THE SAVINGS AND LOAN INDUSTRY

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No doubt all of you at one time or another have become aware of the huge amount of publicity given the Savings & Loan industry within the last few years. Magazines and newspapers, billboards, radio and television . . . all serve notice of the important place the Savings & Loan industry has assumed in the financial structure of our country. Just how important can be determined by the fact that at the end of 1956, Savings & Loan Association assets in the United States hit the 43 1/3 billion mark. In savings alone, we had a net gain of over $5.2 billion which amounted to $1.1 billion more than that of all the other over-the-counter savings institutions put together and that includes mutual savings banks, commercial banks and postal savings. As for lending, even though the heavy hand of tight money was dominant. savings associations stayed in the home financing business to the tune of $10.3 billion which was enough to maintain our record of financing almost 40% of all homes built or sold during the year and enough to keep us on top as the nation's leading home financing institutions. And yet all this had a very humble beginning.

At the risk of repeating what you have probably heard a number of times, I'd like to point out just how humble. As much as we'd like to claim it, the savings and loan type of financial institution did not arise directly out of the financial genius of the American people, but came, rather, as a product of Anglo-Saxon civilization and ideals and the American form of the institution can be traced directly to England. The first British building society was organized in Birmingham in 1781. A decade or so later, fresh impetus was given the movement when the stirring events of the French Revolution across the Channel aroused the somewhat placid Briton with a desire for his own social betterment.

The first venture in co-operative home financing in America began when two English born pioneer manufacturers who had been conducting their businesses in Frankford, Pa., for some 10 or 11 years got the idea of establishing an American society modeled after the earlier English ones. These two gentlemen were Samuel Pilling, who operated a calico-printing factory, and Jeremiah Horrocks, the founder and owner of the Frankford Dyeing, Finishing and Bleaching Works. Since there was no printed literature on hand explaining the details of the operations of the British societies, the Oxford Provident Building Association, as set up in Frankford, January 3, 1831, was the result of the memories of Mr. Pilling, Mr. Horrocks, and their factory workers who for the most part had been brought over from England. Isaac Shallcross was elected the first secretary and without any inkling of his place in history was to become the prototype of every savings and loan man of today.

This early association, really nothing more than a building club, worked very simply. Each member had to subscribe to not less than one and not more than 5 shares of stock with a par value of $500.00 and after the initial payment of $5.00 per share they were required to pay $3.00 a month "dues" until their shares were paid. A member was entitled to borrow $500.00 for every share he held. Whenever $500.00 was accumulated in the treasury in the form of dues paid in, this amount was offered as a loan to the stockholder who bid the highest premium for it. The interest charge was an annual 6% on each $500.00 advanced, payable in 12 equal monthly installments of $2.50 each. Hence the borrowing member paid not only his regular $3.00 a month dues but also his $2.50 interest on his loan.

As soon as the dues accumulated to $500.00, the association again offered a loan to the member willing to pay the highest premium and so on until the earnings of the society from interest, fines for non-attendance at meetings and premiums paid on loans were sufficient, when divided between all the members, to bring the shares of each up to $500.00. At this time the association terminated, turning over to the one member who had not yet borrowed his share, the cash sum of $500.00. This last disbursement was not actually a loan since no interest was charged. The last member had in a certain sense used the association as a profitable means of accumulating the necessary $500 for a home. Lest it appear, though, that he had a distinct advantage over the other members, we should remember that he lived in a rented house all the years he waited to receive his share of the funds, whereas the first borrower, who at first glance paid interest over a long period of time, enjoyed the privilege of living in his own home almost from the founding of the institution.

It might be interesting to note, that as a matter of record, the Oxford Provident had enough funds available from dues to initiate its first loan by the time of its fourth meeting. The highest premium bid for this loan was $10.00. Hence the first loan of $500.00 was made to one Comly Rich, the village lamplighter and a combmaker by trade. He used $375.00 to purchase a frame house at 4276 Orchard Street in Frankford, a house incidentally which is still standing. The remaining $125.00 he used fully three years later to build a lean-to on his house to be used as a kitchen. Thus Mr. Rich had the distinction of being not only the first of all borrowers but also the first borrower to use installment credit for remodeling purposes. Unfortunately, Mr. Rich had the convenient habit of forgetting to make his monthly payments and thus gained for himself the doubtful distinction of also being the first delinquent borrower.

An examination of the Constitution & By-Laws of the Oxford Provident reveal the many similarities existing between it and the present day Savings & Loan Association, mainly in the restriction of loans to a certain vicinity and to comparatively small unit residential properties, in the requirement that mortgaged houses have adequate insurance protection, in the provision for the monthly repayment of the principal of the loan and in the fact that the shareholders had a voice in the management policies of the association. But there were differences also. First, only prospective borrowers could be members; the society was formed to enable the contributors only to build or purchase homes with no thought of allowing the mortgaging of a free and clear home for the purpose of raising needed cash or the refinancing of a mortgage held by another institution. Second, no provision was made to accommodate the saver who simply wanted to accumulate a nest egg and had no desire for home ownership. Third, unlike the associations of today, it had no permanent home office, its meetings being held only once a month usually in a room behind the local pub. And last, the association terminated as soon as it had accomplished its purpose of providing funds to build or buy a home to each of its members.

The Oxford Provident Building Association, passing resolution after resolution to offer a loan to a member as funds became available was just a small ripple in the pool of financial and social ferment in the 1830's & 1840's but the circle that spread out from this ripple in the pool, as circles always spread outward in water, reached a size and significance that none of the men meeting at Sidebotham's Tavern on the second Monday of each month could have foreseen.

Probably the first major change in the industry was the evolution of a type of institution having continuity of existence. This was made possible by issuing new stock at intervals, each group maturing at different dates. Since the members of each series constituted practically a terminating association among themselves, the serial association in its earliest form could be described simply as a collection of terminating units. Those joining a series after its start payed the back dues from the beginning of that series just as members of the terminating associations did. From this type of an association it was but a short step to the permanent type of association known today, one in which shares can be issued at any time with a separate account kept for each individual member to which net earnings are distributed as dividends, usually semi-annually, on the basis of the amount paid in.

The next major development was a corollary of the first. One of the advantages in the serial plan and the resulting permanent plan was that members who were not yet in a position or willing to borrow their share of the association's homebuilding or home buying funds were no longer obliged to take a loan against their will. Admission of new members at either stated intervals or at all times assured the institution of having enough willing and anxious borrowers to use the funds which were available for lending from time to time. It is easy to develop from this circumstance the origin of the saving member as a person distinct from the borrowing member. Some members continued to pay their dues regularly but were in no hurry at all to borrow their share of the funds. Unless a member specifically wanted his shares paid to him in cash at maturity, the association simply continued to use the money, paying him for its use. After a period of time, the saver found he had accumulated in a lump sum not only all the money he had contributed but earnings as well which were higher than those yielded by any savings bank or other form of safe savings. From such a saver, some time in the second quarter century of savings and loan history, sprang the conception of the association as a means of accumulating cash capital as well as a means of acquiring a home.

In a sense, the entrance of this idea

marked the turning point in the history of the business. All efforts carried on before it were limited in scope, circumscribed by the number of people in any community who could be induced to pool their interest and acquire homes over a period of years. All savings and loan efforts after this idea came into being are colored by the fact that the savings of a community, of the people in all walks of life, can be pooled to provide home financing for another group, their neighbors in the community who desire to own homes. The concept of the business and its implications were henceforth radically changed. The building up of a capital structure of billions of dollars from the savings of millions of people in order to provide adequate home financing credit for still other millions of people has been in process ever since. Associations have grown in resources and with their growth they have assumed more businesslike procedures such as the conducting of a full-time office, open daily during regularly scheduled hours and the employing of managing executives who make the association their chief working concern.

Until about 1850 none were incorporated. They were simply voluntary associations holding their property through the medium of trustees. Like now, mismanagement can be and often is a prevalent disease of voluntary groups so that it was only natural that as the associations grew in popularity and resources, the States would begin to enact restrictive legislation to prevent abuses within the business and provide supervision for the associations. Soon it became apparent, as more and more associations became permanent and as the investor and borrower became two separate entities, that the corporate form of enterprise was almost a necessity. Today, few savings and loan associations begin business without formal incorporation, obtaining their charters from either the state or federal authorities.

The industry's gigantic growth really got under way in 1934 when the National Housing Act created the Federal Savings and Loan Insurance Corporation to insure individual savings accounts in savings and loan associations. Membership in the Insurance Corporation is compulsory for federal savings and loan associations and optional for state chartered associations. But all insured associations must submit to an examination by law at least once a year. As of this moment, individual accounts are insured up to $10,000.00.

So much for a very sketchy history of the savings and loan industry. But I think it should suffice to point up the fact that savings and loan associations have two co-ordinated purposes: the first, to promote home ownership by providing sound credit for the construction, purchase, repair, modernization and refinancing of home; and the second, to encourage thrift through systematic savings and to conserve and use the capital already accumulated by providing a safe investment with a fair rate of return.

No matter how you put it, the primary purpose for being in business—any business—is to provide a service. This applies across the board and savings and loan associations are no exceptions. This being the case, what services can you as an individual, expect from a savings and loan association?

First off, insured associations provide a safe place in which to save money on which you will receive a better than average rate of return. There are a variety of savings plans but the two most frequently found are the general savings account which can be opened with a minimum sum and into which you can deposit or from which you can withdraw any amount at any time you desire, and the investment account into which deposits or from which withdrawals must be made in multiples of $100.00. Dividends are usually credited to the general accounts quarterly or semi-annually as the case may be whereas they are paid by check on the investment accounts. Some associations pay a premium rate on investment accounts because the $100.00 multiple requirement makes them less active. All of these accounts can be written up in almost any way you desire, as individual accounts, accounts in joint tenancy, trusteeships, payable on death accounts, etc. The savings and loan association of your choice will help you choose the one best suited to your needs.

Next, savings and loan associations provide a place where you can borrow money to finance the construction or the purchase of a home or where you can refinance an existing mortgage. Probably the most popular type of loan is what we, in the industry, call the direct reduction loan. Payments are made monthly and include the current month's interest, one twelfth of the estimated real estate tax bill and yearly insurance charges and a reduction of the principal of the loan. The interest for the following month is based on the unpaid balance left after deducting the principal payment made the previous month. Therefore, the amount which the borrower owes decreases month by month as long as he continues his regular payments. Since the amount going for interest decreases each month, the remaining which goes to reduce the principal or unpaid balance increases monthly. The longer the borrower pays, the more rapidly his principal is reduced. Naturally, the amount of the loan, the term and the interest rate will vary from borrower to borrower due to differences in the appraised value of the properties, the amount of the down payments, the age, income and credit rating of the borrowers.

Most associations now make a second major type of loan known as the improvement loan. This is an unsecured loan made to the borrower for the purpose of improving his property in some way, by adding a garage, putting up a fence, building an attic flat, etc. In our association, these loans are limited to $3,500.00 for a maximum term of five years or sixty months. These limits vary from association to association but are necessarily restrictive because, unless a mechanic's lien is filed, the association has no recourse in case of default. The FHA does insure some home improvement loans but most associations make such loans under their own self-insured plan much more frequently. In actual practice, the amount of the loan is discounted in advance and the total amount is spread over the term of the loan in even monthly payments.

It might be well for me to mention one other type of loan which most Associations make and of which few people are aware. This is the share loan. Basically, it is just this. Assume you have a savings account in an association which pays dividends semi-annually in June and December. May 15th or June 2nd or thereabouts you decide you just have to have that new car that's sitting in the dealer's showroom but in order to buy it you will have to withdraw some of the money you have on deposit. There's nothing wrong with that; after all, that is why you were saving it. But if you withdraw it before the end of the period you will lose any dividend it would have earned had you left it there until June 30th. In some cases this might be a full six months dividend assuming the money was on deposit at the beginning of the period. Here's where the share loan helps you. The association will make you a loan for the amount you wish with your savings account as security and will charge you usually 1% more interest than the going dividend rate but only for the actual number of days between the date of the loan and the period end. It's like having your cake and eating it too! The savings to you is the difference between the dividend earned on your undisturbed savings account and the interest charged on the loan, in some cases a considerable amount. At the end of the period the association automatically will write off your share loan against your savings account unless other arrangements are requested.

Most associations offer a host of other services which, very briefly, include such things as the purchase and redemption of U. S. Savings bonds, Christmas and Vacation Club plans, safety deposit vaults, currency exchanges and the like. Some of the larger associations even house legal personnel where you can get whatever legal aid you feel you need in buying or selling a home, making a will or what have you.

The one thing I'd like to impress upon you is that our business is built on the sincere desire to be of service to people. In fact, SERVICE IS OUR BUSINESS. It is a reputation long fought for and well earned. We are aware of what it means to you and the community of which you are a part. I can't think of any better expression of this than this motto which is printed in big bold letters over our main entrance at Talman:

THIS HOUSE IS NOT FOR US WHO WORK IN IT; IT IS HERE FOR YOU, AND SO ARE WE!