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Co-operative banks in Massachusetts.

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Thesis

CO-OPERATIVE BANKS IN MASSACHUSETTS

by

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INTRODUCTION

The purpose is to place before the reader in clear and concrete language the history, development, and workings of Co-operative Banks in Massachusetts whose serial plan is typical of the general building and loan movement throughout the United States.

This thesis is developed by the use of both the historical and descriptive methods.

The writer acknowledges his indebtedness for the practical aid in the analysis of material to Warren L. Milliken, Assistant Treasurer and Clerk of the Norwood Co-operative Bank.

Paul N. Taylor.

Part I

Origins and Forms
of Building and Loan Associations.

Name and Definition

Massachusetts co-operative banks are a type of thrift and home financing institutions. Elsewhere similar institutions are known by a variety of names, the most common designation being "building and loan associations". "Savings and loan" is a term which is widely used also, and is probably the most appropriate since it emphasizes the investment and systematic savings phase as well as the provision for home ownership. Early names emphasized the term building because at first these associations were primarily for that purpose. In Massachusetts since 1883 they have been known by the concise and convenient name, "co-operative banks".

Definitions of building and loan associations differ according to the cast given them by the different writers. Lack of uniformity in the associations makes defining difficult. Rosenthal says, "A building association is a mutual co-operative financial institution, most usually operating under articles of incorporation issued by the state, and composed of members who have thus associated themselves together for their mutual benefit and financial advantage."¹ The Treasury Department of the United States defines the building and loan association as an organization "which accumulates funds to be loaned primarily to

¹Henry S. Rosenthal, Cyclopedia of Building, Loan and Savings Associations, p.9.

its shareholders for the purpose of building or acquiring homes."¹ Clark and Chase give a brief and accurate definition which is as follows: "A building and loan association is that form of cooperative savings institution the funds of which are invested primarily in long-time amortized loans on real-estate security."² A comprehensive definition of the co-operative bank in Massachusetts using elements of the above definitions might be as follows: a mutual financial institution operating under articles of incorporation issued by the state for the purpose of furnishing a local savings institution to members of the community whose savings might be loaned through this same institution to other members in the form of long term amortized loans on real-estate security, said loans to be used to buy, build, or modernize a present home or re-finance a loan.

English Background

"The immediate ancestor of the American building and loan association was the English building society."³ Though authorities vary as to the date of founding, they all agree that the first English society was that formed in Birmingham, England in the latter part of the eighteenth century.*

¹Robert Riegel and J. Russell Doubman, The Building-and-Loan Association, p.1.

²Horace F. Clark and Frank A. Chase, Elements of the Modern Building and Loan Associations, p.7.

³H. Morton Bodfish, History of Building and Loan in the United States, p.11.

*Note: Dates of founding as given by authorities - H. Bellman, 1781; Clark and Chase, 1795.

In England at this time, most of the land was passing into the hands of the landed proprietors. The poor man found it difficult to own a home. However, by saving regularly through these societies the working classes were able to acquire their own dwellings. In 1809 the Union Building Society of which there are full and authentic records was founded at Greenwich, England. In the shares, monthly installments, fines and punishments, and security required for a loan can be seen the skeleton from which later well-organized building and loan associations grew.

Another early building association was formed at Kircudbright in Scotland in 1815 by the Earl of Selkirk. These societies grew rapidly and extended through England so widely that Parliament passed an Act in 1836 known as the Benefit Building Societies' Act. This was the first legal recognition of such societies. The Act provided for the formation of societies and the regulation of their government and management. The growth of these societies flourished from this time on. Clark and Chase state that "only in the United States and in England is a substantial development of coöperative credit found which aims directly to foster home ownership."¹

Inception and Spread in the United States

America in 1831 was a growing and expanding country. To this time, it had been largely agricultural, but now manu-

¹Clark and Chase, op.cit., p. 252.

facturing and commerce were becoming more and more important. With the growth of industry the population changed from one which was predominantly rural to one which was becoming more urban. Thus it was that a wage earning class was springing up, and this group found home ownership and safe investment almost a necessity.

Three Englishmen, Samuel Pilling and Jeremiah Horrocks, industrial pioneers of Frankford, Pennsylvania, and Dr. Henry Taylor, a practising physician in the community were aware of the beneficial results of the building societies of England. Convinced that the people of Frankford would benefit from a building association, these three and Issac Shallcross, a teacher, surveyor, and conveyancer, held a meeting for the organization of a building association. Thus on January 3, 1831, in Frankford, a suburb of Philadelphia, the first building and loan association in the United States came into existence under the title of the Oxford Provident Building Association. "While following the British model, no literature as to the operation of the societies on the other side of the Atlantic was at hand; hence it was necessary to depend for details upon the memory of those who had been familiar with the English building societies."¹

The original association, since it was of the terminating type, matured in ten years, but it was subsequently

¹Bodfish, op. cit., p. 35.

reorganized twice. Further development in the next few years was of an experimental nature. There were fifty or more associations organized between 1831 and 1849, but none of them were incorporated until 1850 when the State of Pennsylvania passed a law for their incorporation.

From Pennsylvania the movement spread rapidly to other states. They appeared in New York in 1836, in South Carolina in 1843, in Massachusetts, New Jersey, Maryland, Connecticut, and Illinois in 1849, in Maine in 1854, in Virginia in 1859, in the District of Columbia in 1861, in Georgia and California in 1865, in Texas in 1866, and in Ohio and Delaware in 1867.* Growth was rapid as evidenced by the city of Philadelphia alone which had 450 incorporated associations by 1876.

It was around 1850 that the serial plan was adopted because of certain defects in the terminating plan. This was followed by a further development about 1880 of a permanent plan to which Judge A. A. Winters and Mr. Boyer, both of the Mutual Home and Savings Association of Dayton, Ohio, introduced certain innovations. Thus the Dayton Plan came into being. The permanent capital plan was evidenced as early as 1837 in New York, though the association was not of the pure building and loan type. This, however, had no influence on the later development of the permanent capital plan which ^{was} brought into

*Note: Statistics vary as to the actual beginnings of building and loan in these states, but the dates given approximate the early introduction of the associations as nearly as can be determined from early records.

being in the Northwestern Guaranty Loan Company of Minneapolis in 1884. This first period of building and loan in the United States from 1831 to 1885 was one of early experiment and ultimate success for local associations.

The next period from 1885 to 1900 saw the rise and fall of the national associations. The original local associations had enjoyed a great measure of success, and throughout the country, home seekers wanted to take advantage of the new and successful plan of securing their own homes. Thus, when private associations were formed to do business on a national scale, the people were quick in joining the country over. However, the management was poor, and loans, made by mail in a boom period of real estate, did not have the proper security behind them. When fraud, over-expansion, and the results of the panic of 1893 were added to this, a crash was inevitable. Judge Dexter in an address to the United States League of Local Building and Loan Associations in 1900 labeled the national movement as a "curse and blight" on the building and loan association movement in recent years.¹

United States

In 1893 the [^]Building and Loan League was organized and is still existent today. It has representation by states and districts. Organized to foster the genuine building association of local operation and co-operative character, it works in the interest of the public. It has developed a department of research and education.

¹Clark and Chase, op. cit., p. 468.

In 1901 the total membership of shareholders had reached its lowest point, and in the following year, 1902, the total assets dropped to their lowest level. The fall of the national associations brought this about, and a reconstruction of public confidence was needed. Such took place between 1900-1910 when associations were developed mainly as local institutions and occasionally on a near-local or statewide basis of experiment. Now associations began to show a steady rise in public favor and gathered strength. Loans were restricted by practically all associations to property in their immediate locality. From 1910 to the present, expansion has been on sound lines. Between 1910 and 1917, the associations began to recover their lost ground and since 1917 the proportional increase has been very great.

In 1933 leaders in savings and loan recognized that out of the many different practices and policies followed by managers of associations in various sections of the country some were more effective than others. A committee was organized to formulate a model savings and loan program based on the most effective practises. A plan was evolved, and this plan was adapted to the Federal Savings and Loan Associations authorized by Congress in 1933. This development has been very successful, and its charter, rules, and regulations were revised in 1936. In some states the federal government has taken over all the associations.

Major Types of Operating Organization

Terminating Plan.

The earliest building and loan association in the United States, the Oxford Provident Building Association of Frankford, Pennsylvania, was organized under what is known as the terminating plan. This plan is so named because the existence of the association is terminated when the object for which its members associated is accomplished. The original purpose of these associations was to enable members to borrow in order that they might buy or build a home. In accomplishing this end, they pooled the resources of their group in order to create a fund from which to borrow.

Under the terminating plan all shares are issued at the same time and membership begins on the date of issue. Thus, the association consists of a single series of shares. All members are on an equal footing because they must all pay a stated amount of dues on each share held. These payments on shares, which represent a fund, are made in regular weekly or monthly contributions. Regularity of payment is enforced by a system of fines or penalties. When the shares reach their matured par value, the contract is completed or terminated. The assets are now divided among the members.

If any member wants to join after the shares have been issued, he must put himself in the same position as the other members by paying back dues plus a bonus which will equal the earnings of the shares. The funds of the association are

loaned as they accumulate, priority of loan being determined by a premium bid at auction. From this practise the premium payment evolved. Every member is expected to borrow. When the association has progressed toward maturity so that there is no longer a surplus of borrowers to bid at auction, the names of those who have not received advances are drawn from a hat by lot. The member who wins must take the loan even though he does not want it, unless he can find some other non-borrowing member to take his place. The borrower pays interest on his loan and amortizes the loan by paying the installments on his shares until they reach par value. Then the loan is cancelled by applying these to repayment. Loans are secured by a mortgage on real estate and a note.

Earnings consist of interest paid by the borrower and fines for tardy payment of dues. The earnings are divided proportionately according to the total amount of periodic payments. These earnings, applied to the payments made, hasten the maturing of the shares and cut down the interest the borrower must pay.

There are a number of reasons for the failure of this plan. The most important might be the inability to match the loans with the savings at all stages of the process. Then too, the forcing of loans on members is undesirable. Membership is made difficult for any but the original shareholders. Finally the existence of an association terminates after a

reasonably short period of time. This is wasteful because the time, money, and effort expended to mature the shares if wisely used can create a large amount of good will which will be lost when the association breaks up. However, the terminating plan has been of value as the basis of the widely used serial plan.

Serial
Plan.

The serial plan retains the principles of its predecessor, and with slight alterations, it is rid of the outstanding disadvantages. Series of stock are issued at stated intervals with new series appearing annually, semi-annually, quarterly, or even monthly. The payment of dues begins on each series when the stock is issued. Consequently, shares mature at different dates, dependent on the amount of dues paid and the earnings of the association. The members of each series are practically a terminating association among themselves. Thus the serial plan is often alluded to as a series of terminating associations. Each member of a particular series is on the same footing, as far as the book value of their shares are concerned. With each new series, new members are brought in, and those who join after a new series has been issued must pay back dues only to the commencement of the last series. As each series matures, the shareholders are paid back their investment. This is one of the problems of the plan because large sums must be paid at different intervals.

Profits are distributed to the shares of each series

in proportion to the amount of dues paid and the time the money has been with the association. When the value of the shares is brought up to par by the profits added to dues payments, the series is matured. Then non-borrowing members are paid the full value of their stock, and the mortgages are cancelled for the borrowers.

Systematic payments are enforced. There are a number of ways of assuring regularity of payments and others to make sure that members keep up their payments and do not withdraw before their shares reach maturity. Membership fees are charged when an individual joins and used to cover part of the association's operating expenses. Withdrawal fees are subtracted from the book value of the stock in case shares are withdrawn before maturity. Fines are used to assure promptness in payment of dues by both savers and borrowers. Sometimes there are forfeitures in which a portion of the earnings is withheld upon withdrawal before maturity.

Premiums have been mentioned as originating under the terminating plan of association when borrowers bid at auction for the loan. This later became a fixed initial payment of which there were a number of methods of collection. The two most important were the gross premium plan and the net premium plan. The former provided that the amount of the premium be deducted in advance from the face of the loan and the borrower would have to repay the sum borrowed plus the amount of the premium. The latter plan provided that the

borrower should pay the normal interest on the loan but that he must continue to pay dues until the face value of the stock plus the amount of the premiums had been repaid. An installment plan was a variation where the premium was divided, to be paid with the monthly dues and interest payments. The lump sum premium has survived since, being collected when the loan is made, it corresponds to the usual charge made as a commission for placing a mortgage.

The serial plan has certain advantages. It is simple and easy to operate. The accounting is not complicated. New series are usually opening quarterly so by deferring applications no business is lost. It is easy for new members to join, and good will which is built up is not destroyed.

However, since executives wished to keep their offices open every day, they wanted to be able to sell shares or make loans at any time. Then, too, they wished to stagger the maturities more, in order that they would not have maturities coming in large blocks which necessitated borrowing funds from banks to meet the payments. They also believed that it was hard on the shareholder at times to have to meet regular payments of set amounts. Such arguments led to the establishment of the permanent plan.

The permanent plan provides for the elimination of regular intervals for issue of stock and thus of the payment

Permanent Plan. of a large sum upon maturity of a series. It can be contrasted with the serial plan in that it permits shares to be issued at any time although payments are still periodical and uniform. The only essential difference in this plan from the serial plan is with respect to this lack of grouping of shares in series.

In accord with this lack of grouping the accounts of the individual members are kept separately. Each member's payments are treated practically as a separate series. Net earnings are distributed as a dividend semi-annually to each member's account according to his balance and including previously declared dividends.

The Dayton Plan. The Dayton or Ohio Plan, though fundamentally the same, offers a few significant innovations to the permanent plan. It introduced optional payment shares for which members may subscribe. Payments of dues on these may be made at any time and in any amount. Paid up stock was another innovation. This permits payment in full for a share at one time. This is withdrawable and is paid dividends in cash after every distribution of earnings.

The Dayton Plan abolished the use of the premium charge in connection with loans. Instead, it required a fixed minimum charge each month from which interest and other charges were taken, the remainder being applied as dues on the

maturity of the share. This plan also permitted withdrawals with heavy penalties. In order to reduce one's interest payments, a shareholder could pay up one share at any time and credit this to the loan. Profits were distributed to the amount paid in by the shareholder rather than to the series.

With respect to matured shares, a difference in the early serial association and permanent association is evidenced. The serial association considered that the purpose of its organization was to allow members to accumulate a sum of money, after which their business with an association was ended. However, the prime object of the permanent association was to lend money, thus the more money to lend the better. Therefore, they favored matured shares. Today they are common in all associations.

With the permanent plan the contingent reserve fund was developed which provided that a certain percent of the net profits usually about five percent be set aside to take care of any losses. Also, an undivided profits fund was established by the permanent associations in order that the rate of return on shares could be kept constant when the earnings were below normal. Earnings in excess of the normal rate made up this fund.

The permanent plan is regarded by many advocates to have all the advantages of the serial plan, but to surpass it in that it has no large maturities to meet. With regard to the advantages of the Dayton Plan, every type of saver is

allowed to have a chance regardless of size or regularity of income. It gives those particularly an opportunity who have intermittent work.

Permanent Capital Plan. The permanent capital plan is the newest type of association. "The basis of this plan is the issuance of a non-withdrawable class of stock subscribed and paid for by the founders of the association, which has definite contractual liabilities to the other classes of members of the association."¹

¹Bodfish, op. cit., p. 116.

Part II

The Serial Plan in Massachusetts

History.

Loan and Fund Associations The loan and fund associations which marked the beginnings of building and loan in Massachusetts came into being just about the middle of the nineteenth century. A report on savings banks and building associations of Illinois in the Journal of Social Science gives evidence that there were building associations in Massachusetts as early as 1849 and probably before. The report reads as follows: "From an article in the American Building Association News for April, 1886, we learn that the first building association in Illinois or the West was the Chicago Building Association, organized in 1849. From an association in Beverly, Massachusetts a plan of organization and management was secured."¹

The plan of these organizations was borrowed from Scotland where it was evidently successful. W. P. Smith in 1852 in his book on building and loan associations says: "To the Earl of Selkirk, a Scottish nobleman, the world is indebted for this origin."² No doubt the early associations of New York and Pennsylvania also served as models to the founders of these first loan and fund associations.

¹J. W. Jenks, Report on Savings Banks and Building Associations of Illinois, Journal of Social Science, December, 1888.

²W.P. Smith, Building and Loan Associations, Their Character, Operations and Advantages, Boston, 1852.

The loan and fund associations were voluntary terminating associations "with a fixed number of shares, whose value is, not a real and present, but an estimated ultimate value, to be accumulated."¹ The Suffolk Mutual Loan and Accumulating Fund Association of Boston is the first loan and fund association of which there is an extensive record. It was incorporated on May 22, 1852, and commenced business, June 10, 1852. Robert Cowdin was president and W. P. Smith, secretary. The secretary was the only paid officer, and he received fifty dollars per month. Expenses per annum as given in 1856 were \$934.80.

On April 29, 1854, the General Court of Massachusetts passed an act to authorize the business of loan and fund associations. This was the earliest law governing such associations. The act stated that fifty or more persons might "become a body corporate, for the purpose of accumulating a fund to be lent on real estate security, or divided among its members."² The act ruled further that three hundred shares must be subscribed for before the corporation could begin business. Also an annual statement of the financial condition and the amount of property and liabilities of each association must be published each January in at least one newspaper in

¹First Annual Report upon Loan and Fund Associations, by the Insurance Commissioners, 1857.

²Acts and Resolves, 1854, Chapter 454, An Act to Authorize the Business of Loan and Fund Associations.

the county in which the association is organized. A copy of this statement verified by the oath of its president and secretary must be deposited at the office of the secretary of the Commonwealth. The act lastly provided for the termination of the corporation.

A second act was passed on April 27, 1855, which required that the insurance commissioners were to inspect the loan and fund associations yearly to check and examine all the affairs of the association and to inquire as to the condition of the association with respect to its ability to fulfill its engagements and whether they had "complied with the provisions of law applicable to their transactions."¹

The governor approved a third act on April 7, 1857, which provided that the insurance commissioners must submit annually to the legislature a printed report on the condition and general conduct of the associations, that they shall make suggestions that they deem advisable, and that they should report to the attorney-general any violation of the law by the officers of the association, the attorney-general being authorized to prosecute.²

At the time the first statistics were gathered in 1856, the number of loan and fund associations incorporated under the Massachusetts law and reported in the first annual report of the insurance commissioners was thirty-two of which

¹ Acts and Resolves, 1855, Chapter 236.

² Acts and Resolves, 1857, Chapter 50.

fifteen were in Boston. As reported, one began business in 1852, seven in 1853, fifteen in 1854, and nine in 1855. There was no way, however, of ascertaining how many associations were operating under boards of trustees rather than under the law of 1854. It was believed that they might exceed in number the incorporated associations.

In their First Annual Report in 1857, the insurance commissioners, because associations had no set time of termination, recommended legislation "by which it shall be provided that institutions may be established for a specified term of years."¹ In their second and third reports the commissioners recommended the repeal of the Act of 1854 and the passage of a more comprehensive governing law which would authorize and regulate the business of Loan and Fund Associations. They believed the new act should provide for self-organization and make the companies created perpetual. The commissioners write: "we would not, in this connection, fail to call attention to what strikes us as a great improvement on the original plan of loan and fund associations, especially for large cities, and one which has already won considerable popularity. It is that of the People's and the Maverick associations, and is substantially the same as that which is contained in House Document 110 of the last legislature, which barely failed of becom-

¹ First Annual Report upon Loan and Fund Associations, by the Insurance Commissioners. 1857.

ing a law. These institutions were made perpetual, by which great doubt, difficulty and weakness are avoided."¹

The People's Perpetual Loan Fund Association was incorporated in August, 1854, with William F. Goodwin, president, and W. W. Bullock, secretary. Though it contained many of the weaknesses of the early association plans, scarcely two associations doing business according to the same plan, it was a great improvement over the other Massachusetts plans. Records indicate that this association was still doing business in 1865, but after that, information as to its continuance is lacking.

Other reports of the commissioners suggested a more equal distribution of profits, a combination of the advantages of five cent savings banks with the most important ones derivable from loan associations, lower rates of interest in order to increase loans, and a general act by which the town or city government would collect, manage, guarantee and invest savings, and loan them to those desiring to build homes. However, none of these suggestions were ever accepted.

The loan and fund associations reached their height of prosperity in 1859 when there were thirty-six associations reporting to the insurance commissioners. Their number continued to drop off each year until on January 1, 1865, there were only nine reporting. These were all closing down, in

¹ Third Annual Report Upon Loan and Fund Associations, by the Insurance Commissioners. 1859.

cluding the two perpetual ones. They had all been planned to terminate in about eight years but this was impossible since they couldn't bring business to an abrupt end. Since there were only two or three left by January 1, 1866, the Commissioners asked to be relieved of making further reports and for this reason there is a gap in statistical information on building associations until 1877.

The failure of the associations was "due to the grave faults in the system, and this in turn to the prevailing ignorance of how to conduct such associations."¹ The defects were first of all attributable to the terminating plan of organization which issued only one series of shares, levied heavy fines, and allowed great inequalities between the borrower and lender. The commissioners speak of an "inscrutable mystery" in their system of accounts and an inequality and uncertainty pertaining to their loans.² More general drawbacks to their success were the lack of a uniform, simple plan of operation, lack of public confidence in the honesty of management, difficulties brought about by the Civil War, and lack of proper legislation regulating and governing them.

Nevertheless, the insurance commissioners write: "We cannot fail to remark, that in spite of the inherent defects of these Associations, and the abuses in practise, they have had a

¹Edward W. Bemis, Co-operation in New England, Publications of the American Economic Association, November 1886, p. 104.

²Fifth Annual Report of the Insurance Commissioners, 1861.

large degree of usefulness, and have demonstrated, perhaps even better than if they had been better constructed, the value of the principle of repaying loans by small monthly installments."¹

Co-operative Saving,
Fund and Loan
Associations.

Because of the unsettled conditions following the Civil War, building and loan organization was at a stand-

still. There is no record of any association doing business in Massachusetts between 1866 and 1877. During the latter part of this period, however, Josiah Quincy, who was once Mayor of Boston, worked for the establishment of building associations, which was soon to follow.

In 1875, Josiah Quincy presented to the Legislature of Massachusetts an act authorizing the establishment of "building associations." He was unsuccessful in this first attempt receiving little encouragement. Despite his failure, Quincy continued in his efforts to establish the system, and in 1876 again called the matter to the attention of the legislature by petition. Though his proposition was for a second time turned down, a test vote showed that the body was very evenly divided on the question. This gave him much encouragement. Much opposition to such a law was put forth by the old time savings banks which were fearful that they would be

¹ Sixth Annual Report of the Insurance Commissioners, 1862.

injured by the new organizations.

By the time his third petition was ready in 1877, Quincy was receiving state-wide support. Petitions in support of the act signed by citizens throughout the state were returned through local representatives and presented daily in the House. The press had been busy, since 1875 when the first petition was presented, furthering the cause by printing editorials, articles, and letters. The Boston Herald, the Daily Advertiser, and the Evening Transcript were outstanding in their support of Quincy and the movement, even using much material from the Philadelphia papers on the building and loan question. One entire edition of Scribner's for February, 1876, in Massachusetts was used to further the cause. The edition contained an article entitled "A Hundred Thousand Homes."

Thus, when his petition was presented, it was accepted and referred to the Committee on Labor and Decennial Census of which J. Q. A. Brackett was House chairman, because it was considered a workingman's measure. Brackett's associates put the bill in his charge to superintend its passage through the House. On March 12, 1877, the first hearing on the petition was held at which Quincy, H. T. Elder, Joseph S. Ropes, Gamaliel Bradford, and D. Eldredge spoke. Quincy became president of the first organization under the law; Ropes, vice-president; Bradford, treasurer; Elder, a director; Eldredge, the secretary; and Brackett, the attorney.

On May 14, 1877, the act providing for the establishment of Co-operative Saving, Fund and Loan Associations was approved and became a law. "Mr. Brackett, afterwards Governor of the State, says of all the Legislative measures with which he was connected during the several years he was a member, the measure which resulted in planting the building association system in Massachusetts he feels the most proud of."¹

Chartered on July 26, 1877, and beginning business on August 6, 1877, the Pioneer Co-operative Savings Fund and Loan Association was the first to organize under the new law and put the Philadelphia system into actual use in Massachusetts. A Philadelphia secretary, Mr. Francis M. Wood, was brought on to assist at the opening. In September the Homestead and the Cambridge were organized, the former at Boston, and the latter at East Cambridge. By the close of the year ten associations had been organized. During 1878 and 1879 no new charters were issued.

The Act of 1854 had put the old loan and fund associations under the supervision of the insurance commissioner. Now when the question of supervision came up, the attorney-general reported them to come under the insurance commissioner since the old law had never been repealed. However, the

¹ Daniel Eldredge, Massachusetts Co-operative Banks or Building Associations, p. 5.

insurance commissioner requested the Legislature that they be placed under the commissioner of savings banks where they really belonged, and the Legislature so acted, stating in the law that the commissioners of savings banks shall have the same powers and be subject to the same duties and requirements as are conferred and imposed upon the insurance commissioner under the old act.¹ This inadequate and ambiguous provision was cleared up by Chapter 129 of the Acts of 1879. In 1881 an act was passed which provided that loans would not be secured by simply a mortgage of real estate but by a first mortgage of real estate.

In these first five years the assets reached over a million dollars in the twenty-five associations which were organized.

Co-operative
Banks.

In 1883 Chapter 298 of the Acts was passed which decreed that the long and cumbersome title Co-operative Saving Fund and Loan Associations should on and after the first of July be changed to Co-operative Banks. This was the first of a number of statutes to be passed in the next five years modifying and clarifying the plan and protecting it against dangers which had been discovered. The regulation of the Massachusetts Co-operative Banks appears exceptionally superior as C. F. Southard of New York was aware.

¹ Acts and Resolves, 1878, Chapter 52. An act relating to the supervision of co-operative saving fund and loan associations.

He says, "The dangers which beset the system in every state except Massachusetts are that the organizers of associations either copy the general mistakes of the system, or else evolve brilliant financial theories, which are placed attractively before the public by advertisement, inviting people to deposit their savings with the prospects of large returns in the 'sweet by and by'."¹ Mr. Sanborn also comments on the success in Massachusetts at this time when he states, "They are now increasing in number faster than ever before, and seem to be on a good financial basis and well-managed under a State law so good that it is taken as a model in other states."²

Legislation in 1889 restricted the banks to mortgage loans in Massachusetts. Because of the great growth the commissioners were concerned and legislation was passed to require the consent of the commissioners before a new bank could be chartered. In 1890 the rise of the "Nationals" brought about legislation with respect to foreign corporations doing a similar business to that of the co-operative banks in the state. During the 90's the growth of the banks was retarded. It was a situation that was nation wide. Morton Bodfish speaks of this as follows: "The one major exception in this steady but slow growth was the period of financial depression

¹ C. F. Southard, The Dangerous Side of Building Associations, Journal of Social Science, December, 1888, p. 151.

² F. B. Sanborn, Co-operative Building Associations, Journal of Social Science, December, 1888, p. 114.

beginning in 1893 which included the failure of many of the far-flung 'National' associations but which only temporarily halted the progress of the more localized institutions."¹

In 1895, the co-operative banks by order of an act passed in that year were required to create a guaranty fund with additions to this fund at each distribution of profits. By 1900 co-operative banks totaled 126, had 71,965 members, 555,980 shares, 15,601 loans on real estate averaging \$1,541, and total assets of \$27,721,748.

The law with respect to co-operative banks had not been materially changed since 1877. Pierce Jay, bank commissioner in 1907 commented on this fact, and suggested a recodification. This was done in 1912 by Chapter 623 and the new act stipulated that the commissioners must audit the books of each bank once each year. Chapter 643 of the Acts in 1914 provided that a person may own shares, not exceeding ten in number, to remain in the corporation after maturity.

An act in 1904 had set a maximum of \$5,000 for a loan on any one property. This was increased to \$8,000 in 1918 and in 1937 still another law increased the amount to \$10,000 on any one property. The year 1920 saw the Legislature pass an act allowing banks to sell paid-up shares to the extent of not more than ten to any one person. This last law

¹ Morton Bodfish, The Depression Experience of Savings and Loan Associations in the United States, p. 3.

was further limited by allowing each bank the issue of these shares up to ten percent of the banks assets only.

"In 1923, Joseph C. Allen, then commissioner of banks, made the following comment: 'Co-operative banks continue their remarkable growth, the increase in assets since the last annual report establishing another record in the growth of these institutions. The increase for the last decade is \$183,047,288.68, or 224%, which is another indication that the public is availing itself of the many advantages offered by these banks. It is easy to measure the gain in dollars and cents, but the benefits accruing to the Commonwealth through the operation of banks of this nature can only be estimated."¹

The bank commissioner in 1925 pointed out that the opportunity for savings and investment, made possible through the legislation on matured and paid-up shares, was being used as evidenced by the increase of \$25,000,000 in the amount of this type of shares issued during the year. He also showed that in the five years from 1920 to 1925 the resources of the banks had increased 113%.

Because of the liquidity problem, the Co-operative Central Bank was organized in 1932 for the purpose of centralizing the reserve funds of its co-operative banks that it

¹ Ernest A. Hale, History of Building and Loan in the United States, p. 433.

might make loans to member banks for liquidity needs. This pooling of reserves promotes general solvency and financial strength. Every co-operative bank was made a member of the central bank by statutory compulsion. They must all pay in to this central bank cash to an amount not exceeding two and one-fourth percent of the co-operative banks total resources. This provision is made for reasonably prompt payment of withdrawals, maturities, and temporary share loans.

A co-operative bank borrows from the Co-operative Central Bank by pledging enough of its mortgages to make the loan secure. The co-operative banks pay three percent on the money so borrowed. The co-operative banks get dividends on the money they pay into the central bank to the extent of its earnings after its moderate running expenses and a small amount which is set aside as a surplus has been taken out. The Co-operative Central Bank is managed by a board of directors elected by the co-operative banks themselves. Each co-operative bank has one vote.

Statistics show that from the organization of the first co-operative bank in July 1877 through December 1931, only ten banks have liquidated and of these eight paid 100% in settling their business and of the other two, one paid 94% and the other 89%. Ernest A. Hale says, "This remarkable record is not excelled by any other form of banking in this State", and he continues, "neither can the record be even

approximately equalled."¹

However, the United States Investor of 1937 states that the record has been broken, and by the co-operative banks themselves. The article reads, "The event established a unique record for co-operative banks of the Massachusetts state-chartered pattern. The event was the payment of final dividends to shareholders of four closed institutions. It is now literally true that in all the long history of this type of bank, from 1877 to the present - sixty consecutive years - no failure has ever brought so much as a dollar of loss to any shareholder."²

Massachusetts
Co-operative
Bank League

"The first call for a meeting to form a state Association was issued May 25, 1888, signed by 'D. Eldredge, for himself and others,' inviting the officers of the several banks to meet at the office of the Pioneer, Homestead, and Guardian Co-operative Banks, 36 Bromfield Street, Boston, on Wednesday afternoon, September 26, 1888, 'for the purpose of forming an association similar to those in other states, and substantially for the same purposes.'³ On January 16, 1889, the Massachusetts Co-operative Bank League was organized and the by-laws adopted.

¹ Hale, op. cit., p. 434.

² Remarkable Co-operative Banks, a publication of the Merchants Co-operative Bank, Boston.

³ The Massachusetts Co-operative Bank League, Proceedings of the 17th Annual Meeting, 1906.

The objects of the association were "to promote the interests of co-operative banks as a whole, to assist in any needed legislation, to meet in friendly intercourse for mutual benefit, to recommend such changes in the law governing co-operative banks as shall be found by experience to be desirable, to assist in the correction of any abuses in the practise, if perchance any such are found to exist in any of these banks, to promote uniformity in the administration of these banks, to promote and forward any measure having for its object the welfare of the banks."¹

Marcellus Coggan was elected the first president which office he held until 1897. Daniel Eldredge was Secretary and Treasurer from 1889 to 1912.

At the third annual meeting the proposition to form a United States League was discussed. Marcellus Coggan and Daniel Eldredge were chosen as delegates to this proposed United States League and authorized to pledge the League to membership.

In 1893, at the fourth annual meeting, a uniform code of by-laws for all banks was discussed. Discussions at following annual meetings included such topics as admission fees and dues, double taxation, the question of reducing the rate of interest, the method of retiring shares, proposed legislation, lien laws, and methods of foreclosure.

¹ The Massachusetts Co-operative Bank League, Proceedings of the 17th Annual Meeting, 1906.

The United States League was entertained at Boston in July 1903 by the Massachusetts League.

The recodification of the laws in 1912 was done at the suggestion of the Massachusetts League in 1911. A second revision of the co-operative bank statutes followed in 1933 after a thorough investigation and study had been completed in 1930, 1931, and 1932. In 1915, the League undertook an advertising and publicity campaign to form a state wide viewpoint. In 1924, it worked toward better appraisals. By 1927, its publicity campaigns were carried on by radio as well as by the newspapers. It made arrangements with Boston University to inaugurate a course on co-operative banking. This was given for a two-year period beginning in 1927. This course led to the establishment of the Boston Chapter number 59 of the American Savings, Building and Loan Institute which furnishes opportunity for co-operative banking education, giving a three-year program of study including courses in fundamentals, bank bookkeeping and accounting, and appraising.

Each co-operative bank is represented at the League meetings by one of its members who must be appointed as delegate. The League has proved most useful having been responsible for many progressive changes in co-operative bank thought and procedure.

Co-operative Bank Organization

State
Supervision.

In Massachusetts co-operative banks come under
the supervision of the Commissioner of Banks.

He has the same duties and powers in respect to these corporations that he has in respect to savings banks. His examiners visit each bank at least once each year and audit its books. They examine carefully the resources, ways of doing business, investment of funds and whether its administration is in compliance with statutes. They further make a thorough examination of its securities, cash, assets, liabilities, and income and expenditures. The commissioner then makes a report to the general court of his findings with respect to these corporations.

The law provides minutely as to the organization, management, and methods and procedures of doing business. In fact, a co-operative bank can do nothing except what the statute says.

Formation.

To form a co-operative bank, it is necessary that twenty or more persons associate themselves by a written agreement for the purpose of accumulating the savings of its members and loaning such accumulations to them. The agreement specifies that it is the intention of the subscribers to form a corporation and transact business within Massachusetts. It also specifies the name, which shall in-

clude "co-operative bank", the purpose, and the town in which business will be transacted.

Next it is necessary that the subscribers give notice to the board of bank incorporation of their intention to form a co-operative bank, and they must obtain a certificate from the board stating that the establishment of such an institution will promote the convenience and advantage of the public. The board on granting the certificate gives notice of the date and place at which a public hearing will be held. This certificate also includes the names of the incorporators and the name and location of the proposed co-operative bank. If the incorporation does not go forward and business begin within six months after the certificate is issued, it is revoked.

At the first meeting, which is the meeting of incorporation, the by-laws are adopted and the officers, including a president, a clerk, a treasurer, and a board of at least five directors, are elected. The articles are signed by the president and a majority of the directors and submitted for approval. They are finally filed at the office of the state secretary who then issues the certificate of incorporation which has the force and effect of a special charter.

By-Laws. As has already been mentioned, the incorporators adopt certain by-laws at the first meeting of the co-operative bank. The law states that the by-laws must provide for and determine the dates of the annual meeting of share-

holders and of the monthly meetings of the directors and the time of receipt of dues, the number of officers and their duties, the care of money, securities, and property of the bank, the method of loaning the funds of the bank, the rate of fines charged on delinquent payments, the manner of transferring shares, whether partial payments on loans under fifty dollars shall be accepted, the time allowed for satisfactory security to be presented on real estate loans, the proportion of profits to be reserved upon voluntary withdrawals, and the method of amending the by-laws. Changes and additions to the by-laws may be made at subsequent meetings and these must be filed immediately with the commissioner of banks and be approved by him. The few provisions for the government of the affairs of co-operative banks which are included in the by-laws are the only ones left up to the shareholders of the individual bank, and here everything is subject to the approval of the bank commissioner.

Officers. Co-operative banks are managed by a board of at least five directors who are elected by the shareholders. Their terms of office may vary from one to three years in length. The directors may hire any assistance that they think necessary in managing the business and affairs of the bank, and they must decide the compensation for such.

The clerk is the only other officer elected by the shareholders. Each shareholder is entitled to one vote but no

more at any meeting. Proxy voting is not allowed. President, vice-president, treasurer, assistant treasurer, if there is any, and all other officers are chosen by the board of directors. All the officers must be shareholders when nominated, and if they cease to be shareholders during their term of office, they must relinquish their position immediately.

The duties of the treasurer and assistant treasurers are mentioned in the statutes, but those of the other officers are taken care of by the individual corporation in its by-laws. The treasurer keeps the accounts and takes charge of and assures the safe-keeping of the money, securities, and property of the co-operative bank in the manner provided in the by-laws. The treasurer must give bond to the corporation for the faithful performance of his duties as must all other officers who have access to the funds of the corporation. On the approval of the commissioner an assistant treasurer may be provided for in the by-laws and if the assets exceed \$5,000,000, the corporation may have as many assistant treasurers as the commissioner will approve. An assistant treasurer is permitted to perform all the duties of the treasurer. The treasurer is the most important officer because he actually manages the business of the corporation.

**Security
Committee**

The security committee is a committee of at least three, elected by the board of directors from their own number. It is responsible for investigating for the

co-operative bank every application for a mortgage loan by examining the real estate offered as security for the loan. At least two members of the committee must present a written report on the property approving it and certifying its worth "according to their best judgment."¹ They must show that the property is worth at least twenty-five percent more than the amount of the mortgage before the loan can be made. The investigation of any real estate by the security committee can be omitted only by a special vote of the board of directors.

Capital. The capital of a co-operative bank is made up entirely of the savings of its members and the interest upon such savings. It is accumulated by the funds paid as dues by savers and borrowers. This is known as "dues capital". The dividends earned by the monthly deposit on shares are known as "profits capital". Matured shares and paid up shares also make a very important addition to the capital.

Unlike the capital stock institutions, where the control is in the hands of a relatively small group holding the capital stock and operating for the purpose of earning the highest possible dividend for themselves, the co-operative banks are mutual institutions where every member receives all the earnings that his investment produces. All share alike in accordance with the amount of capital they have invested therein.

¹ Chapter 144, Acts of 1933, p. 22.

A Savings Institution

Co-operative banks are noted as savings institutions. They differ from other savings institutions in their plan of systematic saving through the purchase of serial shares. The saving must be regular and systematic. Each month a certain stipulated amount is set aside from the individual's wages or salary. This amount can be varied according to the member's ability to save so that individuals with a small income may set aside a smaller portion of their earnings than those who earn more and thus have more to save. Compulsion is brought about by fines and penalties.

The co-operative banks by their enforced systematic savings teach thrift in a practical way. They stimulate the habit of saving and have done much to make the communities of Massachusetts solidly and truly prosperous by promoting thrift. F. B. Sanborn says of this method, which has long been a mark of distinction in building and loan associations: "It is doubtful if any system for savings has ever been devised which has such a tendency to produce frugality among persons of small income as the building association methods."¹

Serial
Shares.

Serial shares are issued in series quarterly, semi-annually, or annually. The common practice in Massachusetts is to issue shares in quarterly series generally

¹ Sanborn, op. cit., p. 124.

in January, April, July and October. Each series is designated by a number. (See Table I.) Shares are purchased by paying one dollar each month per share to the co-operative bank. On subscribing for shares, the member agrees, in effect, to continue the payments on his shares at the rate of one dollar a month per share until the shares have matured. All shares in one series mature at the same time. Shares are considered matured when each share reaches the value of \$200. This takes between twelve and thirteen years depending on the rate of dividends. This would mean that a member pays from \$150 to \$158 while compound interest over the period would have amounted to from \$42 to \$50.¹ One person may own any number of serial shares from one to forty. Earnings are distributed to shares annually, semi-annually, or quarterly on the day when a new series is issued. The profits distributed to each share are in proportion to their value at that time. The earnings as distributed begin to earn money immediately since they are compounded.

The table which follows gives a concrete example of the way in which a series matures through the monthly payments and compounding of interest. The table is an example of series issued semi-annually.

¹ Frank P. Bennett, Why Co-operative Banks are so Popular, p. 3.

TABLE I
Share Values*

Number of Series	Amount Paid per Share	Total Profit per Share	Present Value per Share	Withdrawal Forfeiture per Share
74	\$144	\$49.18	\$193.18	
75	138	44.29	182.29	
76	132	39.76	171.76	
77	126	35.50	161.50	
78	120	31.55	151.55	
79	114	27.88	141.88	
80	108	24.51	132.51	
81	102	21.39	123.39	
82	96	18.57	114.57	
83	90	15.95	105.95	
84	84	13.61	97.61	
85	78	11.53	89.53	
86	72	9.69	81.69	
87	66	8.01	74.01	
88	60	6.54	66.54	
89	54	5.25	59.25	\$1.31
90	48	4.09	52.09	1.02
91	42	3.11	45.11	.78
92	36	2.28	38.28	.57
93	30	1.58	31.58	.40
94	24	1.01	25.01	.25
95	18	.57	18.57	.14
96	12	.26	12.26	.07
97	6	.07	6.07	.02

* The Norwood Co-operative Bank, Semi-Annual Report, April 5, 1938.

Withdrawals may be made without trouble under ordinary conditions, and co-operative banks usually allow withdrawal on demand. The bank is usually supplied with plenty of cash from the money coming in each month from borrowers, serial shareholders, and buyers of paid-up shares. Money can also be obtained from the Co-operative Central Bank. However, a co-operative bank has the right to demand thirty days written notice on unmatured serial shares, and on paid-up or matured shares it may require ninety days notice. In times of emergency, on the approval of the Bank Commissioner, the bank may limit its withdrawal payments to twenty percent of the amount of the shareholders' credit on the books of the bank. Withdrawal is also limited to \$400 at any one time. Rather than reverting to withdrawals, if cash is needed, borrowing against one's shares is allowed up to ninety percent of the withdrawal value of the shares. In this way the shareholder can save the loss of considerable interest if he only wants the money for a short time. Withdrawals are paid in the order of the expiration of the notices instead of in the order in which the notices are given. Some banks require that, upon withdrawal of shares, in the first five years of membership in a co-operative bank, the shareholder forfeit a certain amount of the dividends paid per share. (See column 5 of Table I.)

The system of serial shares allows a lot of flexibility. The number of shares one is buying may be increased if the mem-

ber wishes to save more money or decreased if the monthly payments are too heavy. Also, if an individual has a sum of money that he wishes to invest, but at the same time desires to save a certain amount each month, or if he wants to pay a large sum outright in order that his shares will mature in a fewer number of years, he may buy prior series shares. The bank official simply applies the amount the person has to invest toward the number of shares he desires in a series that has the nearest current value to the sum to be invested. The member must pay a sum equivalent to the total dues payments plus the declared dividends on those shares from the beginning of the series. Thus a member purchasing shares of a prior series is on an even financial basis with those who purchased the shares at the time of issue. Then by the regular monthly savings method, the payments are made until the shares mature. These prior series shares have an advantage over the paid-up or matured shares because they generally receive a higher rate of dividend and then too, the earnings on savings and dividends are compounded. By this plan one may take advantage of investing a substantial amount at the prevailing dividend rate on unmatured shares, with a comparatively short time to maturity.

When a shareholder, who continues in arrears more than six months, does not pay the arrears within thirty days after notice from the directors, his shares may be suspended. Then the withdrawal value at the time of suspension is figured, and

after all fines and other penalties have been deducted, the balance is transferred to the suspended shares account to the credit of the defaulting shareholder. Upon thirty days notice he may withdraw the balance which has ceased to participate in the earnings since its transfer.

Chapter 144 of the Acts of 1933 provides that shares may be retired after four years from the date of issue by the directors or the commissioner if he deems it necessary for the welfare of the shareholders. The statute reads, "the treasurer shall seasonably send to every shareholder in the series in which the shares are to be retired a notice in the following form, and the shares shall be retired in accordance with its provisions:

"The board of directors have voted to retire on theday of, 19.., shares in series No. ..., in which you are a shareholder.

"Should you desire to have your shares, or any number of them, retired and to receive the full value thereof, you will please notify the treasurer in writing on or before, 19..

"If the shares voluntarily offered exceed the number desired, the shares to be retired will be determined by lot from those offered.

"If the number so offered is less than the number desired, the number offered shall be retired and the balance determined by lot from the remaining shares in the series."¹

¹ Acts of 1933, Chapter 144, Section 19.

Matured or paid-up shares may be retired by the directors at any time according to rules made by them.

Fines. The purpose of fines is to encourage regularity of payments by putting a penalty on the member who does not make his monthly payments when due. The holder of serial shares, as required by law, whether they be savings shares or those pledged against a loan, must pay a fine of not more than two cents on each dollar in arrears. The exact amount of the fine is specified in the by-laws. No fines may be charged to withdrawn, forfeited, suspended, or retired shares in excess of the profits distributed to them.

Matured Shares. Serial shares are matured when the subscriber's payments plus the compounded dividends equal \$200. Now he may take the cash or leave up to ten matured shares in the bank as an investment and receive dividends on these either quarterly or semi-annually by check. Share certificates are issued for those shares left in the bank. If he so wishes he may leave the dividends in a dividend savings account. Every time his dividends in this account reach \$200, another share certificate is issued to him. Dividends of paid-up shares may also be left in the dividend savings account.

Paid-up Shares. Massachusetts law allows a person to buy up to ten shares outright or full-paid. These are known as paid-up shares and are issued on the approval of the board of

directors. These are paid for by the purchaser when issued at \$200 per share. The total value of paid-up shares outstanding at any one time may not exceed twenty percent of the assets of the corporation.

TABLE II

Number of Shares that may be owned.

A Member May Own	
Singly	In Joint Account
10 Paid-up Shares worth \$2,000	20 Paid-up Shares worth \$4,000
10 Matured Shares worth \$2,000	20 Matured Shares worth \$4,000
40 Serial Shares, which at maturity will be worth \$8,000	80 Serial Shares, which at maturity will be worth \$16,000

Shares held in joint account are a popular plan for husband and wife. Additional shares may be held by a member as a trustee for someone else. He may hold ^{as} ~~for the~~ trustee the ordinary number allowed any one individual in addition to his own.

Dividends. Dividends are paid quarterly on all types of shares in most co-operative banks. There is no standard rate. Dividends ^{often} vary according to the part of the

state in which the bank is situated and according to its earnings. The rate of dividend payment on matured and paid-up shares is fixed by the directors and may not exceed five per cent per annum, nor can it exceed the rate paid on unmatured shares. Profits may not be distributed in excess of five per cent unless the maximum of five per cent of the net profits has been reserved for the guaranty fund. Dividend rates have been substantially higher in co-operative banks than those in other types of financial institutions as is evidenced in the following table.

TABLE III

Dividends paid to depositors in savings banks, savings departments of trust companies, and to shareholders in co-operative banks during 1936-1937.*

	Average Dividend (Per cent)	
	1937	1936
Savings Banks.....	2.71	2.87
Savings Departments of Trust Companies....	2.31	2.47
Co-operative Banks:		
Serial Shares.....	3.84	3.84
Matured Share Certificates.....	3.51	3.54
Paid-up Share Certificates.....	3.50	3.54
Dividend Savings Account.....	3.27	3.37

* Annual Report of the Commissioner of Banks of Massachusetts. October, 1937, Page vii.

Guaranty Fund
and Surplus
Account.

The purpose of the guaranty fund and surplus account is to meet the losses of the corporation from depreciation of its securities or otherwise. At each distribution of profits the law required that not less than one percent and not more than five percent of the net profits shall be put away in the guaranty fund until it equals ten percent of the total liabilities of the bank. It must be maintained at this point. This fund may be increased at any time by transfer of part of the surplus account as voted by the directors.

"At each distribution of profits not more than one percent of the net profits accrued since the last preceding adjustment shall be credited to the surplus account, unless there shall have been reserved and credited to the guaranty fund the maximum percent of the net profits under the preceding section."¹ When the surplus account and guaranty fund total ten and one-fourth percent of the total liabilities, the directors must declare an extra dividend.

A Loaning Institution.

While the co-operative banks are teaching thrift through systematic savings, they are also promoting actual home ownership. The savings do not lie idle but are put to a safe and practical use in developing the communities of the state

¹ Act of 1933, op. cit., Section 46.

by affording citizens the opportunity of buying or building their own homes. "Homes that may be extremely modest, perhaps, in size or architecture, in their influences will be as far-reaching for good to the individual, the nation, and the world as those called palaces."¹ Actual home ownership gives the individual a feeling of security which might well affect his personality and outlook on life making for a better satisfied, more contented, and better integrated individual and thus a better citizen.

"A roving, unsettled population, here today and there tomorrow, with no place which they can call their home, no place around which the natural affections of their hearts cluster, give little if any strength or stability to the State.

"While on the contrary, a settled population, owning the land upon which they live, holding it secure, for themselves and those dear to them as life itself, under the protection of the State, naturally and almost inevitably become law-abiding, law-supporting citizens; and it has been well said, that ' a nation of landowners must and will be free. ' "²

Though brought forth many years ago, this fact makes itself more evident everyday. Thus by providing the opportunity for home ownership as loaning institutions, co-operative banks are developing men and women who are better individuals, better

¹ Southard, op. cit., p. 151.

² First Annual Report upon Loan and Fund Associations, by the Insurance Commissioners. 1857.

citizens of the community, and better citizens of the state and nation.

Amortized Loans. Co-operative Banks make loans to those desirous of buying, building, modernizing, or refinancing a home. These loans are first mortgage loans on real estate. The mortgage loan is the sum of money which the bank lends, and the mortgage is the provisional deed which the bank holds as security against the loan. This mortgage permits the sale of the property by the bank in case the shareholder does not live up to the principal and interest payments and other conditions agreed upon at the time of borrowing.

The principle of amortization, killing off, is used in repayment of these loans. This provides that the debt shall be repaid in small periodic installments. Straight mortgage loans require the debt to be paid at some given time in the future. Under this type of repayment it is often difficult for the borrower to secure the money in a lump sum for a single payment when due. This often necessitates a number of renewals. The term is usually from three to five years, and the borrower, outside of paying the interest, usually does not bother about saving portions of the total sum for repayment. Thus he must often renew or refund and borrow from another lender. The disadvantage lies in the fact that the debt is still hanging over his head, and he is no nearer to owning his own home than he was at the beginning.

These difficulties are avoided by amortization. An amortized loan has a set length of time to run determined by the number of installment payments or dues required to cancel the amount borrowed. The borrower knows in advance how much he must pay and for how long he must pay. The borrower knows that as long as he lives up to the terms, the mortgage can never be called. Also, no large amount is ever due at any one time.

A factor which shortens the term of the loan is the payment of profits on the dues paid in. This sum is added to the borrower's principal. The burden is not much greater than the interest on a straight loan, and all the time the borrower is getting nearer to actual home ownership.

As funds are accumulated, they may be loaned at each monthly meeting to qualified applicants at a rate of not less than five percent per annum. The rates vary from five to six percent at the present time in Massachusetts. The state laws provide that not more than \$10,000 can be borrowed on any one property and no loan may be made outside of Massachusetts. Funds may also be loaned at rates fixed by the board of directors to other co-operative banks and to the holders of unpledged, unmatured, matured, and paid-up shares of other co-operative banks.

Loans on
Shares.

"Loans may be made upon unmatured, matured, or paid-up shares which are not already pledged,

except as provided in section seventeen, to an amount not exceeding ninety percent of their withdrawal value at the time of the loan, and for every such loan a note shall be given, accompanied by a transfer and pledge of the shares borrowed upon as collateral for the loan."¹

Real Estate
Loans.

An individual desiring a loan upon real estate must make a written application stating the amount of loan desired and giving a description of the property offered, together with other necessary information as may be required. The application is passed upon by the security committee which submits a written report approving the security offered and certifying the value according to their best judgment. The report must be signed by at least two members of the committee.

"For every loan made upon real estate a note shall be given, accompanied by a transfer and pledge of the requisite number of shares standing in the name of the borrower, and secured by a mortgage of real estate situated in the commonwealth, the title to which is in the name of the borrower and which is unencumbered by any mortgage or lien other than municipal liens or such as may be held by the corporation making the loan."²

Up to \$10,000 may be loaned on one piece of real estate, and the loan may be made up to eighty percent of the value if im-

¹ Acts of 1933, op. cit., Section 29.

² Ibid., Section 27.

proved real estate, or fifty percent if vacant land.

The note and mortgage provide that dues on the shares and interest on the loan shall be paid monthly, together with all fines on payments in arrears, until such time as the shares reach their matured value or the loan is otherwise cancelled or discharged.

Real estate loans may be converted into demand or time loans when the total value of the shares pledged equals twenty-five percent of the original amount of the note. However, this must be at least four years after the date of the note and when converted the loan may not exceed sixty percent of the value of the real estate securing the loan. Converted loans may not exceed fifteen percent of the loans made by the corporation.

Loans may be repaid in full at any time in partial payments of fifty dollars or a multiple thereof. The laws also provide for the reduction of loans by cancelling the shares pledged for the real estate loan and crediting the loan with the value of such shares together with any amount the borrower wishes to pay. Then new shares in the current series are issued to the shareholder to the extent of one share for each two hundred dollars of the loan remaining unpaid. The new shares are transferred and pledged to the bank as security for the amount of the loan remaining. The loan is reduced to an extent equal to the value of the amount applied toward reduction of the loan. The

adjustment and new arrangement are attached to the note in the following form:

....., 19.....

"The value of the shares herein pledged, less deductions authorized by section thirty-three of chapter one hundred and seventy of the General Laws, as amended, amounting to \$....., balance due and unpaid of \$....., to secure whichshares of series.....have been issued, and are hereby transferred and pledged.

"For value received, I or we promise to pay to said corporation or its orderdollars at or before its monthly meeting on theday of each month hereafter, being the amount of the monthly dues on the shares hereby substituted, and of the monthly interest upon said balance of \$....., together with all fines chargeable by the by-laws of said corporation upon the arrears of such payments until said corporation or its order the said balance of \$....., with interest and fines as aforesaid.

Witness,

Approved

(Signature)

Treasurer."1

¹ Acts of 1933, op. cit., Section 33.

Construction
Loans.

Construction loans are building loans obtained in installments when the borrower owns the land and desires to build upon it. The procedure before borrowing is more complicated than when borrowing to purchase a house already built. The Security Committee must be satisfied as to the desirableness of the location of the lot. They must be supplied with estimates from a reliable contractor as to what the construction will cost. The co-operative bank often has its own skilled corps of men who can give advice when the borrower is deciding on plans. There can be no mechanics liens on the property, which are legal claims on property for the satisfaction of a debt. Before any work of any kind is done on the lot all papers must be drawn up and signed. Thus all plans and specifications are decided beforehand. This assures the borrower, inexperienced in construction, protection from later minor changes in plans by the contractor which might entail greater expense.

The loan up to eighty percent of the value of the house and land is made in installments rather than in a lump sum. Advances are made as the construction proceeds and only when payment for the construction is due. The contractor is paid directly by the bank. In this way the borrower receives no large sum on which he must pay interest before construction payment is due, and there is also, no possibility for the borrower to divert the money in payment of other obligations

which may be pressing. Thus the bank is assured that the loan will be used for the purpose intended.

A common practice is for the bank to pay twenty-five percent of the promised loan when the house has been boarded in, roofed, and chimneys built and to pay the remainder in from three to six installments as the construction proceeds.

Mortgage
Plans.

There are three mortgage plans. Up to 1935, the Co-operative Bank Mortgage Plan was the only plan used in Massachusetts. This plan originated with the co-operative bank movement and has been termed the easiest, simplest, and most economical plan ever devised. Under this plan a regular monthly payment of one-half of ^{one} per cent on the principal is paid each month to reduce the debt plus one-twelfth of the year's interest on the loan. Thus approximately half of each payment is applied to the principal of the loan in the form of an installment payment on shares in the bank, one share for each \$200 loaned. Dividends are paid to the amount paid in on each share which speeds up the repayment process. These dividends that are earned by the shares cut down the net cost of interest on the loan. The borrower pays the taxes on the property and fire insurance premiums himself unless some special arrangement is made with the bank to include these charges in the regular monthly payments. Also, the home owner is expected to keep up the repairs on his property. Loans under this plan are permitted up to eighty per cent of a fair

valuation of the property. The loan is repaid in from twelve to thirteen years, and then the matured shares are used to pay off the mortgage.

The Direct Reduction Mortgage Plan is more suited to individual needs. The borrower is allowed from five to twenty years to repay the loan, although a good many banks limit the time of repayment to fifteen or sixteen years. The amount of the monthly payments is varied according to the length of term of the loan. (See Table IV) Each monthly payment includes a payment on principal, interest on the mortgage, one dollar payment on one serial saving share, and one-twelfth of the yearly taxes. This is known as the direct reduction plan because each payment reduces the principal of the mortgage and this reduces the interest charges. Instead of buying shares which will eventually cancel the amount of the loan and pay off the mortgage, the monthly payment is applied immediately to reducing the mortgage. In this way, since the monthly payments remain the same, the principal payment becomes larger and portion required for interest grows gradually smaller. Thus the borrower is continually paying less interest. Tax payments are made monthly under the plan and the money is available when taxes come due. Fire insurance premiums, however, must be paid by the borrower himself. Since this plan does not include the purchase of serial shares, the payments on principal do not participate in the dividend earnings of the bank as in the

Co-operative Bank Plan. At the pre-arranged fixed date, the mortgage is paid off regardless of the bank earnings. The purchase of one serial saving share is required in order to conform to the state law with regard to this type of loan. It matures in about thirteen years at \$200 and is entirely separate from the mortgage loan.

TABLE IV

Typical Schedule of Monthly Payments
on the Direct Reduction Mortgage*

Amount of
Mortgage

\$1,000	\$10.85	\$10.12	\$9.50	\$8.99	\$8.55	\$8.17
2,000	21.71	20.23	19.00	17.97	17.10	16.34
3,000	32.56	30.34	28.51	26.96	25.64	24.51
4,000	43.41	40.46	38.01	35.95	34.19	32.68
5,000	54.26	50.57	47.51	44.93	42.74	40.85
6,000	65.12	60.68	57.01	53.92	51.29	49.03
7,000	75.97	70.80	66.51	62.91	59.84	57.20
8,000	86.82	80.91	76.01	71.89	68.39	65.37

Number

of Years 10 11 12 13 14 15

(To the above figures add 1/12 of your yearly taxes plus one dollar for one saving share)

* Schedule of the Merchants Co-operative Bank of Boston.

The Federal Housing Administration Mortgage Plan is a third method of loan reduction found in use in Massachusetts. This provides for extending the mortgage loan over any period of from five to twenty years. Each monthly payment includes a payment on principal, interest on the mortgage, one dollar payment on one serial bank share, bank insurance premium charge, a small service charge, one-twelfth of the annual charge for taxes, real estate assessments, and five insurance premium on the property. Loans are permitted to eighty per cent of the valuation of the property, and the maximum interest rate is five per cent. This plan was particularly set up for those who desired to extend their payments over a long period and at the same time include all the major annual costs of home ownership in one regular monthly payment.

Foreclosure. A foreclosure is the process of taking the property through the power given in the mortgage for breach of the conditions. It protects the investment of the funds loaned. There are four main reasons for foreclosing: (1) non-payment of dues and interest, (2) non-payment of taxes, (3) inadequate insurance, (4) waste and abandonment.

The minimum delinquency in payment of dues and interest to permit foreclosure is four months plus twenty-one days notice. If arrears have not been paid upon a term of delinquency amounting to six months after notice has been given, foreclosure is mandatory. At this time or at such an earlier

time as it becomes apparent that the debt will not be paid, foreclosure proceedings begin. Papers are filed with the court by the attorney for the bank "asking that the borrower be 'foreclosed' from exercising any further right of title in the property and requesting that the same be sold for the benefit of the creditor."¹ The court judges the case and enters an order in accordance with its judgment. The borrower has the right to present his side of the case. Then the property is advertised as subject to sale for debt for a length of time as stated in the law. It is then sold, if the borrower does not redeem it, at public auction to the highest bidder.

It is customary for the bank to purchase the property since it may then be able to sell it immediately at a higher price or even keep the property until it can dispose of it favorably, and in the meantime, rent the property letting it serve as a source of income. Sometimes foreclosed property results in a little profit but more often banks find it hard to dispose of it.

The co-operative banks do not rigidly enforce the four month rule for foreclosure and often resort to a suspension of payments which is provided in the statutes. They provide that, for borrowers engaged in military or naval service, "or for the accomodation of any owner of shares" pledged for a real estate loan "who is otherwise temporarily unable to make

¹ Clark and Chase, op. cit., p.223.

payments to such a corporation on account of his loan because of unemployment or other emergency"¹ the directors may allow him to forego installments on the principal as long as he meets the interest payments.

Other Investments. Though most of the funds of co-operative banks are invested in selected first mortgages on real estate, the directors may also invest any surplus funds in the public funds of the United States or any of the New England states. Under certain restrictions, funds may also be invested in the bonds or notes of any county, city, or town in the Commonwealth of Massachusetts or in the bonds or notes of any county, city, or town of the other New England states. The legal authorized bonds of certain other states, subject to certain statutory limitations and restrictions are also legal investments for a co-operative bank. Investments are also permitted in stock of the Federal Home Loan Bank.

Liquidity. Usually withdrawals can be met by the monthly payments on unmatured shares since they furnish a large monthly receipt of money. When there is an unusual demand for withdrawals and for loans on shares, the corporation may borrow with the consent of the commissioner from any source. Also, with like permission it may borrow from the Federal Home Loan Bank to make real estate loans. For security the corporation may pledge its real estate notes and mortgages and any other

¹ Acts of 1933, op. cit., Section 34.

securities. In case of liquidation of the affairs of the corporation, these loans constitute a debt which must be satisfied by the corporation before its assets are distributed to the shareholders.

General Provisions of the Law.

Every co-operative bank must maintain a reserve at all times to cover withdrawals of shares and applications for share loans. The reserve must equal not less than three per cent of the total resources. The general accounts must be kept by double entry. An annual report must be made to the commissioner within thirty days after the regular October meeting showing the condition of business on the close of that day. Provision is also made in the statutes for consolidation of banks, for reduction of the liabilities in case the bank's losses exceed its guaranty fund and surplus accounts, for permission to become a member of any leagues, and for permission to become a member of the Federal Home Loan Bank.

Part III

Recent Trends

Growth. Co-operative banks in Massachusetts show a record of steady growth and improvement from 1877 to 1930 when they reached the highest point in their comparatively short history. They were affected by the business depression as all other financial institutions which accounts for the falling off in members, shares, loans, and assets as shown in Table V.

TABLE V
Growth of Co-operative Banks

Year	Number of Banks	Number of Members	Number of Shares	Number of Loans on Real Estate	Average Amount Mortgage	Total Assets
1879	10	2,296	10,861	230	\$772	\$205,235
1890	103	43,896	302,623	6,548	1,271	9,264,833
1910	147	142,355	1,173,630	33,962	1,675	61,498,838
1920	202	296,197	2,994,723	72,068	2,215	173,979,205
1930	227	513,431	5,850,289	144,326	3,510	562,718,248
1936	213	392,361	3,266,567	122,174	2,753	456,196,954

Source: Annual Report of the Commissioner of Banks of Massachusetts, October 1936.

Present Status. The following is a comparison of the 189 co-operative banks in existence in October, 1937 with the same 189 co-operative banks in October 1936:

"Aggregate assets have increased \$3,136,871.58 during the year.

"The investment of the public in these banks amounts to \$367,361,432, an increase of \$2,037,802 during the year.

"Real estate loans of all types amount to \$296,197,709, an increase of \$4,898,498. It is noted that the co-operative form mortgage loans have decreased approximately \$8,000,000 while direct reduction loans have increased approximately \$20,000,000 during this period. This trend clearly indicates the growing popularity of the direct reduction type of mortgage loan.

"The total combined guaranty fund, surplus account and other reserves have increased approximately \$462,000 during the year and the combined book figure of these accounts is now in excess of \$23,653,000, which is approximately 5.96 per cent of the aggregate assets."¹

The decrease in the number of co-operative banks from 213 in October 1936 to 189 in October 1937, is accounted for as follows: (1) Two consolidations of two each; (2) Conversion of twenty-two co-operative banks into federal savings and loan associations.

¹ Annual Report of the Commissioner of Banks, October 1937.

Contributions
of Federal
Institutions

Though co-operative banks struck a business recession after 1930 which brought a temporary halt to their previous continuing advance in business transacted, they continued their improvement along the lines of sound business policy and methods of business procedure. What on the face of things might be termed competition but in reality is simply a good influence, the federal savings and loan associations, has resulted in a great improvement. This is the Direct Reduction Mortgage Plan. This plan was introduced by the Federal Associations and is the only plan used by them. It affords a simpler and probably cheaper arrangement for both bank and borrower. For the bank, it simplifies the accounting, and for the borrower, who formerly had to pay interest on the face value of the loan until his shares matured, with the exception of an occasional adjustment, the principal is reduced each month making the interest payments less and less. It also extended the loan over a greater period of years with smaller monthly payments if so desired.

Another Federal contact which has proved of benefit is the Federal Home Loan Bank System established by Congress in July 1932. It is under the supervision of the Federal Home Loan Bank Board. There are twelve regional banks, each operating under its separate board of directors. These twelve banks have as members savings and loan associations and similar thrift and home financing institutions. To become a member, a co-op-

erative bank must be investigated by a representative of the bank board of the New England regional bank, who goes over the last annual report of the bank and reviews past and current bank statements. If these indicate a sound financial standing, the bank is then certified to the Federal Home Loan Bank Board at Washington for approval. The co-operative bank now becomes a member by subscribing to the stock of its regional Federal Home Loan Bank. Member banks may borrow from the regional bank on varying terms and interest rates, according to the needs of the institution. Advances may be made on the open note of the co-operative bank or on home mortgages as collateral. This bank system, by supplementing the operations of co-operative banks through financing them an additional source of funds, serves a useful purpose as a reserve.

State Development The organization of the Massachusetts Co-operative Central Bank has proved a sound step forward. It has alleviated the withdrawal situation tremendously. It also fills a great need in providing for liquidity. The Central Bank has taken over the claims of the shareholders for the nine banks certified for liquidation from 1931 to 1937. In the spring of 1938 it was made a permanent institution. It will take care of insuring the deposits of co-operative banks rather than having them insured under the Federal Savings and Loan Insurance Corporation which came into being in 1934.

Competition. Competition is often spoken of with regard to co-operative banks which are neither from purpose nor intent competitive. They are mutual organizations with an obligation to the community to encourage thrift and home ownership, giving a service which according to the law no other institution may duplicate by similar operation. They come the nearest to actual competition with respect to the Federal Savings and Loan Associations. Can it truly be called competition, however, when it is realized that the Federal Associations have not in a single case in Massachusetts been newly organized? In this state the thirty Federal Associations now existing are all converted co-operative banks which were weak and floundering.* These associations have shown a great gain under their new supervision. The purpose of the founding of Federal Savings and Loan Associations, besides offering a sound and uniform system, was to strengthen the building and loan situation by giving service to those areas in which associations were lacking or inadequate. Thus, they are supplementing, rather than competing.

The idea of competition with regard to savings banks

* Note: Twenty-two co-operative banks were converted between October 1936 and October 1937, (see page 65). The other eight conversions were effected between June 1933 and October 1936.

also carries little importance. They can loan only up to sixty per cent of the valuation of the property. Only recently have they required monthly amortization of loans which is only a temporary measure for greater assurance of getting their money back under hard business conditions, and their loans are not of the long term type. With savings banks, residential loans are just a side line. The Federal Home Loan Bank System was organized for use by life insurance companies and savings banks as well as building and loan associations. The Federal Home Loan Bank System has become almost exclusively a building and loan institution. Morton Bodfish explains this as follows: "The life insurance companies and savings banks had rather drop out of the lending field than borrow when funds are low."¹ Giving a different type of service in the loaning field both savings banks and insurance companies can not be called competitors. As regards savings, there has been a disparity between savings banks and co-operative banks. The one has demand deposits at low interest; the other forces the saver to wait longer when he desires to withdraw his funds but for a higher rate of interest. The saver makes use of the one or the other according to his needs, and thus competition is at a minimum.

¹ Morton Bodfish, The Burroughs Clearing House, July, 1937, "Progress Report on Building and Loan."

Problems
and
Possibilities

The co-operative bank and building and loan associations are going through a transition which may mean some very revolutionary changes in the future. Signs of this transition can be seen the country over in the trend toward larger organizations. Perhaps some system of a central bank with local branches is evolving such as is already established to carry on the building and loan business in England.

Another sign of change in Massachusetts can be seen in the falling off of the serial share while the paid-up share has shown an increase. It was the serial shares that were withdrawn during the depression rather than matured or paid-up shares. This was contrary to what the bank officials expected. The falling off in serial shares is a matter of concern to co-operative bankers because it makes for difficulty in getting money to loan. The trouble lies in a changed attitude of the young people today. They find it difficult to save because of the many demands of our high standard of living. The problem of the co-operative banks is that of advertising and educating the public with regard to the services and savings and investment opportunities that they offer.

A criticism that might be made with regard to co-operative banks is the great difference between interest required on loans and interest received on savings. The average rate of dividend on all types of shares for 1937 was 3.53 per cent

while the rates on loans were predominantly around six percent.¹ Where the risk is generally so slight, it seems as though the rates on loans should go down or else the interest on shares should be increased. The two must be brought closer together if the banks are going to carry out the idea and purpose for which they were founded. They are mutual co-operative organizations in which funds are accumulated by members to be loaned to members. Being a co-operative organization their right to exist as such is based on whether they can furnish a service to their members at a price which offers a definite saving. However, the Federal Associations which offer loans at four and one half per cent may be able to lead the way here also.

Conclusion. Having survived the depression co-operative banks are showing steadily better records in their comeback. In February it was reported that a long unbroken record of month by month gains in new home financing loans had been extended and that since the last real estate boom there had not been such a large volume of February loans. It amounted to a 13 per cent increase and an actual dollar volume increase of \$329,150 over state-wide totals for February, 1937.² There is every indication that it will be only a few years before the total resources will exceed those of the pre-depression high, and meanwhile, the co-operative banks have surpassed anything

¹ Commissioner of Banks, op. cit.

² Report of Warner M. Allen, executive secretary of the Massachusetts Co-operative Bank League for February, 1938.

ever known before for solidarity.

Co-operative banks in Massachusetts have a unique record in coming through the depression without a dollar of loss to shareholders. This is full attestation of the soundness of the institution. This record is an outcome of "sound state laws, efficient state supervision, well-organized central funds, and a generally high quality of individual managements."¹

Calvin Coolidge says of them: "These institutions have long since established themselves among the soundest and most useful financial instruments of the country, and their contribution to making Massachusetts a community of home-owning families has been one of their most important services."²

¹ Remarkable Co-operative Banks, op. cit.

² Bennett, op. cit., p. 16.

Digest

Co-operative banks, the Massachusetts type of building and loan association, serve as thrift and home financing institutions. Originating in England the plan was brought to Pennsylvania where the first association in this country was organized. The building and loan association idea spread rapidly throughout the United States. The movement from its inception can be divided into four periods: (1) 1831-1885, early experiment and ultimate development of the five main plans of organization - terminating, serial, permanent, Dayton, and permanent capital; (2) 1885-1900, rise and fall of the national associations; (3) 1900-1910, reconstruction; (4) 1910 to the present, expansion on sound lines.

The history of the co-operative banks in Massachusetts began with the organization of the loan and fund associations. These were terminating associations and went out of existence at the time of the Civil War. There are no records of any such institutions in existence from then until 1877 when they ^{were} established by act of the legislature as co-operative saving, loan and fund associations which name was changed a few years later to co-operative banks. Legislation, passed from year to year, has been continually strengthening the co-operative bank situation up to the present. It has provided such outstanding additions as the guaranty fund, paid-up shares, and

Co-operative Central Bank. The trade association of the co-operative bank in Massachusetts is the Massachusetts Co-operative Bank League which was organized in 1889. Its purpose is to promote the interest of co-operative banks as a whole. It has done a praiseworthy job especially in working toward recodification of the law which was brought about in 1912 and again in 1933.

In Massachusetts the co-operative banks are under the supervision of the Commissioner of Banks which means that he directs their yearly examination and sees that the administration of the banks is in compliance with the statutes. Co-operative banks may do nothing except what the statutes provide.

Twenty or more people with the consent of the board of bank incorporation may become incorporated for the purpose of accumulating savings of members and loaning such to them. Variability is allowed only in the by-laws, where certain minor points such as the duties of the officers, method of loaning the funds, and dates for various meetings are left up to the individual bank.

Each bank has a board of at least five directors and a clerk elected by the shareholders. The president, vice-president, treasurer, and all other officers are elected by the directors. The duties of the treasurer are specified. Each bank has a security committee which examines real estate offered for security on mortgage loans. The capital is made up of dues paid in by savers and borrowers, profits earned, and invest-

ments in paid-up and matured shares.

As a savings institution co-operative banks promote regular, systematic saving. This is accomplished through the issuance of serial shares usually in quarterly series. The shares are matured through monthly payments with interest compounded. Withdrawals on unmatured shares require a thirty day notice and on paid-up and matured shares a ninety day notice. Provision is made for the issue of prior series shares. Shares in arrears more than six months may be suspended. If the directors deem it necessary for the welfare of shareholders, they may retire unmatured shares four years after issue. Fines are used to encourage regularity of payment. Permanent investment shares, matured or paid-up or both may be held to the extent of ten each per individual. Sixty shares - forty serial, ten matured, and ten paid-up may be held by one individual. Double this amount may be held in joint account. Dividends are paid quarterly on all shares in most co-operative banks. At each distribution of profits from one to five per cent of the net profits must be put away in a guaranty fund until it equals ten per cent of the assets. A surplus account is also maintained.

As a loaning institution co-operative banks promote actual home ownership. Loans on real estate are made on first mortgage security only. Loans are also made on unmatured, matured, or paid-up shares. All loans are amortized monthly,

and the payments include interest and a part of the principal. When a building is being put up, construction loans are used which provide for the awarding of the loan in installments. Loans are made up to eighty per cent of the valuation and may not exceed \$10,000 on any one property.

Repayment of loans proceeds by any one of three different mortgage plans. The co-operative bank mortgage plan is based on the purchase of shares, the direct reduction mortgage plan directly reduces the principal with each payment, thus lowering the interest payment each month, and the Federal Housing Administration Mortgage Plan includes all major annual costs of home ownership in one monthly payment.

A mortgage is foreclosed when a member fails to keep up his monthly payments, fails to pay his taxes, has inadequate insurance, or allows his property to run down.

Other investments may be made by the bank in restricted lists of bonds.

The growth of these institutions has been remarkable, reaching a peak in 1930 which has fallen off to a certain degree since, but at a diminishing rate and with all evidence pointing toward a return to the high level of 1930 in the future.

Certain federal institutions have made important contributions toward improvement of the system and its methods. The federal savings and loan associations have introduced the direct reduction mortgage plan which is enthusiastically being

adopted by the co-operative banks, and the Federal Home Loan Bank serving as a reserve, has provided a source from which banks may borrow.

Competition is at a minimum. This is because co-operative banks perform a specialized service according to a distinct plan which the law specifies may not be duplicated in operation by other institutions.

Recent trends show that co-operative banks are going through a transition. This can be seen in the predominance of large organizations, the increase in paid-up shares, and the dropping off in serial shares.

A problem which seems due to present itself as a determinant of the future success of these institutions is the question of lower interest rates on loans and higher interest rates on savings. However, the banks are for the most part aware of their weaknesses, and all indications point toward proper adjustments as the time demands. Their record attests of their soundness, and makes Massachusetts an example worthy to be studied by all such institutions the country over.

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