon except Friday.

Any assistance or information you can provide will be appreciated and will be treated with confidence.

Sincerely,

Ganas K. Rakes

GKR:sg

## INTERVIEWS

A number of personal interviews were arranged with officers and employees of various savings and loan associations. The intent of these consultations was to obtain first-hand information concerning delinquent loans and to verify datum provided by the questionnaire.

Particular emphasis was directed towards the methods and experiences of these associations with regard to loan extension policies, accounting systems, and collection procedures. These interviews confirmed the conclusions reached after tabulating the results of the questionnaire as much as possible in light of the varying situations of the many different associations.

The interest and cooperation displayed by the officers and employees contacted indicates their appreciation of the need for research in this area.

# ★ REMINDER ★

Your regular mortgage payment which was due on the \_\_\_\_\_ of the month, has not yet been received by us.

Possibly this was an oversight on your part, and if so, we will appreciate your remittance. Thank you.

23

ANY SAVINGS AND LOAN ASSOCIATION

## SECOND NOTICE

The payment of \$ \_\_\_\_\_ which under your Mortgage No. \_\_\_\_\_

fell due \_\_\_\_\_ is PAST DUE.

Federal regulations prohibit our carrying mortgages upon which payments are past due. It is not a question of whether or not the mortgage is good. The payments simply must be taken care of as they fall due for no matter how good the mortgage is the payments cannot be extended. We must insist, therefore, that you arrange to take care of this immediately.

Salem, Virginia

ANY SAVINGS AND  
LOAN ASSOCIATION

\_\_\_\_\_ 195 \_\_\_\_\_

By \_\_\_\_\_

Secretary.

MID-WEST PRINTING CO., LOOGOSTEE, IND.

## THIRD NOTICE

The \_\_\_\_\_ and \_\_\_\_\_

payments, which under the terms of your contract with us are due, have not been paid. Your contract provides that if payments are not made when due and should remain unpaid for three months, that the principal sum may be declared due and collectible. Please govern yourself accordingly.

Salem, Virginia

ANY SAVINGS AND  
LOAN ASSOCIATION

\_\_\_\_\_ 195 \_\_\_\_\_

By \_\_\_\_\_

Secretary.

MID-WEST PRINTING CO., LOOGOSTEE, IND.

Suggested first, second, and third notices for use as reminders of delinquent payments as referred to in Chapter IV of this study.

PERSONAL FINANCIAL STATEMENT  
ANY SAVINGS AND LOAN ASSOCIATION

Name \_\_\_\_\_

Address \_\_\_\_\_

In addition to the information contained in my/our application for loan and in order to induce you to grant such loan, I/we make the following true statement:

Date \_\_\_\_\_

ASSETS	LIABILITIES
Bank deposits:	Notes payable to banks
Where deposited:	Secured . . . . . \$
_____ \$	Notes payable to banks
_____ \$	Unsecured . . . . . \$
_____ \$	Notes payable to others \$
Stocks and bonds . . . \$	Accounts payable . . . \$
Notes receivable . . . \$	Unpaid Taxes . . . . . \$
Cash value Life	Real estate mortgages
Insurance . . . . . \$	payable on property
Real estate owned	other than proposed
(other than proposed	security for this
security for this	loan . . . . . \$
loan) . . . . . \$	Real estate mortgages
Deposit on real estate	payable on property
being purchased and	offered as security
offered as security	for this loan (if
for this loan (if you	you already own it) . \$
are currently buying	Other liabilities
it) . . . . . \$	Itemize
Real estate offered as	_____ \$
security for this	_____ \$
loan (if you already	_____ \$
own it) . . . . . \$	_____ \$
Real estate mortgages	_____ \$
owned . . . . . \$	Total Liabilities . . . \$
Other important assets:	Net Worth . . . . . \$
_____ \$	
_____ \$	
Total Assets \$	Total Liabilities &
	Net Worth \$

If any of the above assets are pledged, or if you have any contingent liabilities not included above, or if you have ever been bankrupt or insolvent, please state circumstances:

Method of financing purchase (if you are now buying the real estate offered as security for this loan)

Already Paid	To Be Paid From Cash On Hand	To Be Paid From This Mortgage	To Be Paid From Other Borrowings	Total

INCOME ON ANNUAL BASIS	SALARY	NET FROM BUSINESS	INVESTMENTS	TOTAL

I certify that the information contained above and on the other side hereof is correct and true to the best of my knowledge and belief and represents a true statement of my financial condition and net worth as of the date below.

Date Signed \_\_\_\_\_, 19\_\_\_\_ Signature \_\_\_\_\_

APPLICATION FOR LOAN  
ANY SAVINGS AND LOAN ASSOCIATION

Name \_\_\_\_\_  
Mailing Address \_\_\_\_\_ Res. Telephone \_\_\_\_\_  
City and State \_\_\_\_\_ Bus. Telephone \_\_\_\_\_  
Property Address \_\_\_\_\_ Loan Number \_\_\_\_\_  
City and State \_\_\_\_\_ Date \_\_\_\_\_

Approved \_\_\_\_\_ For \$ \_\_\_\_\_

Provisions: \_\_\_\_\_

I (We) hereby apply for a first mortgage loan of \$ \_\_\_\_\_ to be repaid in installments of \$ \_\_\_\_\_ per month to be applied first to interest and the balance to principal (plus \$ \_\_\_\_\_ amount monthly to cover taxes and fire insurance), and offer as security a mortgage on the following described property:

LEGAL DESCRIPTION: \_\_\_\_\_

DESCRIPTION OF BUILDING: \_\_\_\_\_ Age \_\_\_\_\_ Story, \_\_\_\_\_  
Room, ☐ Frame, ☐ Brick Cased, ☐ Brick, ☐ Stucco, ☐ \_\_\_\_\_,  
Full Bath, \_\_\_\_\_ Lavatory, \_\_\_\_\_ Floors  
Heat, \_\_\_\_\_ Basement, \_\_\_\_\_ Roof,  
Garage. \_\_\_\_\_

Size of Lot \_\_\_\_\_ Last Tax Paid \_\_\_\_\_ Cost of Repairs \_\_\_\_\_  
When Purchased \_\_\_\_\_ Purchase Price \_\_\_\_\_ Construction Cost \_\_\_\_\_  
Original Mortgage \_\_\_\_\_ When Made \_\_\_\_\_ Present Balance \$ \_\_\_\_\_  
1st Mortgage \_\_\_\_\_ Address \_\_\_\_\_  
2nd Mortgage \_\_\_\_\_ Address \_\_\_\_\_  
Other Liens or Judgments \_\_\_\_\_  
Places of residence for past 7 years \_\_\_\_\_

PURPOSE OF LOAN \_\_\_\_\_

Second Mortgage \_\_\_\_\_

REPORT OF APPRAISAL COMMITTEE \_\_\_\_\_ 19 \_\_\_\_\_

Value of Land _____	\$ _____	Signed: _____
Value of Buildings _____	\$ _____	
Improvements _____	\$ _____	
Total _____	\$ _____	



# PERSONAL HISTORY

(Husband)  
NAME \_\_\_\_\_ Address \_\_\_\_\_  
Age \_\_\_\_\_ Married \_\_\_\_\_ Children \_\_\_\_\_ Ages \_\_\_\_\_  
Employed by \_\_\_\_\_ Address \_\_\_\_\_  
Kind of Business \_\_\_\_\_ Position \_\_\_\_\_ Term of Employment \_\_\_\_\_  
Immediate Supervisor \_\_\_\_\_ Title \_\_\_\_\_  
Previous Employer \_\_\_\_\_ Reason for Change \_\_\_\_\_  
(Wife)  
NAME \_\_\_\_\_ Age \_\_\_\_\_  
Employed by \_\_\_\_\_ Address \_\_\_\_\_ How Long \_\_\_\_\_  
Cost of Present Housing (Rent) \_\_\_\_\_ (Mortgage Payments) \_\_\_\_\_  
Credit References \_\_\_\_\_ Amount Due \_\_\_\_\_ Payments \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Personal References \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

The undersigned agree to furnish a complete and merchantable abstract of title or guarantee policy, continued so as to show said mortgage to be a first record lien, and if necessary a survey, which shall remain in the hands of said Association together with all insurance policies and other recorded and necessary required securities for use of the lender until the said loan is paid.

Applicant further agrees that in case the loan is made for construction purposes, THE ASSOCIATION assumes no responsibility for the construction of the house as to type or condition of materials used or workmanship involved.

COSTS OF LOAN		
_____	\$ _____	(SEAL)
_____	\$ _____	
_____	\$ _____	
_____	\$ _____	
TOTAL	\$ _____	(SEAL)

INSTRUCTIONS TO ATTORNEY \_\_\_\_\_  
\_\_\_\_\_

LOAN AMT. \$ _____		DATE OF LOAN _____		INT. RATE _____ %		TERM YEARS _____		APPR'D VALUE \$ _____		LOAN NO. _____	
TYPE OF PROPERTY _____		PURPOSE OF LOAN _____		MONTHLY RENTALS \$ _____						PRIN. & INT. \$ _____	
NAME OF BORROWER _____										TAXES \$ _____	
MAIL ADDRESS _____										INSURANCE \$ _____	
RES. PHONE _____		BUS. PHONE (HUSBAND) _____		BUS. PHONE (WIFE) _____						TOTAL PYMT. \$ _____	
HUSBAND EMP. BY _____		POSITION _____		YES _____						DATE DUE _____	
WIFE EMP. BY _____		POSITION _____		YES _____							
OTHERS EMPLOYED _____											
NUMBER OF DEPENDENTS _____		SHOW AGE & SEX (M OR F) AGE _____		AGE _____		AGE _____		AGE _____		AGE _____	

MO	19				19				19			
	DATE PAID	AMOUNT DEL'Q'T.	KIND	NOTICE SENT	DATE PAID	AMOUNT DEL'Q'T.	KIND	NOTICE SENT	DATE PAID	AMOUNT DEL'Q'T.	KIND	NOTICE SENT
J												
F												
M												
A												
M												
J												
J												
A												
S												
O												
N												
D												

CODE: X - FIRST NOTICE    XX - SECOND NOTICE    L - LETTER    P - PHONE CALL    T - TAX NOTICE    C - COLLECTOR    A - ATTORNEY																																			
J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D

INST. 42BC LOAN ARREARAGE FOLLOW-UP CARDS, Accounting Division,

Side one of the Loan Arrearage Follow-Up Card as discussed in Chapter IV of this study.





