

**THE FEDERALIZATION OF
BUILDING & LOANS, 1927-1940:
The North Carolina Experience**

Kenneth A. Snowden and Joshua James**

**Department of Economics
UNC at Greensboro
(snowden@uncg.edu)**

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The American savings and loan industry experienced more rapid growth during the home building booms that followed the first and second World Wars than in any other period in the twentieth century. During both postwar decades (1918-28 and 1945-55) the industry's total assets increased more than four-fold and it supplied more than 40 percent of the nation's intermediated home mortgage debt. The two expansions had very different impacts, however, on the industry's structure. The number of S&Ls remained virtually constant between 1945 and 1955 (at around 6,000), while in the earlier decade the number of firms jumped from 7,800 to nearly 12,700 over the course of the expansion. This change in entry behavior reflects a complete restructuring of the industry that occurred during the 1930s which I refer to here as federalization. This paper attempts to explain why federalization came about and to show how it reshaped the savings and loan industry.

It is well-known that the commercial and investment banking sectors were also restructured by federal legislation during the 1930s. The less familiar case of the thrift industry needs to be seen as a separate process that was conditioned by its unique history, institutional complexities and Depression-related difficulties. The first section of this paper identifies three elements of the process that define its singularity.

To begin with, the federalization of the S&Ls was more abrupt and fundamental than the regulatory adaptations that affected other financial institutions during the 1930s. The process involved a change in name (from Building & Loan to Savings & Loan), a shift in regulatory control that affected seventy percent of the industry's assets, and even a restructuring of the fundamental contractual relationship between S&Ls and their members. The unusual speed and scope of change that was involved is clearly revealed by the legislative chronology—in only two years a federal

discounting facility (1932), a system of federal charters (1933), and a federal insurance program for members' accounts (1934) were established for the S&L industry. In contrast, the same set of institutions were introduced into the nation's commercial banking system over a period of seventy years.

The breakneck pace of legislative action is even more impressive given that the federal government had virtually no prior legislative or regulatory involvement with the Building & Loan industry. As a result, Presidents Hoover and Roosevelt, as well as the Congress, had to draw upon external expertise to design a complex set of institutions, and so did the regulatory bodies that were created to administer them. A second element of saving and loan federalization, therefore, was a result of federal inexperience in the thrift industry—the process was directed to an unusual extent by industry insiders. The dominant trade group, the United States Building and Loan League, had pressed for uniform state-level regulation and established educational programs to professionalize B&L managers during the 1920s. The goal was to combat what USBLL leaders characterized as an unhealthy proliferation of B&Ls and to impose standards on an institutionally diverse industry. The USBLL was ready and willing to offer a comprehensive set of 'model' proposals for regulatory change, therefore, when federal attention finally turned to the residential mortgage finance system as the homebuilding industry collapsed in the early 1930s. The USBLL was intimately involved in designing and implementing every thrift-related federal initiative during the 1930s, and by 1940 it had helped to create a new S&L industry that its leaders could have only hoped for a decade earlier.

To fully understand what the USBLL accomplished a third element of federalization must be understood—the new S&L industry was established and began to recover at the same time that most of the old B&L industry was experiencing a protracted decline. Roosevelt did not close Building & Loans during his banking holiday, nor could members "run" on a B&L and force it to liquidate. So even though 2,000 B&Ls had disappeared by 1933, it took until 1941 for nearly another 4,000 to liquidate and close. Federalization, therefore, was not a program to save and rehabilitate an existing industry. It was, instead, a culling process through which some B&Ls adapted to and joined an

entirely new federal S&L structure, while others remained outside to disappear or become marginalized.

By fleshing out and connecting these three elements in the first section of the paper I hope to offer a plausible interpretation of federalization—it was the USBLL's child and its victory. In the second section I confront the much harder problem of providing supporting evidence. The approach taken here is to examine two specific issues for B&Ls that operated in North Carolina during the 1930s. The first is to assess whether entry into the new federal system was conditioned on the same characteristics that determined the solvency of B&Ls early in the Depression and the probability of subsequent liquidation. The USBLL argued that it should have been—so that the new federal system was not used to bail out weak and failing institutions. The North Carolina experience suggests that a more complex selection rule was involved. Factors strongly associated with the relative health of a B&L in 1932, before the new federal system had been established, are found to be generally poor predictors of which institutions eventually joined the new system and which ones subsequently liquidated.

This evidence suggests that B&Ls that joined the new federal system were more likely to survive for that reason alone—not because they were in a stronger condition to begin with. This leads to a second exercise in which the impact of the new federal programs on the growth of surviving B&Ls between 1935 and 1940 is assessed. This evidence indicates that the features of the new federal system that were most closely associated with distress—FSLIC insurance and HOLC refinancing activity—stimulated asset growth. Taken together these results provide some first, albeit tentative, support for the view that the new S&L regulatory structure helped USBLL-favored institutions to survive the 1930s while the remaining elements of the old B&L industry were allowed to wither away.

Before turning to the details of the argument, brief mention should be made of its longer-run implications. The Depression-era developments I refer to as federalization laid the groundwork for the S&L industry's post-WWII expansion, but they have also been implicated in its post-1970 demise. By that decade the same regulatory environment that had served the industry so well since WWII came

under widespread attack—it was alleged to have made S&L managers too comfortable and inefficient, to have permitted too many conflicts of interest and too much nepotism, and to have ossified the industry so that it was ill-suited to cope with either inflation or the new challenge of mortgage securitization. These arguments imply that the value of the postwar S&L charter was increased by Depression-era regulation that protected and subsidized incumbents. What has been missing in this line of thought, however, is an explanation of how the particular group of individuals who served as S&L managers during the 1950s and 1960s came to control these property rights in the first place. An important contribution of the work presented here is to fill that void in the literature.

To understand how it does, note that the events described here clearly shaped the postwar structure of the S&L industry. Some 12,000 B&Ls were operating in the U.S. on the eve of the Depression. About half of these had failed by 1941—some quickly, others after a long decade of liquidation. Very few of these institutions ever joined the FHLB system, received a federal charter, or insured their accounts through the FSLIC. Another 3,000 B&Ls survived the 1930s without participating in the new federal programs; two-thirds of them never joined the FHLB system and eventually became almost completely marginalized. The future of the new S&L industry belonged to the 3,200 B&Ls who joined the new federal system in some capacity by 1941 and to 600 new institutions that were established during the 1930s under the new federal chartering system. These 3,800 institutions claimed 70 percent of the industry's assets by 1941, over 90 percent by 1950 and, along with approximately 1,000 late joiners, fully 97 percent of savings and loan assets in 1960. Participation in the new federal institutions during the 1930s set in place the structure and patterns of control that dominated the S&L industry until the 1970s.

I. Federalization: Background and Accomplishment

The mutually-owned building & loan association was first introduced to the U.S. in the 1830s to provide housing finance for the working classes around Philadelphia. By the 1920s, and in fact as early as the 1880s, the B&L form had spread to every state in the nation and to thousands of communities both large and small. The B&L movement was financial innovation thinly wrapped in mutual ideology, and by the 1920s its advocates had been trumpeting its social benefits, explaining its methods, and encouraging its adoption for nearly a century. The industry remained wide open to new entrants in the 1920s, and remained virtually untouched by federal regulation.

The industry, instead, was subject to an uneven patchwork of state-level regulation. At one end of the spectrum were states that required annual audits and examinations, imposed mild restrictions on entry and asset choice, and even passed "model" B&L legislation (Ohio) or created a dedicated discounting facility for thrifts (New York). At the other extreme were states like Virginia and Florida that finally passed specific B&L legislation in the mid-1920s, but even then delayed implementation for a year or more. In the middle stood the United States Building and Loan League, which had emerged as the industry's leading trade group in the 1890s. The great battle then, and the USBLL's major accomplishment up until the mid-1920s, was to secure state legislation to outlaw the "National" Building and Loan Association movement. The National episode illustrated that B&L leaders were willing to use legislation to restrict entry and to assert control over industry structure and practices, but that impulse was muted for the next thirty years as the local B&L movement focused on stimulating entry and growth to offset the reversals it had suffered during the depression of the 1890s and the accompanying collapse of the National association movement.

So nearly all types of local building and loans were free to enter the industry in the 1920s and to operate within it. Again there were extremes. Many B&Ls were run as part-time businesses out of second floor offices—most often as appendages of the real estate or insurance business of their managing officer. Very small organizations like these had been the industry's backbone for decades, and operated throughout the country. But the B&L idea was flexible enough to also claim a few

thousand medium to large-sized institutions that owned home offices, opened for regular business hours, and employed differentiated and increasingly professionalized staffs. "B&Ls" in the 1920s came in all shapes and sizes, operated under no fewer than 143 different appellations, were subject to widely different state regulatory structures, and were organized under a variety of organizational plans.

Despite the diversity, the vast majority of B&Ls shared an important institutional characteristic—they issued share installment contracts to members which had served as the foundation of the mutual B&L movement since its inception. These were equity contracts which gave members ownership rights in a legal corporation—the B&L. As a result, the liabilities issued by a B&L were fundamentally different than a bank deposit in both fact and law. The difference proves to be critical in understanding how building and loans were disproportionately shocked by the economic collapse in the early 1930s, and why segments of the industry continued to decline well into the second half of the decade. Because it represented equity, the share installment contract provided a B&L with a long window during which it could liquidate assets and recover from a shock—its members had no right to withdraw at their pleasure. As a result, thousands of B&Ls enjoyed months, and even years, of breathing space during the 1930s. Unfortunately, in many cases this only postponed liquidation because the share installment contract also turned out to be particularly vulnerable to widespread foreclosures and decreases in property values.

Upon joining an association a member would pledge to purchase a certain number of shares by paying regular weekly or monthly dues. The contract was fulfilled when the accumulated dues plus the member's share of association profits reached the specified maturity value. At that point the member could withdraw from the association by taking a cash payment for her share. Under the installment plan, therefore, a member participated fully in her association's profits and lending risks—when profits were high her combined weekly dues and dividends accumulated more rapidly, her contract was fulfilled in a shorter time, and her rate of return increased. In bad times a greater number of weekly payments were required to reach maturity, so the rate of return was lower. Amortization was accomplished in the pre-Depression building and loan by requiring borrowers to pledge to a sufficient

number of installment shares so as to fully secure a traditional straight mortgage loan. A borrowing member, therefore, was at the same time a debtor to the association and a stockholder in it with full voting rights and a proportional claim on the profits and losses on its entire mortgage portfolio. When his shares matured, the borrower's equity was just equal to his initial loan balance, and the debt was cancelled. So the borrowing member benefited from higher dividends just as did non-borrowing members. In his case, however, higher profits reduced the time required to pay off his loan principal and, consequently, the number of interest payments he had to make.

To understand the vulnerability of the share installment plan during the depression, consider the impact of a single borrower defaulting on interest payments. In this case the association's profits and, therefore, its dividends decreased so that all remaining borrowing members had to pay dues for a period longer than expected in order to extinguish their loans. They faced, in effect, an unscheduled increase in their mortgage interest rate. The situation was much worse when a borrower defaulted and the association foreclosed on the home. Foreclosure itself imposed costs on the association, and then it was left with property to either sell or to maintain and manage. These activities generated substantial losses during the 1930s, and many associations had to actually write them off against the value of their members' shares. For the borrowing member the fall in share value actually represented a larger effective outstanding loan balance. Under the share accumulation contract, therefore, losses on an association's real estate holdings had a direct, negative effect on all the rest of its borrowers—and induced even more of them to default.

Between 1930 and 1933 the real estate holdings of B&Ls in the U.S. increased from \$238 to \$828 million, or from nearly 3 percent to 17 percent of total assets. But even worse lay ahead. The industry's real estate holdings peaked at \$1.2 billion in 1935 (fully twenty percent of assets) and then began a slow protracted decline for the rest of the decade. By 1939 B&L real estate holdings (shown in the left panel of Table 1) still represented twelve percent of assets for the industry as a whole, a staggering 22 percent in the Mid-Atlantic region, and between nine and twelve percent in New England and the East North and South Central regions. Even more sobering, these figures apply only to B&Ls that were still

operating in 1939—an unknown amount of real estate was owned by closed B&Ls who were in the process of liquidating.

All financial intermediaries experienced severe dislocations during the 1930s, but B&Ls were particularly hard-hit because of their reliance on share installment contracts. Two thousand associations were forced to close by 1933, while the industry's mortgage portfolio decreased by nearly one-third and its share of the intermediated single-family mortgage market fell from 50 to 43 percent. Over the next two years, the Home Owners' Loan Corporation refinanced \$2.9 billion of home mortgage debt—most of it to take slow-performing loans off the books of building and loans, commercial banks, mutual savings banks and life insurance companies. All four of these lending groups saw their market shares reduced by HOLC activity, but none more than the building and loans whose share of intermediated single-family residential mortgage debt decreased to 29 percent by 1935 (including HOLC). The combined share of the other three lenders, on the other hand, fell only from 50 to 45 percent over the entire 1929-1935 period. Even worse, the building and loan industry continued to shrink in absolute size. Between 1935 and 1940 another 2,500 associations were forced to close, most of them of the traditional small, part-time variety, and the industry's total assets decreased by another \$150 million. It is hardly surprising, however, that the B&L industry fell further and longer than competing intermediaries during the 1930s—half of the industry was gradually liquidating while the other half was adapting to the entirely new system that was implemented by the federal government in the midst of, and in response to, the worst depression in the nation's history.

Most important in this process was the establishment of the Federal Home Loan Bank system in 1932, some fifteen years after the USBLL had originally, and unsuccessfully, pressed Congress to create a discounting facility specifically designed for B&Ls. I have described the legislative history and initial organizational structure of the FHLB system in greater detail elsewhere (Snowden, 2000). For purposes here, the important point is that the USBLL was intimately associated with its creation and implementation. After Hoover's Presidential Conference on Home Building and Home Ownership endorsed the idea of a home loan discount bank, two USBLL executives took up residence in

Washington, played a major role in drafting the enabling legislation, and lobbied extensively for its passage during the political and economic tumult of 1932. One of these men and another USBLL executive were then appointed to the original five person Federal Home Loan Bank Board. From these positions the League had important input during Fall 1932 as the number and location of the system's regional banks were determined, as the structure and responsibilities of the central bank board in Washington were defined, and as the requirements for membership in the system were specified. USBLL representatives even designed the membership form for the FHLB. For nearly three decades the USBLL had been the major voice for the entire B&L industry, and it had consistently supported all local B&L associations in legislative initiatives and its publicity campaigns. In the industry's hour of greatest need, however, they drew up and supported sharp distinctions between B&Ls that were qualified to become members of the new FHLB system, and those that were deemed to be too small, too weak, or too "traditional" in structure.

USBLL representatives not only designed the FHLB system, they also made sure that they were well-represented on the FHLB Board, and the boards of each regional bank. From these vantage points they continued to orchestrate thrift-related initiatives. Granting access to industry representatives was quite natural, of course; they had broad experience running B&Ls and more knowledge about the industry than any group within or outside the federal government. They also had an agenda, however, that had been formulated during the rapid expansion of the industry during the 1920s—to impose uniformity and professionalism on the industry.

When the time came to set up a new Federal chartering system in 1933, therefore, industry representatives dusted off the "model B&L legislation" that they had been encouraging individual states to adopt for nearly a decade. It was passed, and these institutions were then established, supervised and examined by the FHLB regional banks. The new charter included the infamous 'fifty-mile rule' that proscribed the extent of the S&Ls lending territory, the stipulation that new charters could be issued only if a "necessity existed in the community" and existing B&Ls would not suffer "undue injury", and a recommendation that the traditional share installment plan be replaced by

'savings share accounts' and the direct reduction loan—the familiar modern contract under which the borrower paid both principal and interest each month, with a commensurate decrease in the outstanding loan balance. All of these provisions were favored in the 1920s by the large, well-established associations from which leaders of the USBLL were drawn.

The Federal chartering provisions were enacted in the Home Owners' Loan Act of 1935. The impetus for the bill, however, was to establish the massive HOLC mortgage loan refinancing programs to assist all intermediaries caught up in the mortgage crisis. This program was placed under the direction of the FHLB, however, and USBLL members were forewarned and educated about the complexities of the program well in advance so that they could be first in line in divesting themselves of poor performing loans. The FSLIC insurance program was also placed under the supervision of the FHLB. This represented the only thrift-related piece of federal legislation during the decade that did not arise from USBLL initiative. As soon as the USBLL accepted that Roosevelt was determined to implement what they considered to be a bad idea, however, it helped to fashion an acceptable system.

Figure 1 provides a dynamic view of how participation in federal institutions reshaped the industry between 1930 and 1950. As was mentioned earlier, the number of state-chartered B&Ls that did not become FHLB members plunged dramatically during the 1930s, and then more gradually during the 1940s. Also apparent is the attendant decrease in their share of assets over the same period. The figure also reveals just how rapidly state-chartered B&L associations accepted the new FHLB system, or at least those that were deemed eligible to join. More than 2,000 became members in the system's first year of operation, and another 500 by the end of 1934. Together these associations controlled forty percent of the industry's total assets, but certainly a much larger share of associations that were not in the process of liquidating. After 1935 increasing numbers of FHLB state-chartered members chose to participate in the FSLIC insurance program, although at a relatively modest pace. The final group of FHLB members were S&Ls that received charters under the new Federal system (and were also required to join the FSLIC program). By 1940 about 600 of the Federal S&Ls were newly created institutions, the other 800 were B&Ls that had converted from state charters. Together

these institutions controlled nearly one-third of all thrift assets by 1940. In total, approximately 3,200 state chartered associations that were open for business in 1933 became members of the FHLB system during the 1930s (some of them as converted Federal Associations).

The ready acceptance of the FHLBB system in 1933 and 1934 was certainly driven by a desire to gain access to the discounting facilities at the regional banks. There is reason to believe, however, that the FHLB loans (called “advances”) made to members during the 1930s did not play a critical role in the industry's recovery. An average of \$160 million of advances were outstanding to member associations between 1935 and 1940, or about four percent of their combined assets. While this liquidity certainly must have helped some members to survive and recover, the contribution pales next to that of the HOLC which ultimately purchased \$700 million of poorly performing loans from both member and non-member B&Ls. I attempt to assess the relative impacts of each program in the next section.

Table 1 (right-hand panel) provides a cross-sectional view of the changes that accompanied the new Federal regulatory structure. All of the new Federal programs had their smallest impacts in the Mid-Atlantic region, where B&Ls suffered badly during the 1930s, and New England, where B&Ls suffered hardly at all. More than 80 percent of operating associations in both areas remained state-chartered in 1941, and most had not joined the FHLB. Associations throughout New England and in New York had enjoyed what most commentators believed were excellent systems of state regulation in the 1920s. The 1941 data suggests that they had little to gain from the new federal institutions and chose to remain within their familiar regulatory framework. New Jersey and Pennsylvania, on the other hand, were home to more than two thousand small, traditional associations—most of whom did not qualify for membership.

The West South Central, Mountain and Pacific regions lie at the other extreme—by 1941 their traditional state-chartered B&L associations already had been marginalized, and even uninsured FHLB members played a small role. More than 60 percent of the associations in all three regions had become insured, and they held at least 70 percent of industry assets. The new Federal associations also had

made their largest impact in these areas. On the other hand, the institutional transformation was most balanced in the South Atlantic and East South Central regions as both associations and assets were spread evenly across all categories save for insured FHLB members. In the two North Central regions, finally, the bulk of the industry remained state-chartered institutions, but there was substantial participation in both the FHLB system and the federal insurance program.

II. Federalization in North Carolina

This section takes a closer look at federalization by using North Carolina as a case study. The choice may seem surprising at first—Building & Loan origins were ethnic, urban, working class and Northern. But by the 1920s B&Ls were growing rapidly in urban areas throughout the nation—even those located in southern, predominantly rural states. North Carolina was a leader in the region. By 1905 North Carolina building and loans were already under the supervision of the Commissioner of Insurance. He reported for the first time in the following year that the state's 75 associations claimed 17,000 members and held \$4.3 million of total assets. By 1918 the number of B&Ls had more than doubled (to 167), membership had tripled and total assets had more than quadrupled. The pre-Depression peak in the number of North Carolina B&Ls occurred seven years later (245 associations), for total membership in 1928 (108,000), and for total assets one year later (\$95 million). By the end of the 1920s, B&Ls were operating in all but one of the fifty-seven North Carolina cities with a population greater than 2,500, and in some 85 smaller communities.

The contribution these institutions made towards financing residential building was equally impressive. Between 1920 and 1930 the number of nonfarm dwellings in the state increased from 230,000 to 344,000—B&Ls reported financing more than 52,000 new homes during just seven of those years (1923-1929). On the eve of the Depression, the building and loan industry in North Carolina had experienced very rapid growth for more than two decades and had become the dominant provider of home mortgage finance in the state.

North Carolina B&Ls relied heavily on the share installment plan, but during the 1930s they fared much better than the nation as a whole (see the left panel of Table 2). Real estate held as a percent of total assets peaked at 11.8 percent in 1934, but decreased rapidly to only 2.7 percent by 1939. By then most of the failing state associations had already been liquidated, while the remainder were returning to pre-Depression levels of assets and mortgage loans. The experience within the state was uneven, however. B&Ls in the western third of the state (the Mountain region) suffered increases in real estate holdings by 1934 that were comparable to those in the nation as a whole (18.5 percent of assets), and as a group recovered much more slowly than B&Ls to the east (total B&L assets in the Mountains increased by only 18.5 percent between 1934 and 1939). Also relatively hard-hit were B&Ls in North Carolina's largest 24 cities, which experienced relatively larger increases in real estate holdings between 1929 and 1934 and a much slower recovery in total assets after than did associations in cities with populations of 9,000 or less.

The course of events in North Carolina over the 1930s is shown in Figure 1 and Table 2. The first reveals a pattern of change quite similar to the nation as a whole—a sharp and then more gradual decrease in the numbers of non-members and their share of assets; a rapid acceptance of the FHLB system in 1933 and 1934; and more gradual participation in the Federal chartering and FSLIC programs. Caution must be taken in considering the right-hand panel of Table 2, however, because the shares of associations and assets shown there are computed on a base that excludes the 22 Federal associations that were operating in the state in 1940. (The N.C. Commissioner of Insurance did not report data on individual Federal Savings and Loan Associations.) These institutions represented 12 percent of all associations operating within the state in 1940, and controlled 20 percent of total thrift assets—somewhat smaller shares than for the entire nation.

Also lagging behind national trends were the relative number and asset holdings of state-chartered FHLB members who joined the federal insurance program. On the other hand, FHLB participation was more extensive in North Carolina than nationally in both numbers and share of assets. Despite these modest differences, the transformation of the B&L industry in North Carolina is

broadly representative of important national trends—and an appropriate and interesting case to examine in more detail.

The remainder of Table 2 reveals marked variation in the importance of Federal initiatives across regional and city-size categories. Participation in both the FHLB and the FSLIC program was particularly low in the Mountain region, in which, as was noted earlier, B&Ls suffered the largest decline and slowest recovery. Conversely, the new federal initiatives made their greatest inroads in the coastal region, which had fared relatively well. Across city sizes a very different pattern emerges. B&Ls that operated in the state's 24 largest cities suffered the greatest reverses between 1929 and 1934, but joined the FHLB and FSLIC in greater relative numbers than did associations in smaller cities.

The pattern across city sizes suggests a very interesting conjecture. In designing and implementing the new Federal structures, representatives of the USBLL emphasized that they were not intended to bail out weak, poorly managed institutions. But in North Carolina it appears that the most troubled institutions in 1934 were most likely to become FHLB members and FSLIC participants. This might reveal that the USBLL was working out a more complex agenda than they claimed. I have argued above, that industry leaders had begun to draw distinctions among the many different types of B&Ls that were operating in the 1920s. Before the Depression even began, therefore, judgments had been made concerning the characteristics that made a B&L strong and well managed—large associations with differentiated, full-time staffs. It would have been natural, therefore, for the USBLL to establish eligibility criteria for FHLB membership that made some allowance for "good" institutions to join even though they had been badly damaged by the ravages of Depression.

Alternatively, it is reasonable to conjecture that the entire B&L industry was facing a permanent reversal in fortune in the early 1930s that would take decades to repair—this was the outcome, after all, of the National Building and Loan debacle of the 1890s. In this situation the USBLL could well have determined that the support and assistance of the new federal structures they had been enlisted to design should be directed towards the types of institutions that were most worthy of saving—regardless

of their current circumstance. At bottom, the issue turns on a) identifying the factors that determined which associations joined the new federal system, and b) assessing how much assistance they received.

To shed some light on the first issue, a set of three regressions is reported in Table 3. Each regression examines the subset of 188 North Carolina B&Ls that had been established by 1927 and were still operating in 1932. Thirty-nine of these were ultimately forced to liquidate, seven after having joined the FHLB; 91 others became FHLB members and survived the decade; the remaining institutions survived the decade without joining the system. (Excluded from this analysis are 10 institutions that ultimately converted to Federal charters, and three others that were eventually merged with other B&Ls or simply closed.)

The first panel reports a Tobit model of the real estate holdings of each B&L in 1932 expressed as a share of its total assets. We have seen earlier the problem that foreclosed real estate represented within the industry throughout the 1930s—it was the proximate cause of thousands of B&L failures and is interpreted here as the single best indicator of the financial condition of an association. The year 1932 has been chosen for two reasons. To begin with, only one of the B&Ls in this sample liquidated in 1933. Because all the rest failed in 1934 or after it is unlikely that the sample will reflect any "end game" balance sheet maneuvers that may have been associated with an impending closure. Second, the FHLB did not begin to operate until very late in 1932, and none of the B&Ls in the sample became members in that year. As a result, the condition of future FHLB members in the sample is measured before they received any benefits from the system.

Three sets of variables are used to explain variations in the real estate holdings across the sample. Regional and city-sized dummies are used to control for the variations in general real estate conditions across these broad spatial dimensions. The base (omitted) category for these comparisons are cities in the Piedmont region of the state with populations between 2,500 and 9,000. These communities experienced very low levels of real estate acquisition. Also included are county-level variables drawn from the 1930 Census of Population that have been chosen to control for variations in local market

responses to Depression-related shocks. These include the importance of nonfarm families, the share of nonfarm families that owned their own home, the percentage of nonfarm families whose members were black, and the relative importance of textile, furniture and tobacco manufacturers as employers of labor.

The point of the exercise, however, is to determine whether characteristics of the individual B&L had an influence on the amount of real estate it acquired through foreclosure—its age, its size in 1929, the percentage of assets held as real estate in 1929, and the growth of its mortgage portfolio between 1927 and 1929. There is reason to think that each may have mattered. We have seen earlier that the number of B&Ls in North Carolina continued to grow rapidly until the mid-1920s. The management of some of these younger institutions may not yet have been skilled in selecting mortgage risks, and so might have acquired disproportionately large amounts of real estate during the early years of the depression. Association size (as measured by total assets) is taken here as an indicator of staff differentiation and professionalization—in the smallest associations a single secretary would keep the books, solicit new members, and handle the administrative chores associated with making and servicing a mortgage loan. The largest institutions, on the other hand, would employ clerks to keep the books and handle the members' transactions, and a professional appraiser to assess lending risk and approved loans. Considerations like these were viewed as important indicators of association quality by the USBLL and may have made a difference in how well an association fared during the onset of the Depression. Real estate holdings in each B&L in 1929, and the growth in its mortgage loan portfolio between 1927 and 1929, are included in the specification to control for condition of the association at the onset of the Depression.

The small city dummy and interaction terms are highly significant in the regressions—in 1932 real estate holdings appear to have been particularly high in very small cities (population less than 2,500) in which many families lived on farms and a high proportion of nonfarm families rented rather than owned their homes. The industrial mix of the local labor force also appeared to have an impact on the amount of real estate held by B&Ls, although at marginal levels of statistical significance. The B&L

variables of most interest in the regression indicate that the condition of the B&L in 1929 had significant predictive power for the level of real estate holdings three years later. B&Ls that had already acquired higher than average amounts of real estate in the earlier year continued to hold large amounts in 1932. So did B&Ls that had cut back most dramatically their mortgage portfolios between 1927 and 1929, perhaps because their existing loans were already showing evidence of weakness. (One-third of the associations in the sample experienced absolute decreases in mortgage holdings during this two-year period). While the age of the association appears to have had no influence on the propensity to acquire real estate, the size of the association did (at least at a 10 percent confidence level). Surprisingly, however, larger association size (as measured in 1929) appears to have been associated with higher levels of real estate holdings in 1932.

The same set of explanatory variables are employed in the second and third regressions reported in Table 3. These are probit analyses of subsequent liquidation and FHLB status for the same sample of B&Ls. One would expect that a variable that was associated with high real estate holdings in 1932 would also be associated with a higher probability of subsequent liquidation. This is the case, for example, for two of the small city controls as well as for the 1927-1929 mortgage lending growth variables. Other variables that influenced real estate holdings in 1932, however, turn out to have a much weaker impact on subsequent liquidation status, most notably real estate holdings in 1929. Even more surprising is that the size of an association, which had a marginally significant positive impact on real estate holdings in 1932, would be so strongly correlated with avoiding liquidation in subsequent years. Two interpretations of this result seem plausible. Large B&Ls could have enjoyed a scale effect, which made them better able to survive the same level of real estate acquisition, or apparently even a higher level, than their smaller B&L colleagues. Alternatively, large B&Ls may have benefited from some influence not captured in the model that allowed them to survive despite holding relatively large amounts of real estate.

The third model provides some evidence for the latter interpretation, and suggests that FHLB status was the influence that may have permitted large associations to survive. The USBLL clearly

took the position that the new FHLB system was not designed to save weak institutions, but to assist the strongest. One would expect, therefore, that factors which affected real estate holdings, and which helped to predict liquidation status, would have been carefully considered in determining eligibility for membership. For these North Carolina B&Ls, however, only the Mountain region effect on FHLB status follows this pattern—B&Ls in this region absorbed greater amounts of real estate and were more likely to fail (although neither at traditional confidence levels)—they were also less likely to become FHLB members. A few other variables (such as the percentage of non-farm families and the percent of the labor force in textiles) appear to have been correlated with FHLB status even though their impacts in the other two regressions were very weak. Most notable, however, is that neither of the 1929 balance sheet variables that had significant influence on real estate holdings in 1932, and at least marginally significant impacts on subsequent liquidation status, influenced subsequent FHLB status at all. The model, in fact, identifies the size of the association in 1929 as the most important predictor of subsequent FHLB membership.

The evidence, therefore, is consistent with an interpretation very different than the one forwarded by USBLL. Leaders of the B&L industry had tried, but failed, to use state regulation to bring uniformity and professionalism to a movement that had become increasingly disparate during the 1920s. Given the power to design and implement a federal system that could bring relief and survival to thousands of struggling B&Ls, they implemented a system that was designed and implemented for the segment of the industry that was most similar in size and organizational structure to the model they already favored. By providing these institutions with differential access to the new Federal system, they could have increased their chance of survival and established the modern Savings and Loan industry they had long envisioned.

For this argument to make sense, of course, it must be demonstrated and not merely asserted that participation in the new Federal system provided a substantial advantage in recovering from the depths of the Depression. Two regressions reported in Table 4 speak to this issue. Both seek to explain variations in the rate of total asset growth over the period 1935 to 1940 for 143 B&Ls that operated

continuously between 1929 and 1940. Once again, the same set of region, city size and county-level variables are used to control for local real estate and mortgage lending conditions. The B&L characteristics in this model include real estate holdings by each institution in 1934 (and its square), and a dummy that indicates whether the institution was located in a county in which another B&L had liquidated between 1929 and 1934. This model, which is reported in the left-hand panel of the table, indicates that several of these influences were correlated with differential B&L growth in the second half of the 1930s.

In the right-hand panel two sets of federal system variables are added to the model. The first measures the extent to which Federal programs were implemented in each association's home county—whether a Federally-chartered S&L had been established, whether some other state-chartered B&L had joined the FSLIC insurance system, and the percentage of owned homes in the county that had been refinanced by the HOLC. Keep in mind that all of these programs were designed and implemented under the FHLB. The second set of variables measures each institution's own participation in the federal system—a dummy for FHLB membership, FHLB advances received as a share of assets, and an FSLIC participation dummy. Taken together, the Federal system variables are jointly statistically significant—one needs to incorporate these influences to explain why some B&Ls grew more rapidly than others. Taken individually they suggest that the FSLIC insurance system and the HOLC refinancing program were particularly important in North Carolina, and in the expected direction. Insured associations grew more rapidly, and their uninsured in-county counterparts more slowly. Associations in counties where the HOLC was particularly active also grew more rapidly. FHLB membership and advances, however, do not appear to influence the pattern of growth among North Carolina's B&Ls after 1935.

III. Conclusion

I have argued that the federal regulatory structure that dominated the postwar S&L industry arose because the United States Building and Loan League was given the opportunity to fashion an entirely new system of institutional supports for a B&L industry that was badly damaged in the depression. In doing so they imposed standardization and homogeneity on an industry that had become increasingly diverse and subject to rapid entry under a patchwork of state law. The process involved watching thousands of small, part-time B&Ls liquidate while thousands of others participated in and benefited from the FHLB system and the programs it supervised. Some forty years later these same structures played an important role in the post-1970 demise of the mutual S&L industry, and the history recounted here provides a plausible explanation of when and how the barriers to entry and institutional rigidities that came to be identified with that system originally took shape.

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Bibliographic Note: Most of the institutional arguments presented in the paper are fully described and referenced in Snowden (2000) which is available upon request. What follows are the sources relied on most heavily there.

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TABLE 1

THE TRANSFORMATION FROM B&L TO S&L IN THE UNITED STATES: 1929-1940										
REGION	THE COLLAPSE				THE NEW SAVINGS & LOAN INDUSTRY					
	Number of Associations		Percentage Change	% Assets Held in Real Estate	Associations Assets	Share of Associations and Assets:				
	Assets (\$000,000)					1941	Federal S&L		State-Chartered B&L	
	1929	1939	1929-39	1939	New Charter		Converted State	FHLB Members Insured	Uninsured	Non-Members
U.S.	12,342	8,318	-33%		6,895	9%	12%	12%	22%	45%
	\$ 8,695	\$ 5,666	-35%	12%	\$ 5,755	11%	24%	20%	26%	20%
New England	358	354	-1%		353	5%	9%	3%	43%	40%
	\$ 637	\$ 621	-2%	9%	\$ 624	3%	22%	1%	57%	16%
Mid-Atlantic	5,772	3,100	-46%		2,423	2%	5%	7%	21%	65%
	\$ 2,974	\$ 1,448	-51%	22%	\$ 1,192	6%	19%	13%	23%	39%
E. North Central	2,395	1,867	-22%		1,779	6%	14%	19%	24%	37%
	\$ 2,488	\$ 1,634	-34%	12%	\$ 1,767	8%	25%	29%	25%	14%
W. North Central	671	629	-6%		577	13%	14%	15%	23%	35%
	\$ 599	\$ 413	-31%	8%	\$ 442	11%	29%	15%	18%	27%
South Atlantic	1,911	1,300	-32%		749	17%	12%	7%	19%	45%
	\$ 547	\$ 645	18%	2%	\$ 662	21%	18%	11%	30%	19%
E. South Central	279	297	6%		276	28%	20%	3%	14%	36%
	\$ 176	\$ 163	-7%	12%	\$ 176	22%	46%	2%	18%	12%
W. South Central	444	337	-24%		326	33%	20%	29%	6%	12%
	\$ 511	\$ 268	-48%	6%	\$ 308	13%	34%	45%	3%	4%
Mountain	178	154	-13%		137	23%	20%	17%	12%	28%
	\$ 152	\$ 99	-35%	8%	\$ 112	15%	34%	27%	7%	17%
Pacific	334	280	-16%		275	23%	26%	26%	17%	8%
	\$ 611	\$ 376	-38%	5%	\$ 472	25%	25%	29%	15%	6%

Sources: *Monthly Labor Review*: Nov. 1930, pp.114-5; Jan. 1941, pp.126-7; May 1943, p. 937.
Eighth Annual Report FHLBB, 1940, pp. 175-6.
Ninth Annual Report FHLBB, 1941pp. 242-5.

TABLE 2

A DECADE OF CHANGE IN NORTH CAROLINA'S BUILDING & LOAN INDUSTRY: 1929-1940									
REGION	COLLAPSE & RECOVERY					N.C B&Ls (Excl. 22 Federals w/\$22 mil.)			
	# of B&Ls Assets (\$mil.)		% Assets Real Estate	B&Ls Assets	% Assets Real Estate	Associations Assets	Share of Associations and Assets: State-Chartered B&L		
	1929	1934	% Ch. Assets 1929-34	1939	% Ch. Assets 1934-39		1940	FHLB Non- Members	FHLB Members
						Uninsured			Insured
The State	233	197	11.8%	164	2.7%	160	40%	50%	10%
	\$95.8	\$60.7	-36.6%	\$83.3	37.2%		\$90.7	26%	55%
Mountain	31	25	18.5%	23	1.3%	20	60%	35%	5%
	\$13.0	\$ 7.5	-42.3%	\$ 9.0	18.7%		\$ 9.6	64%	29%
Piedmont	124	102	11.8%	89	3.3%	88	41%	48%	11%
	\$62.1	\$40.6	-34.6%	\$56.4	38.8%		\$61.4	24%	56%
Coastal	78	70	7.7%	52	1.3%	52	31%	60%	10%
	\$20.7	\$12.5	-39.6%	\$18.0	43.8%		\$19.7	11%	65%
8 Big Cities (>30,000)	42	27	16.2%	19	3.8%	19	11%	63%	26%
	\$42.2	\$25.3	-40.2%	\$33.4	32.3%		\$36.4	9%	62%
16 Cities (9-21,000)	46	40	10.7%	32	2.8%	32	25%	56%	19%
	\$23.9	\$14.7	-38.5%	\$19.5	32.4%		\$21.6	23%	55%
43 Cities (2,500-9,000)	60	59	6.2%	52	1.1%	49	45%	49%	6%
	\$20.6	\$15.3	-25.6%	\$22.5	46.5%		\$24.0	48%	46%
90 Cities (<2,500)	85	71	9.7%	61	1.9%	60	53%	43%	3%
	\$ 9.0	\$ 5.4	-40.8%	\$ 8.0	48.8%		\$ 8.8	42%	52%

Source:

N.C. Insurance Department, *Financial Condition of Building and Loans, Annual* .

TABLE 3

**REAL ESTATE HOLDINGS, LIQUIDATION AND FHLB PARTICIPATION IN NORTH CAROLINA'S B&LS
188 B&Ls That Were Operating in 1932**

	Percentage of Total Assets Held in Real Estate in 1932			Entered Liquidation After 1932 (39 w/Liquidate = 1; 21%)				Joined FHLB System After 1932 (98 w/FHLB = 1; 52%)					
	Tobit Model			Probit Model				Probit Model					
	Estimate	S.E.	t-stat	Estimate	S.E.	t-statistic	Probability		Estimate	S.E.	t-statistic	Probability	
							-1 s.d.	+1 s.d.				-1 s.d.	+1 s.d.
Constant	-17.56	9.23	-1.90	5.63	2.34	2.41	.026^a		-5.10	1.89	-2.69	.621^a	
Region/City Size Controls													
Coastal Region	-1.17	1.83	-0.64	0.41	0.48	0.85		.037	-0.26	0.36	-0.70		-.100
Mountain Region	3.39	2.28	1.49	0.81	0.58	1.38		.103	-1.03	0.44	-2.34		-.386
Large City (> 30,000)	0.37	3.11	0.12	1.31	0.79	1.66		.239	-0.46	0.61	-0.76		-.182
Mid-Sized City (9-21,000)	-0.19	1.70	-0.11	0.78	0.51	1.53		.097	-0.11	0.32	-0.34		-.043
Unincorporated City (< 2,500)	38.16	9.72	3.93	5.54	2.50	2.22		.010^b	-1.26	1.83	-0.69		.055^b
B&L Characteristics													
Years in Operation	-0.03	0.07	-0.45	-0.03	0.02	-1.46		.024	-0.01	0.01	-1.02		.050
Total Assets in 1929 (Log)	1.14	0.62	1.83	-0.81	0.16	-4.98		.159	0.61	0.13	4.62		-.303
% Real Estate in 1929	52.73	20.32	2.60	6.06	4.28	1.41		-.009	-1.52	4.29	-0.35		.015
% Mortgage Growth, 1927-29	-0.03	0.02	-2.21	-0.01	0.00	-1.78		.022	0.00	0.00	0.13		-.006
1930 County Controls													
% Nonfarm Families	15.43	8.53	1.81	2.04	2.35	0.87		-.016	0.54	1.72	0.31		-.040
% NF Families Owning Home	10.73	12.32	0.87	4.02	3.73	1.08		-.013	-4.57	2.55	-1.80		.116
% Black Nonfarm Families	-16.24	17.39	-0.93	-0.18	4.61	-0.04		.001	1.32	3.49	0.38		-.049
% Nonfarm-Uninc. Cities	-27.66	9.05	-3.06	0.06	2.19	0.03		-.001^b	0.75	1.68	0.45		-.048^b
% Owning Homes-Uninc. Cities	-66.70	18.52	-3.60	-11.38	5.05	-2.25		.109^b	2.86	3.54	0.81		-.069^b
% Black-Uninc. Cities	17.28	18.51	0.93	-6.42	4.71	-1.36		.052^b	-0.99	3.44	-0.29		.024^b
% Employed in Textiles	-13.69	9.77	-1.40	0.39	2.63	0.15		-.003	-3.79	1.88	-2.01		.163
% Employed in Furniture	-33.47	17.11	-1.96	1.65	4.56	0.36		-.004	3.53	3.20	1.10		-.055
% in Tobacco Manufacture	23.08	12.99	1.78	0.14	3.73	0.04		.000	-2.57	2.61	-0.98		-.047
SIGMA	6.79	0.42	16.00										
	140 Observations>0 (74%)			Correct Predictions = 87.8%				Correct Predictions=69.7%					
	Log Likelihood = -504.1			Log Likelihood = -59.1				Log Likelihood=-106.2					

Source: See text.

Notes: ^a The boldfaced number gives the estimated probability for a B&L in a small (2,500-9,000) Piedmont city with all continuous variables at their mean.

The change from the base probability for one standard deviation up and down for the continuous variables, and the full effect for the dummy variables.

^b The marginal effects on the probabilities for the unincorporated city variables are from a base in which the unincorporated city variables are at their mean.

TABLE 4

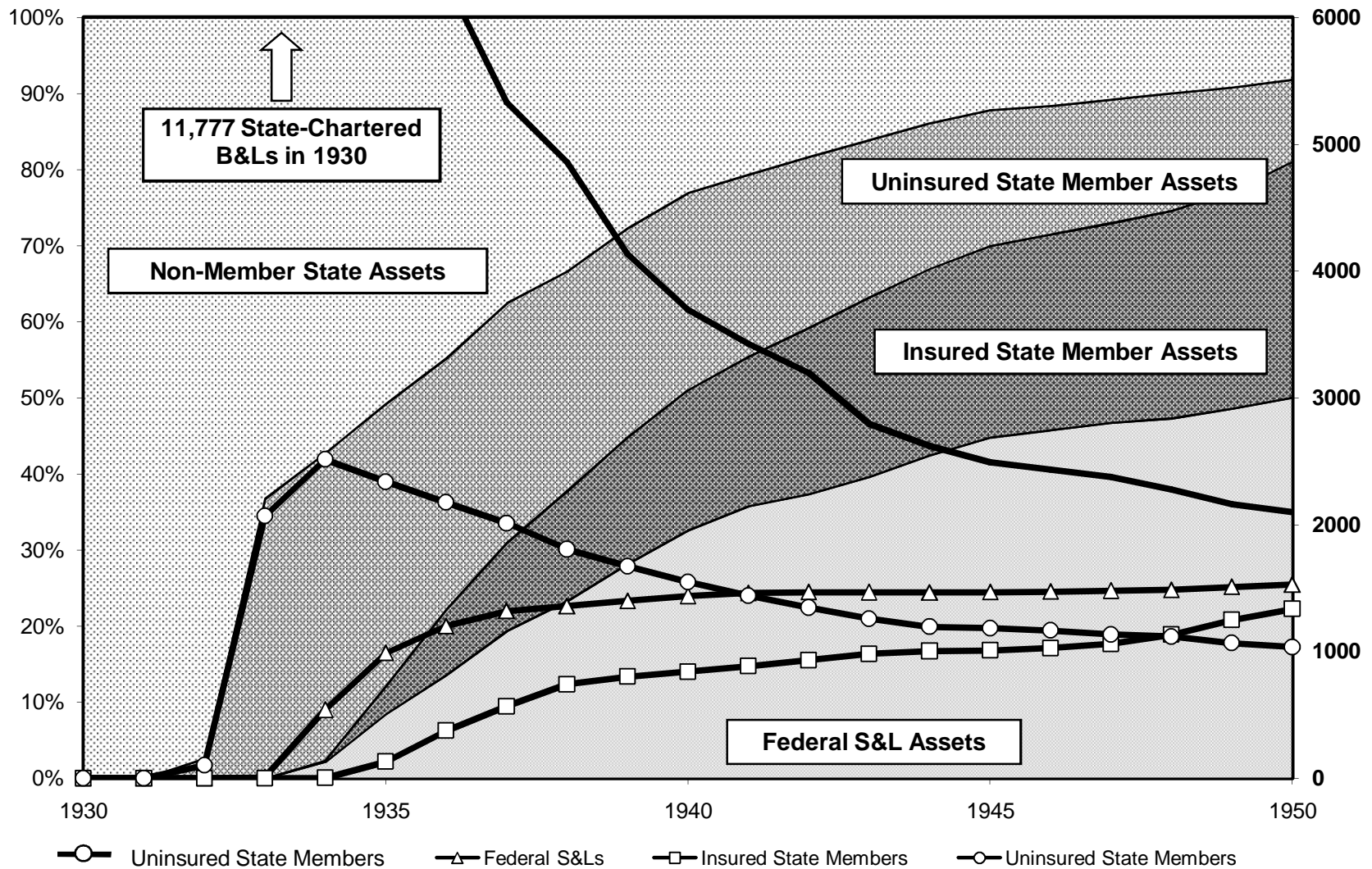
ASSET GROWTH IN NORTH CAROLINA'S B&LS: 1935-1940
143 B&Ls That Operated Continuously 1929-1940

	Annualized % Growth Rate in Total Assets, 1935-40			Annualized % Growth Rate in Total Assets, 1935-40		
	Estimate	S.E.*	t-statistic	Estimate	S.E.*	t-statistic
Constant	0.73	0.10	7.14	0.67	0.11	5.96
Region/City Size Controls						
Coastal Region	0.02	0.02	0.98	0.02	0.02	1.16
Mountain Region	0.00	0.02	-0.17	-0.02	0.02	-0.81
Large City (> 30,000)	0.10	0.04	2.62	0.10	0.04	2.80
Mid-Sized City (9-21,000)	0.05	0.01	3.75	0.04	0.01	3.19
Small City (< 2,500)	-0.07	0.11	-0.58	-0.10	0.11	-0.90
B&L Characteristics						
Years in Operation	0.00	0.00	0.72	0.00	0.00	0.69
Total Assets in 1929 (Log)	-0.05	0.01	-4.55	-0.05	0.01	-5.02
% Real Estate in 1934	0.00	0.00	1.52	0.00	0.00	1.06
(% Real Estate in 1934) ²	0.00	0.00	-3.63	0.00	0.00	-3.20
Liquidation in County, 1929-34	-0.04	0.01	-2.72	-0.05	0.02	-2.89
1930 County Controls						
% Nonfarm Families	0.17	0.08	2.04	0.07	0.08	0.87
% NF Families Owning Home	-0.44	0.19	-2.28	-0.30	0.17	-1.70
% Black Nonfarm Families	-0.14	0.15	-0.91	-0.02	0.13	-0.13
% Nonfarm-Small Cities	0.03	0.12	0.23	0.17	0.13	1.30
% Owning Homes-Small Cities	-0.01	0.20	-0.07	0.01	0.19	0.03
% Black-Small Cities	0.16	0.21	0.79	-0.14	0.19	-0.72
% Employed in Textiles	-0.10	0.10	-1.01	-0.01	0.09	-0.15
% Employed in Furniture	-0.02	0.17	-0.14	-0.01	0.17	-0.06
% in Tobacco Manufacture	-0.01	0.12	-0.12	0.09	0.11	0.84
Federal Activity in County						
FSLIC B&L in County				-0.04	0.02	-1.92
Federal S&L in County				0.01	0.02	0.42
% Owned Homes in HOLC				0.48	0.24	1.96
B&L's Own Participation						
Member FHLB				-0.02	0.01	-1.25
Advances as % Assets-1934				0.00	0.00	-0.47
Avg. Advances as % Assets, 1935-40				0.00	0.00	1.25
Insured by FSLIC				0.05	0.02	2.01
R ² = .38 Adj. R ² = .29 Log Likelihood = 187.1			R ² = .47 Adj. R ² = .35 Log Likelihood = 198.5 Sig. of Federal Variables F= 2.85 Pr.= .002			

Source: See text.

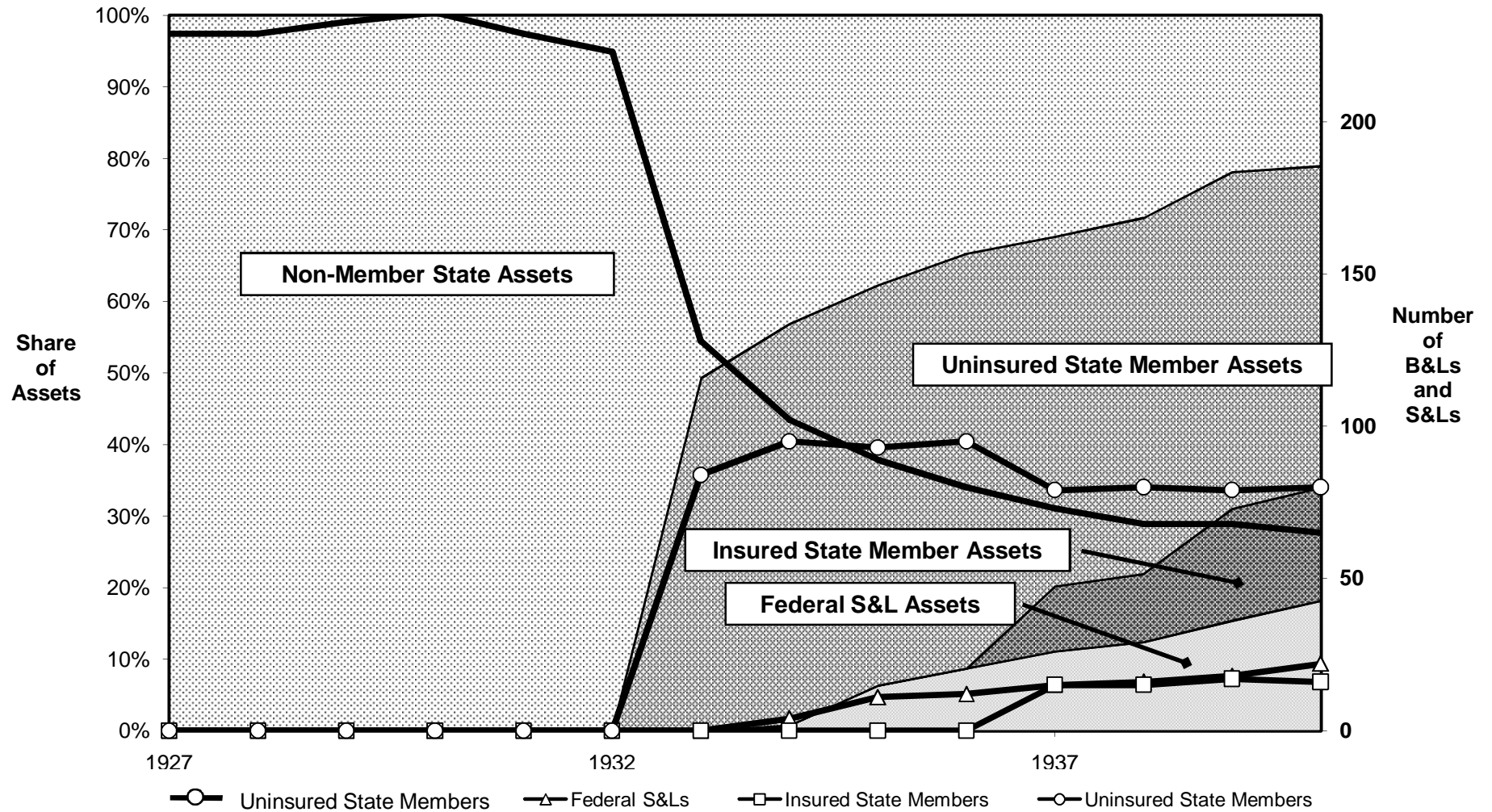
Notes: *White Heteroskedastic-Consistent standard errors.

FIGURE 1
THE TRANSFORMATION FROM B&L TO S&L IN THE U.S.: 1930-1950
(Number of Federal S&Ls and State-Chartered Associations by FHLB and FSLIC Status)
With Shares of Total S&L and B&L Assets Held by Each Group of Associations



Source: *Savings and Home Financing Source Book*, 1960, Tables 3-4..

FIGURE 2
FROM B&L TO S&L IN NORTH CAROLINA: 1927-1940
(Number of Federal and State-Chartered Associations by FHLB and FSLIC Status)
With Shares of Total S&L and B&L Assets Held by Each Group of Associations



Source: N.C. Insurance Department: *Financial Condition of Building and Loan Associations*, annual.