HISTORY AND DESCRIPTION OF BUILDING AND LOAN ASSOCIATIONS
AND THEIR OPERATION IN KANSAS.

By


Submitted to the Department of Economics and the
Faculty of the Graduate School of the University
of Kansas in partial fulfillment of the require-
ments for the degree of Master of Arts.

Approved by:

[Signature]

Instructor in Charge.

[Signature]

Head or Chairman of Department

May 15, 1925.
I.

HISTORY AND DESCRIPTION OF BUILDING AND LOAN ASSOCIATIONS
AND THEIR OPERATION IN KANSAS.

### TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table of Contents</td>
<td>I - IX</td>
</tr>
<tr>
<td>Bibliography</td>
<td>X - XIII</td>
</tr>
<tr>
<td>Chapter I</td>
<td>1 - 16</td>
</tr>
<tr>
<td>Chapter II</td>
<td>17 - 24</td>
</tr>
<tr>
<td>Chapter III</td>
<td>25 - 37</td>
</tr>
<tr>
<td>Chapter IV</td>
<td>33 - 47</td>
</tr>
<tr>
<td>Chapter V</td>
<td>48 - 58</td>
</tr>
<tr>
<td>Chapter VI</td>
<td>59 - 67</td>
</tr>
<tr>
<td>Chapter VII</td>
<td>68 - 78</td>
</tr>
<tr>
<td>Chapter VIII</td>
<td>79 - 89</td>
</tr>
<tr>
<td>Appendix A</td>
<td>90 -101</td>
</tr>
</tbody>
</table>
II.

Table of Contents.

CHAPTER I.

HISTORY, PURPOSE AND CHARACTERISTICS OF BUILDING AND LOAN ASSOCIATIONS.

A. General History.
   1. In China.
   2. In England.
   3. In the United States.
      a. First association established in 1831.
      b. Pennsylvania pioneer state in movement.
      c. Statistical table of all associations.
      d. Building and Loan Leagues and Institutes.
   4. In Kansas.
      a. The early period to 1899.
      b. Statistical table as of January 1, 1924.
      c. Consolidated financial statement.
      d. The Kansas League.

B. Definition of a building and loan association.
   1. A private corporation for profit.

C. Purpose.
   1. To encourage savings and thrift.
   2. To loan money for homes and other legitimate needs.

D. Classification.
   1. According to territory served.
   2. According to plan used.
      a. Terminating, Serial, Permanent and Permanent stock.

E. Comparison with other corporations.
   1. Banks and savings institutions.

F. Economic and Social Effects.
   1. To the Individual, the community, and the state.
Table of contents - continued.

CHAPTER II.

INCORPORATION AND ORGANIZATION OF THE ASSOCIATION IN KANSAS.

A. Incorporation.
   1. Early associations in Kansas Unincorporated.
   2. The preliminary organization.
   3. Permanent charter secured.

B. The charter.
   1. Procedure in securing a charter.
   2. Provisions of "The Article of Agreement".
      a. Name of the proposed organization.
      b. Name of city in which located.
      c. Amount of capital stock, par value, etc.
      d. Name and address of each of the incorporators.
      e. Name of the directors chosen the first year.
      f. Number of years of incorporation.
      g. Purpose of the organization.
      h. Recording the agreement.

C. The by-laws.
   1. Definition, character and importance of.
   2. Method of approval and amending.

D. Officers and Directors.
   1. Rules governing officers and directors stated in by-laws.
   2. Number and qualification of directors.
   3. Usual officers, president, vice-president, treasurer and secretary.
      a. Function and importance of secretary; duties stated.
      b. Officers secured by bond.
   4. Important committees.
      a. The appraisal committee.
      b. The auditing committee.
CHAPTER III.

THE TYPES OF STOCK IN KANSAS ASSOCIATIONS.

A. The Capital stock.
   1. Kinds of shares.
      a. Full paid.
      b. Prepaid.
      c. Deposit.
      d. Installment.
      e. Rural Credit.
      f. Loan stock.
      g. Permanent stock.

   2. The certificate of stock.
      a. Signed by president or secretary.
      b. Serves as contract between member and association.

   3. Transferability of stock.
      a. Method of transfer.
      b. Duplicate issued in case of loss.

B. The contingent fund.
   1. Amount required by Kansas Statute.
   2. Contingent fund of permanent and mutual associations contrasted.

C. Membership fees.
   1. Amount specified by Kansas Statute.
   2. Differing opinions as to the practicability of fees.
THE INVESTMENT OF ASSOCIATION FUNDS.

A. Loans to Members.

1. The purpose of the loan.
2. The advantages of the loan.
3. The kinds of loans.
   a. Stock loans.
   b. Mortgage loans.
      1) Application for loan.
      2) Appraisal of property.
      3) Loans granted by directors.
      4) Method of repayment illustrated.
4. The security for loans.
   a. Limited to fifty percent of value of property.
   b. Assignment of member's stock.
   c. First mortgage on property
   d. Payment of taxes and insurance.
   e. Other safeguards.
5. Kansas Statutes governing premium charges.
   a. Usury laws apply.
   b. Premiums now practically obsolete.
   c. Kinds of premiums.
      1) The gross premium.
      2) The installment premium.

B. The investment of surplus funds.

1. Laws governing school funds apply.
2. In Kansas real estate; first mortgage.
3. By buying full paid shares of other associations.
4. Calling in of association's own full paid shares.
Table of contents – continued.

CHAPTER V.

THE DETAILS OF THE LOAN.

A. The note and the mortgage.

1. The note an evidence of obligation.

2. The mortgage representing the security.
   a. Given in addition to stock certificate.
   b. Non-negotiable and non-assignable.
   c. Advantage to loaning members.
   d. Examples of a note and a mortgage.
   e. Loans paid prematurely.
   f. Mortgage satisfied of record.
   g. Proceeding in case of non-payment.

B. Foreclosure.

1. Associations may foreclose mortgage:
   a. When borrower fails to pay dues, fines or interest.
   b. When six months have elapsed.
   c. Need not notify borrowers of beginning of proceedings.

2. Charges and credits.
   a. Amount of loan dues, interest and fines in arrears.
   b. Borrower credited with withdrawal value of shares.
      (1) Balance from sale of real estate.

C. Withdrawal privileges of members.

1. Withdrawal defined.

2. Withdrawal a valuable attribute.

3. Withdrawal of shares pledged as collateral not allowed.

4. Withdrawal possible only after one month's notice.

5. Withdrawal value versus book value.
ASSESSMENT AND TAXATION OF ASSOCIATION ASSETS.

A. Federal laws exempting building and loan associations.

1. Definition of a tax.

2. The power to tax and also to make exemptions.

3. Reasons for exempting associations.
   a. The state derives other benefits from associations.
   b. Non-exemption would lead to double taxation.
   c. Most of the funds come from the lower classes.

   a. Treasury department's interpretation, 1922.

5. Building and loan associations exempt from stamp taxes.

B. Kansas laws governing taxation of association funds.

1. Permanent stock associations taxed on fixed stock.
   a. In city in which association is located.
   b. Assets invested in real estate belonging to members deducted.

2. Taxation of mutual associations.

3. Taxation of individual members.
   a. Taxed on withdrawal value of shares.
   b. Shares pledged as collateral for loans exempt.
   c. Rural Credit Shares exempt.
SUPERVISION AND SECURITY THROUGH STATE LAWS.

A. Kansas laws make for safety.
   1. Failures in Kansas prior to 1899.
   2. Associations under supervision of bank commissioner, 1899.
      a. The building and loan supervisor, appointment and duties.
      b. Supervisor and assistant bonded.
      c. Associations must file semi-annual reports.
      d. Associations examined annually.
      e. Supervisor declares associations insolvent.
         (1) Causes of insolvency.
         (2) Procedure in case of insolvency.
      a. Foreign associations legislated out of state.

B. Evidence of safety.
   1. Letters from state supervisors.
      a. Kansas.
      b. Oklahoma.
      c. Nebraska.
      d. Colorado.
      e. Missouri.
   2. Few failures in the United States.
   3. Bank failures more numerous than building and loan.
CHAPTER - VIII.

SUMMARY AND CRITICISM.

A. History and operation.
   1. In England.
   2. In the United States.
   3. In Kansas.

B. Criticism.
   1. Permanent stock associations violate principle of mutuality.
   2. Lack of trained employees.
   3. Association loans inadequately explained.
   4. Need for more equitable building and loan laws.

C. Problems now facing Kansas associations.
   1. Co-operation between permanent stock and mutual associations.
   2. Procedure should be more simple and uniform within each plan.
   3. More adequate methods for the explanation of the details of the loan.
   4. Revision of building and loan laws.
   5. Desirability of wider education and information among the people concerning the advantages of the movement: A practical program of thrift.
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HISTORY AND DESCRIPTION OF BUILDING AND LOAN ASSOCIATIONS
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CHAPTER I

GENERAL HISTORY:

John Henry Grady, who has written extensively about the manners and customs among the people of the Orient, states that building and loan associations originated in China more than two thousand years ago. There seems also to be ample proof that building societies were operated in some form by the early Greeks.

England, however, is considered the real home of the building and loan movement. Professor Richard T. Ely places the date of their establishment in that country as early as 1798. Joseph H. Sundheim gives a later date, maintaining that they were first established in 1809. He reached this conclusion upon examination of the first legal record, involving the Greenwich Building and Loan Association, over the powers of an association. The record shows that this association was organized in 1809.

It is thus apparent that the associations had their origin in the early part of the nineteenth century at a time when most of the land and dwellings were owned by rich and

1. History, Laws, Customs and Manners of the People of China, Vol. 11, p. 84.
powerful landlords. The common people were poor and oppressed, but they were possessed with an innate desire to own land and homes.

The love for homes led them to band themselves together into voluntary societies, into the treasuries of which each member contributed some money regularly, until a sum sufficient to buy one of them a home had been accumulated. These building societies were successful from the start and they have continued to grow in usefulness and popularity, until today they are the largest in the world.

In 1866 Parliament enacted the first legislation concerning the societies. This act was repealed by the act of 1874; supplementary legislation was passed in 1875, 1877, and 1884. The first general revision took place in 1894, when a new code was passed by Parliament, under which law English societies are still operating.

**History in the United States.**

The first society organized in America was the Oxford Provident Building and Loan Association, established January 3, 1831, at Frankford, Pennsylvania, no, a suburb of Philadelphia. This date marks a memorable event, for it was the first attempt at cooperative finance in the United States. The members of the association paid an initiation fee of five dollars, and monthly installment dues of three dollars per

---

share. It took a little more than ten years to mature the shares at five hundred dollars. Isaac Shallcross was elected secretary at fifteen dollars per year. This salary, according to R. Holtby Myers, was later raised to twenty dollars per annum. The corporation was dissolved upon the maturity of its stock, and a new association was at once formed, using the same name.

In 1845 the Franklin Building and Loan Association was organized. It was named after Benjamin Franklin, an early advocate of thrift. It differed from the first association in that the number of shares was limited to five hundred, with a maturity value of two hundred dollars. Between 1831 and 1850, fifty associations were established in Philadelphia. By 1923 there were no less than 2,300 associations in that city alone.

No definite data can be secured as to the number of associations in the United States prior to 1893. In that year the United States Commissioner of Labor included them in his report. Seymour Dexter, writing in 1888, gives the following summary of their growth and spread: "The total number in the United States on January 1, 1889, will not be far from four thousand. To speak of the total number of shareholders, or the total accumulations in these associations throughout the country would be mere guesswork and we will not enter upon it."

2. Seymour Dexter, "Cooperative, Savings & Loan Associations, p. 43. (Dexter further states that these fifty associations were not incorporated. Pennsylvania passed its first law requiring their incorporation in 1850.)
As concerns the individual states, one can safely state that Pennsylvania has always led the rest. The total assets of the associations in this pioneer state in 1923 were $745,000,000. Ohio ranks second and New Jersey third, while Kansas is fourteenth, according to the table which follows:
The following table shows the number of associations, total membership, and total assets for states in which statistics are compiled by state supervisors.

<table>
<thead>
<tr>
<th>States</th>
<th>No. of Ass'ns</th>
<th>Total Membership</th>
<th>Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Pennsylvania</td>
<td>3,900</td>
<td>1,400,000</td>
<td>$745,000,000</td>
</tr>
<tr>
<td>2 Ohio</td>
<td>824</td>
<td>1,375,968</td>
<td>648,160,960</td>
</tr>
<tr>
<td>3 New Jersey</td>
<td>1,094</td>
<td>687,587</td>
<td>402,728,756</td>
</tr>
<tr>
<td>4 Massachusetts</td>
<td>211</td>
<td>356,636</td>
<td>264,755,632</td>
</tr>
<tr>
<td>5 Illinois</td>
<td>771</td>
<td>450,000</td>
<td>232,092,934</td>
</tr>
<tr>
<td>6 New York</td>
<td>291</td>
<td>360,094</td>
<td>182,449,453</td>
</tr>
<tr>
<td>7 Indiana</td>
<td>377</td>
<td>298,001</td>
<td>167,932,946</td>
</tr>
<tr>
<td>8 Nebraska</td>
<td>81</td>
<td>163,000</td>
<td>108,798,586</td>
</tr>
<tr>
<td>9 Wisconsin</td>
<td>140</td>
<td>143,460</td>
<td>92,992,109</td>
</tr>
<tr>
<td>10 Louisiana</td>
<td>86</td>
<td>111,072</td>
<td>87,896,857</td>
</tr>
<tr>
<td>11 California</td>
<td>132</td>
<td>66,049</td>
<td>55,270,439</td>
</tr>
<tr>
<td>12 Missouri</td>
<td>224</td>
<td>124,845</td>
<td>75,376,058</td>
</tr>
<tr>
<td>13 Michigan</td>
<td>80</td>
<td>126,487</td>
<td>68,765,455</td>
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<td>14 Kansas</td>
<td>122</td>
<td>131,000</td>
<td>66,610,104</td>
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<tr>
<td>15 Oklahoma</td>
<td>35</td>
<td>102,311</td>
<td>65,810,618</td>
</tr>
<tr>
<td>16 North Carolina</td>
<td>234</td>
<td>76,736</td>
<td>57,950,574</td>
</tr>
<tr>
<td>17 Kentucky</td>
<td>140</td>
<td>116,000</td>
<td>55,000,000</td>
</tr>
<tr>
<td>18 Washington</td>
<td>52</td>
<td>118,449</td>
<td>40,940,876</td>
</tr>
<tr>
<td>19 Dist. of Columbia</td>
<td>22</td>
<td>52,860</td>
<td>38,771,000</td>
</tr>
<tr>
<td>20 Iowa</td>
<td>71</td>
<td>56,500</td>
<td>23,995,486</td>
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<tr>
<td>21 Arkansas</td>
<td>54</td>
<td>34,209</td>
<td>21,412,098</td>
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<td>22 Colorado</td>
<td>51</td>
<td>40,520</td>
<td>20,246,886</td>
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<td>23 Utah</td>
<td>24</td>
<td>38,450</td>
<td>19,238,099</td>
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<td>24 West Virginia</td>
<td>47</td>
<td>42,500</td>
<td>17,982,752</td>
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<tr>
<td>25 Minnesota</td>
<td>75</td>
<td>33,200</td>
<td>16,000,000</td>
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<tr>
<td>26 Maine</td>
<td>39</td>
<td>22,550</td>
<td>12,657,942</td>
</tr>
<tr>
<td>27 Rhode Island</td>
<td>8</td>
<td>23,143</td>
<td>12,561,164</td>
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<td>28 Texas</td>
<td>82</td>
<td>30,090</td>
<td>12,036,320</td>
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<td>29 Connecticut</td>
<td>35</td>
<td>29,112</td>
<td>11,701,198</td>
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<td>30 Montana</td>
<td>26</td>
<td>22,000</td>
<td>10,447,187</td>
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<tr>
<td>31 Oregon</td>
<td>19</td>
<td>24,990</td>
<td>10,000,000</td>
</tr>
<tr>
<td>32 New Hampshire</td>
<td>28</td>
<td>15,305</td>
<td>6,581,655</td>
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<td>33 South Carolina</td>
<td>164</td>
<td>20,400</td>
<td>6,524,242</td>
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<tr>
<td>34 North Dakota</td>
<td>16</td>
<td>10,875</td>
<td>5,425,172</td>
</tr>
<tr>
<td>35 Delaware</td>
<td>37</td>
<td>10,800</td>
<td>5,369,670</td>
</tr>
<tr>
<td>36 South Dakota</td>
<td>18</td>
<td>7,000</td>
<td>4,400,000</td>
</tr>
<tr>
<td>37 Tennessee</td>
<td>14</td>
<td>6,450</td>
<td>3,876,725</td>
</tr>
<tr>
<td>38 New Mexico</td>
<td>14</td>
<td>5,450</td>
<td>2,300,000</td>
</tr>
<tr>
<td>39 Arizona</td>
<td>4</td>
<td>5,000</td>
<td>1,927,937</td>
</tr>
<tr>
<td>40 Vermont</td>
<td>7</td>
<td>2,451</td>
<td>1,047,192</td>
</tr>
<tr>
<td>Other States</td>
<td>1,035</td>
<td>431,310</td>
<td>224,855,028</td>
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<tr>
<td>Totals</td>
<td>10,744</td>
<td>7,202,880</td>
<td>$3,942,939,880</td>
</tr>
</tbody>
</table>

The cooperative building and loan movement, which had its origin in Pennsylvania less than one hundred years ago, has spread until on January 1, 1924, there were 10,744 associations in the United States. They cooperate by means of state and national leagues, which meet annually. The main objects of the leagues are: to promote building and loan ideals, to bring about better legislation, to stimulate savings and thrift and a desire to own homes. To further coordinate their work, a Savings, Building and Loan Institute was organized in Kansas City, Missouri, on October 1, 1922. Before it could be effective in training building and loan leaders and help solve association problems, a suitable textbook on the subject had to be written. Frank A. Chase, President of the Institute, together with Professor Horace F. Clark, of the University of Wisconsin, spent two years in compiling a comprehensive textbook which is now practically completed. It is very probable that this institute will meet with the same degree of success as the American Institute of Banking, after which, in a fashion, it has been patterned. The Bankers Institute was organized in 1903 and at the end of twenty years 139 chapters had been organized, with a total membership of 53,000 persons.

KANSAS

The first biennial report of the Secretary of State, covering the years 1861 to 1878 made no mention of building

1. Since 1914 there has been an International Building and Loan League.
and loan associations, since it only showed the public utilities that had been chartered. But the second biennial report for 1879-1880 listed ten associations that may be classed as building and loan associations. The oldest one on record is the "Occidental Loan and Trust Co." of Salina, Kansas, chartered August 13, 1878. During the years 1882, 1883, and 1884, 76 associations received charters in Kansas.

The first state laws in regard to these organizations were passed in 1869 and 1870. In 1899 they were placed under the supervision of the banking department. Prior to that time there were many failures and much confusion, for many associations were operating without charters. The Union Building and Loan Association of Emporia, organized in 1880, is the oldest association doing business in Kansas at the present time. In 1921 it changed its name to The Citizens Building and Loan Association.

On December 31, 1923, there were 132 associations in Kansas. Twelve new associations were organized in that year. By dividing the state into four equal parts we found that the 132 associations were distributed over Kansas in the following manner:

<table>
<thead>
<tr>
<th>Section</th>
<th>Cities</th>
<th>Associations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northeastern</td>
<td>29</td>
<td>34</td>
</tr>
<tr>
<td>Southeastern</td>
<td>41</td>
<td>60</td>
</tr>
<tr>
<td>Northwestern</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Southwestern</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>87</td>
<td>132</td>
</tr>
</tbody>
</table>

2. 25th Annual Report - 1923, Kansas Building & Loan Ass'n.
3. The 26th Annual Report, not available until June 1, 1925.
The Eastern half of the state had 114 associations.
The Western had 18 associations.
The total was 132 associations.
The Northern half had 62 associations.
The Southern half had 70 associations.
The total was 132 associations.

This shows that there are more than six times as many associations in the Eastern half of the state as are in the Western half. There are more in the Southern half than in the Northern half, although there are more large cities in the latter. Associations seem to be very numerous in the Southeastern section, due to the many oil and mining towns in that region.

Kansas State League of Building and Loan Associations.

Kansas can almost boast a hundred per cent membership in the Kansas State League of Building and Loan Associations. The League meets annually in the month of May, when the state officers, president, secretary, and treasurer, submit their annual reports. Vital problems relating to legislation, supervision, competition, etc. are discussed by prominent local and national building and loan men and by students of economics. The convention proceedings are bound in book form, and become an important source of information. Another source is the annual report submitted by the state supervisor to the bank commissioner, who in turn transmits it to the Governor of the State. The report contains an annual statement

1. There is a Southwestern League of Building and Loan composed of seven states.
of the financial condition of every association in Kansas.
A consolidated statement of all the associations in Kansas, as of December 31, 1923 follows:

Financial Statement of all Local and National Building and Loan Associations in Kansas on December 31, 1923. 2.

<table>
<thead>
<tr>
<th>RESOURCES</th>
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<tr>
<td>Loans to members on real estate (non-negotiable)</td>
<td>$56,253,680.26</td>
</tr>
<tr>
<td>Loans to non-members on real estate (non-nego.)</td>
<td>532,553.63</td>
</tr>
<tr>
<td>Rural-credit loans.</td>
<td>1,728,187.05</td>
</tr>
<tr>
<td>Loans on stock.</td>
<td>1,221,013.35</td>
</tr>
<tr>
<td>Real estate first mortgages.</td>
<td>2,138,139.93</td>
</tr>
<tr>
<td>Shares in other associations.</td>
<td>864,512.60</td>
</tr>
<tr>
<td>Bonds.</td>
<td>247,618.21</td>
</tr>
<tr>
<td>Association office buildings.</td>
<td>483,506.69</td>
</tr>
<tr>
<td>Real estate owned.</td>
<td>218,562.08</td>
</tr>
<tr>
<td>Due on real estate sold on contract.</td>
<td>342,767.08</td>
</tr>
<tr>
<td>Judgments</td>
<td>51,728.57</td>
</tr>
<tr>
<td>Furniture and fixtures.</td>
<td>101,013.78</td>
</tr>
<tr>
<td>Delinquent taxes and insurance pd. for borrowers</td>
<td>220,133.61</td>
</tr>
<tr>
<td>Accounts receivable.</td>
<td>21,393.25</td>
</tr>
<tr>
<td>Net loss</td>
<td>9.64</td>
</tr>
<tr>
<td>Accrued interest.</td>
<td>17,152.08</td>
</tr>
<tr>
<td>Other resources</td>
<td>88,758.70</td>
</tr>
<tr>
<td>Cash on hand and in banks</td>
<td>2,079,571.64</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$66,610,104.50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Installment stock</td>
<td>$33,544,657.11</td>
</tr>
<tr>
<td>Prepaid stock</td>
<td>3,270,165.92</td>
</tr>
<tr>
<td>Deposit stock</td>
<td>1,336,223.31</td>
</tr>
<tr>
<td>Full-paid stock</td>
<td>18,285,213.54</td>
</tr>
<tr>
<td>Permanent stock</td>
<td>1,118,954.26</td>
</tr>
<tr>
<td>Rural-credit installment stock.</td>
<td>3,448,723.23</td>
</tr>
<tr>
<td>Rural-credit full-paid stock.</td>
<td>1,519,614.92</td>
</tr>
<tr>
<td>Contingent (or reserve) fund.</td>
<td>602,317.03</td>
</tr>
<tr>
<td>Due borrowers</td>
<td>491,400.28</td>
</tr>
<tr>
<td>Accounts payable.</td>
<td>26,265.46</td>
</tr>
<tr>
<td>Bills payable</td>
<td>945,087.35</td>
</tr>
<tr>
<td>Unpaid dividends.</td>
<td>126,572.81</td>
</tr>
<tr>
<td>Loans assigned.</td>
<td>718,623.21</td>
</tr>
<tr>
<td>All other liabilities</td>
<td>49,075.64</td>
</tr>
<tr>
<td>Undivided profits</td>
<td>1,327,209.43</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$66,610,104.50</td>
</tr>
</tbody>
</table>

Definition:

Joseph H. Sundheim states that a Building and Loan Association is a private corporation for profit. We will define it as an institution which aids people in saving, borrowing and investing money. Miss Anna E. Rae, ex-president of the United States League, defined it as a mutual, cooperative, financial institution where all the members share the same privilege, work to save money, acquire homes, and help to build up a community in which they live. Mr. Henry S. Rosenthal, editor of the Association News, the official organ of the associations, gives the following still more comprehensive definition: "The Building and Loan Association is a mutual cooperative financial institution, usually operating under articles of incorporation issued by the state, and composed of members who have associated themselves together for their mutual benefit and financial advantage. The membership may be broadly divided into two classes, designated savings and borrowing members. The former use the association as a place where they may deposit from time to time such sums as they are able to spare from their salary or other income. The borrowing members use the association as a place where they may borrow funds for buying, building or repairing homes or for some other purpose, and at the same time repay their loans systematically with their savings. The members save money

together: lend money to each other; they divide their profits with each other; they work together to help each other."

**Purpose:**

The chief purpose of a building and loan association is to encourage thrift and to lend money for the purchase, building or buying of homes or other legitimate needs. That they afford a safe and convenient depository for the savings of members has been shown above. An examination of a typical association indicates that they are also fulfilling their second purpose, that of lending money for homes. For example, on a particular institution made 3,251 loans during the past four years for the following purposes:

- 1,388 for building or improving homes,
- 1,369 for purchasing homes,
- 150 for taking up prior mortgages,
- 191 for miscellaneous purposes,
- 145 mortgages were purchased.

If we accept this as a typical condition of all associations in Kansas we must admit that they are also living up to their second purpose, as almost ninety per cent of their loans were used in buying, building or repairing homes. A majority of the loans ranged from one thousand dollars to five thousand dollars, which indicates that they were used by people of moderate means.

**Classification:**

The simplest way to classify building and loan associations is by territory served, whether DOMESTIC, FOR-

EIGN, or NATIONAL. Of the 132 associations in Kansas, 131 are domestic and one a national. This one is the Aetna of Topeka, which is also chartered in Oklahoma. There are no foreign associations in Kansas. Domestic associations confine their business to the county in which they are located until their assets aggregate $100,000. They may then do business in the adjoining counties.

Another scheme classifies the associations according to plan of membership used. Plans followed are the SERIAL, PERMANENT, TERMINATING and GUARANTEE STOCK. In Kansas, the last named is called Permanent Stock, which is often confused with the permanent plan. It will be necessary, therefore, to explain each plan before classifying the associations in Kansas according to this scheme.

The TERMINATING PLAN is the oldest in use in the United States. It is now obsolete in Kansas. Members enter into a mutual agreement to take a definite number of shares, which are all issued on the same date. A definite sum is paid by the members each month until the dues and profits have matured the shares. The money accumulated is then paid the members and the association is dissolved.

The SERIAL PLAN was developed in Pennsylvania, after which state it is sometimes named. According to this plan the association does not issue all its shares at one time, but annually, semi-annually, or monthly, as needed. This makes the association perpetual, as members join whenever a new
series is issued, which series are generally called Series I, II, III, etc., or series A., B., C., etc. More than half of the associations in the United States use the Serial Plan, but it is not the most popular in Kansas. Associations following the serial plan are pure mutuals, since they do not maintain any favored stockholders.

The PERMANENT PLAN goes one step further by permitting members to join at any time, new shares being issued whenever needed. The plan was first used in Dayton, Ohio, and is often called the Ohio Plan, or the Dayton Plan. About one-third of the associations in the United States use this plan, which ratio is also maintained in Kansas.

The PERMANENT STOCK PLAN originated recently in the West. It is now used by more than half of the associations in Kansas. The name should be changed to Guarantee or Contingent Stock Plan, so as not to confuse it with the regular Permanent Plan. In a permanent stock association the founders issue themselves a special kind of stock, known in Kansas law

1. R. Holtby Myers, United States League Proceedings, 1924, p. 164. "This idea may have been suggested by a New York City association, organized in 1890, which provided for an underlying guarantee. Under its plan, the founders invested considerable money in paid-up stock, and then executed a shareholders' agreement of guarantee, by which they guaranteed all subsequent shareholders, or investors, against a loss, a definite rate of dividend or interest, and agreed that the money invested by the organizers should not be withdrawn until all other claims against the association should be liquidated or paid."
as permanent stock. The money paid for this stock goes into a permanent capital fund, or contingent fund, and is used to guarantee the safety of other types of shares issued, as well as a definite rate of interest. Associations using the Permanent Stock Plan are not strictly mutual, inasmuch as all shares do not participate equally in the net profits. We may now classify the 132 associations in Kansas as follows:

<table>
<thead>
<tr>
<th>Type of Plan</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terminating plan</td>
<td>0</td>
</tr>
<tr>
<td>Serial Plan</td>
<td>8</td>
</tr>
<tr>
<td>Permanent</td>
<td>49</td>
</tr>
<tr>
<td>Permanent Stock</td>
<td>75</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
</tr>
</tbody>
</table>

**COMPARISON WITH OTHER CORPORATIONS:**

Since building and loan associations are private corporations for profit, let us compare them with some similar corporations. As a general rule, building and loan associations do not have to pay a bonus on their capital stock in securing a charter. They differ from banks in that they are closed corporations, lending money to members only. Cleveland points out that their capital stock is not represented by the amount of the stock outstanding, but by the amount of the combined savings, interest premiums and fees paid in by the members, after deducting expenses. Most of the stockholders pay for their shares in installments, and not in one lump sum. Legislation has often been more favor-

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1. Cleveland, Funds and Their Uses, pp. 326, 327.
able to building and loan associations, allowing them to charge premiums and granting them certain tax exemptions, rights that are not generally accorded similar corporations.

**Economic and Social Benefits:**

We have already intimated the value of building and loan associations to people of moderate means, but something further should be added to show their economic and social benefits to the individual, the community and the state. A quotation taken from a speech delivered by Anna E. Rae at Cleveland Ohio, in 1924, brings home to us the enormous economic influence of these associations. She says in substance that, the combined assets of the associations are about four billions of dollars, or one seventy-fifth of the entire wealth of the United States. Banks, which are the financial backbone of our nation, have only seven times as large resources as these associations. Banks finance all kinds of undertakings, while associations specialize chiefly in home building and in the needs of the moderate investor.

Thus, we see that building and loan associations make up one of the most important sources of capital funds, gathering up the savings of the people and investing them in mortgages, making it possible for our citizens to become contented home owners and investors.

More has undoubtedly been written on the subject of thrift than on all the other phases of the building and loan movement combined. We will therefore pass over this subject,
adding only the following brief statement: "He who saves money and invests it wisely does himself good by having an income in addition to his wage. He also gains indirectly by making better conditions for everyone, including himself."  

CHAPTER II

INCORPORATION AND ORGANIZATION OF AN ASSOCIATION IN KANSAS.

Incorporation.

Many of the early associations in Kansas were unincorporated prior to 1899. Those that had received charters were doing business without much state interference or regulation. There was very little uniformity in the organization and method of conducting the affairs of the early associations. The building and loan laws passed in 1899 placed all such associations under the direct supervision of the Bank Commissioner. He began at once to check up on the organizations but found it no easy task. This can be inferred from statements he made in his first annual report of June 1, 1900, when he addressed the governor as follows: "Having no means of knowing the number and location of associations doing business in our state, on May 17, 1899, I addressed the following communication to every corporation, (about five hundred) that had been chartered by the state, or the name of which indicated that it was a building and loan association. --- Most of these letters were returned to me unopened with the following notation by the postmaster: 'Not Here', 'Out of Business', 'Busted with the Boom'. Only sixty associations of those left in business responded."

John Briedenthal, Bank Commissioner, states that it was difficult for him to make out his first report for the following

reasons:

1. Inability of officers to make correct reports.
2. Difficulties arising from lack of systems in keeping accounts.
3. Because of change of secretaries.
4. Because County Attorneys advised secretaries that they were not required to make such elaborate accounts.
5. Difficulty of knowing the members and location of associations.

The Charter.

A building and loan association has its beginning in a preliminary organization. This can best be effected at a meeting of the most prominent men of the city, from which group are chosen temporary officers. If they are men of high standing in the community they will attract other good men, and this assures the new organization a successful beginning. Temporary rules should also be drawn up at the first meeting to guide the association until a permanent charter and by-laws have been secured. If at least twenty-five members can be secured at this preliminary meeting, who are willing to bind themselves together in a corporation for the purpose of carrying on a building and loan business, an application for a charter is in order. Owing to the many legal technicalities, a charter can best be secured by a good lawyer, who should be chosen at the preliminary meeting.

1. Ibid. p.17
The Article of Agreement in the building and loan laws states that the following facts must be set forth in the application for a charter:

1. The name of the proposed organization.
2. The name of the city or town in which located.
3. Limit of capital, number of shares, par value, etc.
4. Name, number of shares and residence of the incorporators.
5. Number of years for which the association is chartered.
6. The name of the directors chosen for the first year.
7. The purpose for which the corporation is formed.

The above mentioned application must be signed by at least ten of the parties thereto. It is then recorded in the office of the secretary of state.

The Kansas law elaborates concerning the above facts requiring that the words "Building and Loan", "Savings and Loan", or "Rural Credit Association" must form a part of the name of every association. The following eight combinations are in general use in Kansas:

1. Building and Loan Association,
2. Building, Savings and Loan Association,
3. Building, Loan and Savings Association,
4. Mutual Savings and Loan Association,
5. Mutual, Building, Loan and Savings Association,
6. Mutual Building and Loan Association,
7. Rural Credit Building and Loan Association,

The law further requires that the capital to be accumulated may be increased to twice the original capitalization, whenever the directors and stockholders see fit to do so. Building and Loan charters are not granted for a longer period than fifty years, at the expiration of which time the charter may be renewed for another fifty years.

By-Laws:

Of no less importance to an association than the charter is a proper set of by-laws. If they are properly drawn up they avoid many losses and much unnecessary trouble. By-laws have been defined by Joseph H. Sundheim as follows:

"A by-law is a rule or law adopted by an association, for its own government, and the regulation of its own actions, the control of its officers, and agents, and to regulate the rights and duties of the members between themselves, and between the members and the association."

The following points are stressed by the Kansas Statutes in regard to the by-laws of an association.

1. By-laws are to be drawn up and adopted by stockholders.

2. They must not be inconsistent with the state statutes.

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3. A copy of the by-laws of all associations must be filed with the bank commissioner and approved by him in writing.

4. Amendments must also be approved by the bank commissioner.

5. A corporation must begin business within one year after by-laws have been approved and the charter issued. As soon as the by-laws have been adopted by the association and approved by the bank commissioner, they are written into the charter and become binding upon all parties concerned.

A typical set of by-laws will be found in the appendix. It seems unnecessary, therefore, to give further attention to their contents in this chapter.

Organization, Directors and Officers:

If we consult the by-laws of an association, we will find that they make provision for the number, election, term of office, qualification and duties of directors and officers. Each association must have at least five directors. The most convenient number seems to be about fifteen. The statutes provide, "That a director shall be the owner of at least two shares of the capital stock of such corporation, and not be delinquent in any manner on any payments due from him to said corporation." We find that the real con-

1. Kansas Statutes - Article 3, L. 1899 - (Amended 1911)
2. Kansas Building and Loan Laws - Article 4 (2212)
control of an association lies in the hands of the directors.

The officers are those usually found in any organization. They are the president, vice-president, treasurer and secretary. Their duties are also similar to those in other organizations. The office of secretary is, however, an exception to this statement. Since the chief success of an association depends upon the work of the secretary, we will enumerate some of his important duties and responsibilities.

The secretary is present at all meetings of the association and keeps accurate minutes of the proceedings. He keeps the accounts and should at all times be ready to state the financial condition of the association. He draws all orders on the treasurer, cancels all paid up certificates, and makes proper transfers of stock. The secretary has custody of the corporate seal and affixes it, when required, to all certificates and legal documents. He makes out the semi-annual reports and mails them to the state supervisor, filing one copy of each in his office. He must submit a statement of the financial condition of the association to at least one newspaper in the county and see to it that the same is published. In addition he is required to mail every shareholder a correct report of the assets and liabilities of the association as of December thirty-first of each year.

Bond must be furnished by him for the faithful performance of his duties. Said bond is filed with the bank commissioner. The secretary is further responsible for all the correspondence and all other necessary details. Upon the success of his management, above everything else, depends the growth of the corporation.

In concluding this chapter, on the organization of a building and loan association, at least two important committees should be mentioned. They are the appraisal and the auditing committees. The former values all real estate and recommends to the directors the amount of money that can safely be borrowed on property. The latter committee is a rather specialized one, whose chief duties are to check over the finances of the association. On the appraisal committee is generally found officers, directors or stockholders, but most by-laws do not permit directors to serve on the auditing staff.

The appraisal committee examines the property that is offered as security for a loan, and advises the board of directors as to its value, and the amount of money that can safely be loaned on the same. There are no definite rules that can be laid down for the valuation of real estate, as the case of each applicant is different and can only be approximated by men of mature judgment along those lines. The appraisers take into consideration not only the actual value
of the property, but also the earning capacity, character and financial responsibility of the applicant, and his family, if he has one. The purpose for which the mortgage is placed on real estate is considered. We know an association which refused a loan to a widow who wished to mortgage her property in order that she might buy her wayward and shiftless son an automobile so that he would stay at home.

The duty of an auditing committee can be more specifically stated. It involves going over every individual entry made by the secretary or treasurer during the year, an examination of the minutes, the obligations entered into by the association, and the comparison of the shareholder's receipt book with the records of the secretary. Joseph H. Sundheim enumerates fifteen points that an auditing committee should cover to properly perform its labors. Any textbook on auditing also brings out these facts so it will be unnecessary to give any further attention to this subject in this chapter.

CHAPTER III.

THE TYPES OF STOCK IN KANSAS ASSOCIATIONS.

The Capital Stock:

In comparing building and loan associations with other corporations, we noted that the former does not have to pay a bonus on the capital stock in securing a charter. The statement was made that building and loan stock is usually paid for in installments and not at one time. This generalization must be modified, inasmuch as full paid stock and prepaid stock are always paid in one lump sum. Permanent stock is generally paid for in full when issued. Another contrast was to the effect that building associations do not pay dividends or a definite rate of interest, as the profits are simply left to accumulate within the association. There are at least three different kinds of shares, however, issued by Kansas associations, on which a definite rate of interest is paid. They are the full paid, rural credit, and deposit shares. In order to understand these differences it will be necessary to explain each kind of building and loan stock. According to the Kansas statute, the capital accumulated shall be issued in FULL PAID, PREPAID, DEPOSIT and INSTALLMENT SHARES, and PERMANENT STOCK.

Kinds of Stock Explained.

FULL PAID STOCK is paid for in full when issued. That is, a hundred dollar share is sold for a hundred dollars in cash. These shares pay a definite dividend or rate of interest, usually six per cent, payable semi-annually by presentation of coupons attached to the certificate of stock. No interest is paid for sums withdrawn between interest paying dates.

PREPAID STOCK is dated when issued and is due and payable in cash at its par value at the expiration of the number of years stated on the certificate. The number of years stated on the certificate will depend on the advance payment selected from a table as follows:

<table>
<thead>
<tr>
<th>Term</th>
<th>Advance Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 years</td>
<td>$89.00</td>
</tr>
<tr>
<td>3 &quot;</td>
<td>84.00</td>
</tr>
<tr>
<td>4 &quot;</td>
<td>79.00</td>
</tr>
<tr>
<td>5 &quot;</td>
<td>74.00</td>
</tr>
<tr>
<td>10 &quot;</td>
<td>55.00</td>
</tr>
</tbody>
</table>

If the money is withdrawn on prepaid stock before maturity, the member receives the entire amount paid in to the association, plus four per cent interest after the first six months have elapsed.

DEPOSIT STOCK is issued for one or more shares to members, who are entitled to deposit any sum at any time that is most convenient to them. Some states do not permit associations to carry on the deposit feature on the grounds that
it is encroaching on the field of banking. In Kansas, the statutes hold that the issuing of deposit stock does not confer banking powers. The associations therefore are receiving from time to time large sums in deposits on which they pay a slightly higher rate than banks, and still realize from one to two per cent profit on such sums.

INSTALLMENT STOCK makes up the bulk of the building and loan business. The shares are issued when the first payment is made. The shareholder is then required to make monthly payments as stated in a specified table as follows:

Table of Rates for each Share of $100.

<table>
<thead>
<tr>
<th>Terms</th>
<th>Monthly Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 months</td>
<td>$8.10</td>
</tr>
<tr>
<td>24 &quot;</td>
<td>3.94</td>
</tr>
<tr>
<td>48 &quot;</td>
<td>1.85</td>
</tr>
<tr>
<td>96 &quot;</td>
<td>.80</td>
</tr>
<tr>
<td>120 &quot;</td>
<td>.60</td>
</tr>
</tbody>
</table>

If the association follows the Dayton Plan as previously described, no definite dues or time of payment is required. In this case the payments are more like deposits, but they carry a higher rate of interest than the deposit share. At the expiration of the number of months specified in the certificate the stock is due and payable in cash at its par value.

Another form of installment share has been issued in Kansas since 1915. This is the RURAL CREDIT SHARE. It has the Dayton feature in that it permits farmers and others
whose earnings are not regular to deposit any sums at any
time in payment on rural credit shares. These shares bear
five per cent interest. The proceeds from the sale of rural
credit stock is invested in first mortgage rural credit loans.
"No entrance fees, premiums, fines, or penalties shall be 1
charged on any such shares." The Mutual Building and Loan
Association of Emporia was first to have Rural Credit fea-
tures in Kansas.

PERMANENT STOCK may also be issued by associations
in Kansas in accordance with the law, which reads as follows:
"Any such corporation may also issue permanent stock for which
par value shall be paid at time of issue or in monthly install-
ments of five dollars per share, at the option of the purchaser,
and upon which permanent stock a full dividend, or a definite
dividend may be paid, which dividend shall in no case exceed
the per cent of profit per annum acquired by any other class
or series of stock at the time such dividend is declared." 3
The law goes on to state that these shares may not pay a
dividend until all the lawful claims of every other class of

2. Emporia Daily Gazette, October 2, 1914: "Every town of a
thousand inhabitants could support an association if it
entered the Rural Credit field. If this should be done it
would gradually result not only in reducing the rate of in-
terest to the farmer, but in eliminating all commissions, and
large sums of interest amounting into the millions of dollars
each year, which are sent East, would be kept in this state."
stock, and all other liabilities of the association have been liquidated and paid. The holders of the permanent stock thus guarantee and assume the safety of every other class of stock issued, even in so far as to guarantee them a definite rate of interest. The permanent stock is issued only under the authority of the board of directors who hold most of these shares and limit their output. Under these circumstances permanent stock shares very seldom pay any dividends to their holders during the early part of an association. But when the corporation becomes well established all profits, in excess of those needed to cover the guarantee requirements, fall into the permanent stock fund, from which very handsome dividends are paid to the holders of permanent shares.

There still remains another form of stock, namely LOAN INSTALLMENT STOCK, which can better be explained in the chapter on loans.

1. Examples of stock follow.
RECEIPT

Received of the within named association the full amount due on this certificate of shares, and they are hereby surrendered and ordered cancelled.

ASSIGNMENT

For value received hereby sell, assign and transfer unto,

shares of the CLASS STOCK, represented by the within certificate and do hereby irrevocably constitute and appoint,

attorney to transfer the said stock on the books of the corporation with full power of substitution in the premises.

Dated

WITNESS

ASSIGNMENT AS COLLATERAL

The within shares of stock are hereby assigned and transferred to the within named association as security for a loan from said association to the owner of this certificate.

CLASS A—INSTALLMENT STOCK

Section 16, Class A—Installment Stock, shall be dated and issued when the first payment is made. The stockholders shall be required to make payments as stated in the following table, and at the expiration of the number of months specified therein, his stock shall be due and payable in cash at its par value provided no matured certificate shall be cashed under thirty days from date of last payment.

Table of Installment Rates for Each Share of $100.00

<table>
<thead>
<tr>
<th>Term of Payments</th>
<th>Monthly Payments</th>
<th>Term of Payments</th>
<th>Monthly Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 months</td>
<td>$8.10</td>
<td>84 months</td>
<td>$1.90</td>
</tr>
<tr>
<td>24 months</td>
<td>$3.65</td>
<td>96 months</td>
<td>$.80</td>
</tr>
<tr>
<td>36 months</td>
<td>$2.55</td>
<td>108 months</td>
<td>$.70</td>
</tr>
<tr>
<td>48 months</td>
<td>$1.85</td>
<td>120 months</td>
<td>$.60</td>
</tr>
<tr>
<td>60 months</td>
<td>$1.43</td>
<td>108 months</td>
<td>$.25</td>
</tr>
<tr>
<td>72 months</td>
<td>$1.15</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Power is given the Board of Directors to change the above payments when deemed for the best interests of the Association; such changes, however, shall not affect outstanding certificates in this class.

In consideration of a guarantee by the amount to the credit of the Permanent Stock to declare a dividend at a rate sufficient to mature this certificate within the time prescribed and to guarantee the withdrawal privilege, the holder hereof hereby agrees to waive his right to any earnings in excess of the amount necessary to realize such guarantee.

Shares in Class A (not pledged for a loan) may be withdrawn upon thirty days written notice to secretary. After 12 or more monthly payments have been made, interest not exceeding 4 per cent per annum from date of each monthly payment to date of withdrawal will be added.

This Certificate is withdrawable in accordance with Section 27 of By Laws and Rules adopted by The Board of Directors.
Example of a Building and Loan Association Installment Share. 1

RECEIPT

Received of the within named association the full amount due on this certificate of shares, and they are hereby surrendered and ordered cancelled.

ASSIGNMENT

For value received hereby sell, assign and transfer unto,

shares of the CLASS STOCK, represented by the within certificate and do hereby irrevocably constitute and appoint,

attorney to transfer the said stock on the books of the corporation with full power of substitution in the premises.

Dated

WITNESS

ASSIGNMENT AS COLLATERAL

The within shares of stock are hereby assigned and transferred to the within named association as security for a loan from said association to the owner of this certificate.

SHARE HOLDER

CLASS B—PREPAID STOCK

Section 17. Class B—Prepaid Stock, shall be dated when issued and is due and payable in cash at its par value at the expiration of the number of years specified in the following table.

Table of Payments Required for One Share of $100.00

<table>
<thead>
<tr>
<th>Term of Payment</th>
<th>Payment in Advance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 years</td>
<td>$89.00</td>
</tr>
<tr>
<td>3 years</td>
<td>$84.00</td>
</tr>
<tr>
<td>4 years</td>
<td>$79.00</td>
</tr>
<tr>
<td>5 years</td>
<td>$74.00</td>
</tr>
<tr>
<td>6 years</td>
<td>$70.00</td>
</tr>
<tr>
<td>7 years</td>
<td>$66.00</td>
</tr>
<tr>
<td>8 years</td>
<td>$62.00</td>
</tr>
<tr>
<td>9 years</td>
<td>$58.00</td>
</tr>
<tr>
<td>10 years</td>
<td>$55.00</td>
</tr>
</tbody>
</table>

Power is given the Board of Directors to increase the advance payment when deemed for the best interests of the Association.

In consideration of a guarantee by the amount to the credit of the Permanent Stock to declare a dividend at a rate sufficient to mature this certificate within the time prescribed and to guarantee the withdrawal privilege, the holder hereof hereby agrees to waive his right to any earnings in excess of the amount necessary to realize such guarantee.

Shares in Class B (not pledged for a loan) may be withdrawn upon thirty days notice to the secretary. If withdrawn after six months, interest not exceeding four per cent per annum from the date of payment will be added.

This Certificate is withdrawable in accordance with Section 27 of By-Laws and Rules adopted by The Board of Directors.

The Reserve Building and Loan Association
OBERLIN, KANSAS

ISSUED TO

DATE
Example of a Building and Loan Association Prepaid Share.

The Reserve Building and Loan Association
OBERLIN, KANSAS

This Certifies that is the owner of

Installment-Rural Credit-Full Paid- Shares of the Class Stock of
THE RESERVE BUILDING AND LOAN ASSOCIATION, OF OBERLIN, KANSAS
Transferrable only on the Books of the Association by the owner upon surren
der of this Certificate properly endorsed.

Issued subject to the By-Laws of this Association.

In Witness Whereof, the said Association has caused this Certificate to be
signed by its duly authorized officers and its Corporate Seal to be affixed.

OBERLIN, KANSAS this day of AD 19

SHARES 100.00 EACH

[Handwritten note: For Shares Issued to]

Dated: 19
From whom transferred:

Dated: 19
No Original Certificate. No Original Shares. No Shares Transferred.

Received Certificate No. for Shares this day of 19
RECEIPT

Received of the within named association the full amount due on this certificate of shares, and they are hereby surrendered and ordered cancelled.

ASSIGNMENT

For value received hereby sell, assign and transfer unto,

shares of the CLASS STOCK, represented by the within certificate and do hereby irrevocably constitute and appoint,

attorney to transfer the said stock on the books of the corporation with full power of substitution in the premises.

Dated

WITNESS

 ASSIGNMENT AS COLLATERAL

The within shares of stock are hereby assigned and transferred to the within named association as security for a loan from said association to the owner of this certificate.

SHARE HOLDER

CLASS R. C.—RURAL CREDIT INSTALLMENT STOCK

Section 22. Rural Credit Installment Shares may be issued to be paid for in any sum at intervals until the amount paid in plus dividends credited equals the par value. Fractional shares may be issued. These Installment Shares shall bear a definite dividend at a rate to be determined by the Board of Directors. Dividends shall be credited semi-annually. Whenever these Installment Shares mature they shall be paid in cash and cancelled, or they may be re-issued as Rural Credit Full-Paid Shares. Any portion of the amount to the credit of these Installment Shares shall be withdrawable, or they may be sold and transferred, or assigned, but no transfer will be valid until it is recorded on the books of the Association. Holders of these Installment Shares shall be given pass-books in which all payments, dividends, and withdrawals shall be entered.

CLASS R. C. F.—RURAL CREDIT FULL-PAID STOCK

Section 23. Rural Credit Full-Paid Stock, shall be issued upon the payment of the sum of $100 in full payment of each share; such certificates, however may be issued in fractional shares. Such certificates may be withdrawn at a discount not exceeding one per cent, thirty days notice being required. After three years withdrawal is permitted upon thirty days notice without discount. Interest on said stock shall be paid out of the earnings of the Association at a rate to be determined by the Board of Directors, payable semi-annually, at the Association’s office.

In consideration of a guarantee by the amount to the credit of the Permanent Stock to declare a dividend at a rate sufficient to mature this certificate within the time prescribed and to guarantee the withdrawal privilege, the holder hereof hereby agrees to waive his right to any earnings in excess of the amount necessary to realize such guarantee.

This Certificate is withdrawable in accordance with Section 27 of By-Laws and Rules adopted by The Board of Directors.

These By-Laws govern the class of stock indicated on face of certificate.
Example of a Rural Credit-Full Paid Share.

The Reserve Building and Loan Association
OBERLIN, KANSAS

This Certificate is the owner of
PERMANENT Shares of the Class E Stock of
THE RESERVE BUILDING AND LOAN ASSOCIATION, OF OBERLIN, KANSAS
Transferable only on the Books of the Association, by the owner upon surrender of this Certificate properly endorsed.

Issued subject to the By-Laws of this Association.

In Witness Whereof, the said Association has caused this Certificate to be signed by its duly authorized officers and its corporate Seal to be affixed.

OBERLIN, KANSAS

This day of 19

[Signatures]

SECRETARY

PRESIDENT
RECEIPT

Received of the within named association the full amount due on this certificate of shares, and they are hereby surrendered and ordered cancelled.

ASSIGNMENT

For value received hereby sell, assign and transfer unto,

shares of the CLASS STOCK, represented by the within certificate and do hereby irrevocably constitute and appoint,

attorney to transfer the said stock on the books of the corporation with full power of substitution in the premises.

Dated 19

WITNESS

ASSIGNMENT AS COLLATERAL

The within shares of stock are hereby assigned and transferred to the within named association as security for a loan from said association to the owner of this certificate.

19

SHARE HOLDER

CLASS E—PERMANENT STOCK

Section 20—Class E—Permanent Stock, shall be issued for which the full par value shall be paid at the time of issue or in installments of five dollars per share at the option of the purchaser, and upon which Permanent Stock a full dividend or a definite dividend may be paid, which dividend shall in no case exceed the per cent of profit acquired by any other class of stock at the time such dividend is declared. The balance of profit (if any) and the principal paid on said stock shall not be paid to the holders of the same until all lawful claims of every other class of stock in its series, which the holders of Permanent Stock assume and guarantee, as expressed in the certificate of such other classes, and all other liabilities of such corporations shall have been fully liquidated and paid.
Example of a Building and Loan Association Permanent Share.

Transfer and Loss of Stock.

When an individual has subscribed for one of the afore mentioned stocks, a certificate is issued him which is signed by the president and the secretary of the association. The certificate states clearly the class of stock, the dividends if any that it may bear, and the withdrawal value at stated times. Each certificate bears the corporate seal and serves as a contract between the association and the shareholder. They are subject to a lien in favor of the association for the payment of all unpaid installments or fines. It is not necessary that these certificates be written on any special form as long as they do not contravene any statute or by-laws.

Building and loan shares are the personal property of the stockholder and he can transfer them at will providing they are not in arrears. This is accomplished by endorsing the certificate on the back thereof, and mailing it to the secretary of the association, who makes the proper entry on the association’s books. When this is done the original stockholder ceases to be a member, all privileges and obligations having been assumed by the third party. A small fee of twenty-five cents per share is usually charged to make a transfer. If certificates are lost members may be issued a duplicate, plainly so marked, for which a fee of one dollar is charged. Some by-laws require that the member must furnish a bond of indemnity satisfactory to the board of directors before a
duplicate certificate is issued.

The Contingent Fund.

Some states do not require associations to maintain a contingent fund. But the Kansas Statutes make it obligatory for all associations to set aside each year one per cent of the net profits in such a fund. "Not less than one per cent of the net profits of all associations shall be set aside each year until a contingent fund of at least three per cent of the resources of such association shall be accumulated as far as possible. All losses shall be paid out of such fund."¹

In the seventy-five associations that follow the permanent stock plan, the funds from the sale of the permanent stock go into the contingent fund of the association. One would therefore naturally expect the contingent fund of these permanent stock associations to be larger than the same fund of the mutual organizations. But this is not always the case, as some of the older mutual associations have built up very large surplus funds to take care of the contingencies that may arise. In Chapter VII, which deals with "The Safety and Security of Building and Loan Associations", it will be pointed out that associations frequently lose money on real estate loans and through other unforeseen causes. The contingent fund takes care of these losses and others of a minor character that may arise.

¹ Kansas Building and Loan Laws - Article 39 G. (2256) (L. 1915 Chapter 95, Section 8.)
Membership Fees.

Associations are permitted by law to charge membership fees in every state of the Union, with the exception of Ohio. In that state they have been forbidden since the passage of the King Law in 1923. Such fees range from ten cents to two dollars and fifty cents per one hundred dollar share. The following limitations apply in Kansas. "An entrance fee of fifty cents on each one hundred dollars of stock subscribed for, or in lieu thereof, a membership fee of one dollar. Associations may also charge a transfer fee not to exceed one dollar for transferring each certificate of stock."

Although the state laws permit the charging of fees, many associations question their desirability. Chase and Clark, of the American Savings, Building and Loan Institute, sent out a questionnaire to one hundred associations operating in thirty-four different states concerning the advisability of abandoning fees altogether. Of the eighty associations reporting, seventy-four favored their abandonment, and only six believed that they should be retained. The following were some of their significant answers:

"Fees keep business away; profits lost thereby more than offset fees."

"By all means eliminate them. We would not reinstate them for several thousand dollars."

"Fees are unnecessary and undesirable."

Chase and Clark drew the following three conclusions from these reports:

1. That excessive fees are wrong and should be curbed by legislation.

2. That young associations and those charging small fees should exercise their own discretion according to local laws and conditions.

3. That education will result in gradual elimination of membership fees as an unprofitable and unnecessary hindrance to thrift and building and loan development.

In the above conclusions, the second is most applicable to Kansas, for there are many small associations that need the fees. Even if an association does charge the maximum of fifty cents per one hundred dollar share, it will entail no great hardship on the members paying the same. And yet this same fee will help the associations materially to meet legitimate expenses. Most of the associations in Kansas need this fee for they are allowing only about one per cent for expenses, and since almost half of them have in the neighborhood of one hundred thousand dollars in assets, their expenses must be limited to one thousand dollars if no fees are charged. There are no banks with a hundred thousand capitalization that do their business on so small an expense.

1. Chase and Clark, Membership fees Questionnaire. - 1924.
Loans Made to Members:

Thus far our discussion has been confined to the plans used by associations for the purpose of accumulating money. At first glance it would seem that the main purpose of the societies is to help people save money. But it is equally important that the accumulated funds be wisely and profitably invested before members can hope to realize any earnings on their savings.

Most of the funds of an association are disposed of directly to its members in the form of loans. Many shareholders become members for the sole purpose of borrowing money. Of the seven million shareholders or more in the United States about one sixth are borrowing members. According to Sundheim they borrow money for the following purposes: "Loans are made for the purpose of purchasing homes, or real estate, or for any lawful purpose or business, but there is no duty or obligation of the association to inquire for what purpose the loan is obtained, or to require any stipulation from the borrower as to what use he will make of the money, or in any manner supervise or control its disbursement." Associations very frequently do inquire into the purpose of the loan, and

often the purpose is the deciding factor whether a loan will be granted or not.

Advantages:

The shareholders who borrow money realize that associations offer advantages over the ordinary system of borrowing. The advantages of building association loans over the straight or flat mortgage plan have been summed up by R. Holtby Myers as follows: "The borrower pays interest on the unpaid balance of the principal only, not on the full amount of the loan. The borrower receives a pass book in which all payments are credited, and at regular periods it is written up, so that he knows the exact condition of the loan and the balance due. The association cannot demand repayment of the loan under any circumstances unless the borrower defaults in his payments for a considerable length of time. There are no renewal charges, such as the brokerage commission, abstract or certificate of title, attorney fees, appraisal, recording cost, etc., as there are in straight loans when renewal is required at the expiration of the short term loan. These privileges are of great advantage to the borrower, and fully warrant the slightly increased rate of interest."

There is of course a very decided difference in the repayment of building association loans over those of ordin-

1. R. Holtby Myers, Building and Loan Explained, p. 42.
ary loans, which will be clearly discernible in the following explanation of the various kinds of association loans.

Kinds of Loans:

The Stock Loan is the simplest kind of loan, being easily and quickly obtainable. It is issued to stockholders who pledge their shares as collateral for a loan equal to ninety per cent of the cash value of the shares. By this

1. Letter, October, 1923: "Just what the advantages of the building and loan plan are in black and white may be shown as follows: Suppose a man borrows $1000 on building and loan mortgage. It will take him about 11½ years to pay that mortgage off. His total disbursements, on account of both principal and interest will amount to $1,360, or at the rate of $120 a year.

Now suppose another man borrows $1000 on straight mortgage and that he undertakes, by investing the money which the building and loan man uses for amortizing purposes, to pile up on his own account the amount needed, ($1000) to extinguish the total debt. The building and loan man paid out only $120 a year. The mortgage man has to pay $60 a year on account of interest; therefore, if the two cases are to be kept parallel, the mortgage man can be said to have only $60 a year available for investment. In order to pile up $1000 by investing $60 per year at the end of every year at the rate of 6% of compound interest, the investor must keep it up for almost 12 years. During that time he will have had to pay 6% on his mortgage borrowing every year, or practically $720 altogether. Hence he will have paid out a total, both principal and interest, of nearly $1,700.

In other words, the figures show that the building and loan man gets through more quickly, and between $300 and $400 per thousand more cheaply. Furthermore, the building and loan man is sure of getting through, whereas the mortgage man must trust to his ability to get 6% compound interest on the $60 a year he has available for investment."
transaction a shareholder becomes both an investing and a borrowing member, for he still retains his character as a shareholder, even though his shares have been assigned to the association.

The Mortgage Loan is used by persons who wish to borrow large sums for the purchase of real estate, for the building of homes or for business needs. Members who desire to secure a mortgage loan first fill out an application blank furnished by the association. This blank when completed contains a description of the property, the location, rental value, estimate of value, incumbrance, if any, and amount of loan desired. The borrower must in addition provide an abstract of title showing that he is the lawful owner of the property. The borrower's name is next placed on the waiting list, and his application for a loan is turned over to an appraisal committee for verification. When the appraisal committee has made a thorough investigation of the facts they report the results to the directors, and recommend an amount that can be safely loaned on a given property. The directors in granting the loan are thus guided by the recommendation of this very important committee, and by an additional safeguard, stipulated by the by-laws, which limits mortgage loans to fifty per cent of the actual value of said property.
**APPLICATION FOR LOAN**

Loan No. __________

Desiring to obtain a loan of $__________ from the Association of __________, Kansas, for a period of __________ years, I hereby offer as security the following real property, to wit:

- A property known as House No. __________ on __________ St.,
- Lots No. __________ on __________ St.,

and in addition thereto shares in Series No. __________ of the Association.

**PERSONAL.**

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Where employed</th>
<th>Age</th>
<th>yrs.</th>
</tr>
</thead>
</table>

| Salary or wages, $ | per | | |
| Life insurance | Accident insurance | | |
| Husband's full name | | | |
| Wife's full name | | | |
| Residence | | | |

**PROPERTY.**

<table>
<thead>
<tr>
<th>Ground was purchased in for $</th>
<th>House cost, in.</th>
<th>Barn cost, in.</th>
<th>Other improvements cost,</th>
<th>Owner's value of the property is</th>
<th>feet front on</th>
<th>St.,</th>
<th>ft. deep.</th>
</tr>
</thead>
</table>

Should the loan be granted, I hereby agree to comply with all the requirements of the Charter and By-laws of the Association, and such other requirements as may be defined by the Examining Committee or the Board of Directors, and pay any necessary expense which may be required to complete the loan.

All abstracts of title offered must be examined and approved by the Attorney of this Association before any loan can be made and the necessary expense of examining title papers shall be borne by the person applying for a loan. All disputes that may arise as to the charges may be arbitrated before the Board of Directors.

I hereby certify that, to the best of my knowledge and belief, there is no encumbrance, other than that set forth above, and that there are no mechanic liens in process of being filed, nor any work done or material furnished for the above described property in the past FOUR MONTHS; except __________ __________. I hereby further agree that the mortgage I am giving will be a first and prior lien on the above described property.

Our Loans must

Be protected by both

Fire and Tornado Insurance

Applicant.

**REPORT OF EXAMINING COMMITTEE**

We have examined the above property, offered as security for a loan, and estimate present values as follows:

| Value of ground | $ | |
| Value of house | $ | |
| Value of barn | $ | |
| Value of garage | $ | |
| Value of other improvements | $ | |
| Value of shares in this Association | $ | |

**Total value** $____________

Rate __________

We recommend a loan of $__________ Property to be insured for not less than $__________

**SECURITY IN CASE OF FIRE.**

| Value of grounds | $ | |
| Insurance on house | $ | |
| Insurance on barn | $ | |
| Insurance on garage | $ | |
| Other improvements would be worth | $ | |
| Value of shares in this Association | $ | |

**Total security in case of fire** $__________

**REMARKS:**

<table>
<thead>
<tr>
<th>Fire</th>
<th>Storm</th>
</tr>
</thead>
</table>

Dated __________

Committee.
Building and Loan Form Application for a Loan.

The Method of Repayment of Loan.

The borrowing member, to further secure his loan and to provide an easy method of repayment, subscribes for as many shares as will at maturity amount to the sum borrowed. On these shares he pays the same monthly dues as savings members, plus the interest on his loan, and participates equally in the division of the profits. The payments, plus the earnings and profits, in a given time, will equal the amount of his loan and are used to cancel the original debt. "Thus," says R. Holtby Myers, "The borrower pays off his loan by bringing his shares up to maturity."

The following illustration taken from a Kansas association loan prospectus shows clearly the repayment of a mortgage loan.

"The cost of carrying a loan to maturity in connection with our class 'A' stock, using a $1000 loan for an illustration, and basing our present maturity experience as to class 'A' stock, which matures on 125 dues payments, is as follows:

1. See table in Chapter VIII, which shows that part of the dues go to pay interest and part principal.
It will be noted that the total amount paid on the stock is only $630 which is all the borrower actually pays in liquidating the principal of his $1000 loan. This means that he has made a clear profit of $370 on his stock, and this is where the great advantage of the monthly payment plan over the straight loan plan arises. It brings the interest cost down to a rate of only about 6½% per annum, and, best of all, the loan is wiped out by such easy stages as to place no great burden upon the borrower."

Security for Loans.

It is difficult to lay down a set of definite rules that would make for absolute safety in the granting of loans. Applicants differ in their credit dealing, one from another, no two presenting identically the same circumstances. A few general rules are, however, observed by associations. They seldom loan more than fifty per cent on the estimated value of real estate. They require a note, mortgage, and the assignment of the member's stock, which three precautions form the chief security of association loans. Borrowers are required to pay their taxes promptly, and carry insurance, payable to the associations, on all buildings mortgaged. The following is a typical statement found in by-laws governing taxes and assessments: "During the continuance of the loan

1. The Aetna--Loan Prospectus, - September 1924.
2. The Note and Mortgage are Explained in Chapter V.
all taxes and assessments on the property must be promptly paid when due, and the receipt sent to the secretary."

Still other safeguards require all borrowers to provide an abstract of title, which prevents fraud and misrepresentation. Sometimes rents are assigned to the association, or borrowers may be required to furnish other collateral in the form of bonds. Frequently the borrower is induced to take out life insurance payable to the association in case of death. This not only protects the association, but also his own family.

Provisions Governing Premium Charges.

A question that often arises is whether associations may charge premiums for loans in addition to the regular interest rates. The Kansas statutes permit them to charge premiums provided the interest and the premium do not exceed the legal rate. "The law of Kansas concerning usury shall apply to all building and loan associations doing business under the provision of this act; and the total sum received as premiums and fines and interest shall not exceed ten percent per annum on the money actually borrowed."

Today very few, if any, associations in Kansas are charging premiums for loans. The reason for this is the fact that associations at present have, as a rule, adequate funds

1. Lawrence Building and Loan Association, By-Laws - Article XI.
2. Kansas Building and Loan Laws - Article 9 (L.1899 - May 15)
to satisfy all their borrowers. The members are therefore not required to pay premiums in order to secure priority of loans, as was necessary in the nineties when money was scarce.

In the past, much has been written on the subject of premiums, but since they are practically obsolete in Kansas at the present time it will suffice to describe but two of the most popular types of these old premiums. One was the Gross Premium Plan, by which a certain per cent per share was deducted from the total loan. If a borrower bid ten per cent premium on a one hundred dollar share, the association would advance him but ninety dollars. According to another plan used, The Installment Premium, a borrower would bid so many cents per share to be paid monthly in addition to the dues and interest for the loan.

The Investment of Surplus Funds.

The chief method used by associations in the disposal of their funds through loans to their members, has been explained above. There are still numerous technicalities connected with this procedure, which will be discussed in a subsequent chapter. We still have to consider other methods that may be used by associations in investing their surplus funds.

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In periods of depression, it frequently happens that associations find themselves with a large surplusage on hand. Should no other outlet arise for the disposal of these funds, this money would remain idle and no profits would accrue to the shareholders. But the associations may, according to the Kansas Law, invest such funds in the same kind of securities as is now permitted for the investment of the permanent school fund. Or they may, upon approval of the bank commissioner, invest them in full paid shares of other Kansas Associations, in an amount not to exceed five per cent of their assets. They may also invest them in first mortgages on Kansas Real Estate.

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Note: A device frequently used by associations when they are oversupplied with money is to stop the issuing of full paid shares. The by-laws also permit associations to call in full paid shares outstanding. This reduces their surplus and stops the interest payments on said shares.
CHAPTER V.

THE DETAILS OF THE NOTE AND THE MORTGAGE

The Note and Mortgage:

In Chapter IV we observed that members who wish to borrow money on real estate must not only give a note and a mortgage on their property, but must also take out shares in the association equal to the amount of the loan. The method of the maturity of the shares and of the repayment of loan were discussed and illustrated. In this chapter we shall discuss the note and mortgage which are given by the borrower to further secure the loan until it shall have been paid. If the borrower fails to make his payments the association may foreclose his mortgage. If the shareholder finds it impossible to make his payments on investment shares he may withdraw. The proceedings in case of foreclosure by an association, and the withdrawal privileges of an investing member will be discussed in the latter part of this chapter.

In order that associations may have written evidence of a loan to a member the Kansas statute provides that: "For every loan or advance made, a note and mortgage shall be given which shall be a first lien on real estate, except taxes and special assessments, and except the prior liens held and owned by the association, and shall be accompanied by a transfer
and a pledge of the shares of stock of the member, or mem-
bers, so obtaining a loan or advance."

There seems to have been much conflict in the
cases that have been tried at Court as to whether associa-
tions may assign the obligations of their members and secure
loans on the same. Joseph H. Sundheim, an authority on
building and loan laws says: "It has been held by eminent
authority that this can be done, and that it cannot be done.
Such a transfer, however, whether absolute, or as security
for a loan to the association, seems to violate every build-
ing and loan association principle. The contract between
a member and an association is something more than a mere
contract for the loan of money." The Kansas Statute, as
noted above, specifically states that the mortgage which a
member has given to an association is non-negotiable and
non-assignable. As far as we have been able to learn the
associations are not violating this rule. If associations
need money they either try to sell full paid shares to other-
 associations or they go to a commercial bank and borrow funds
by issuing to said bank full paid shares of the association.
If these two methods fail, borrowers on the waiting list
simply have to wait until enough money has come in through
the regular channels to meet their needs.

1. Kansas Building and Loan Laws - Article 11 - (2219 as
   amended)
2. Law of Building and Loan Associations, p. 119.
Although the Kansas Statutes are very rigid concerning the assignment of a member's security, it does provide for some exceptions to the above rule. An association can, for instance, sell or assign notes and mortgages of members whenever it needs money to pay withdrawals or maturing shares, or for the purpose of liquidating the business of an association. This, however, can only be done with the consent of the bank commissioner. Associations may also sell or assign mortgages to a junior lien holder when said mortgages are subject to foreclosure.

It should be clear, then, that all loans made by building and loan associations are always secured by a note and a mortgage. The note is the evidence of the debt, while the mortgage serves as collateral or security. As soon as the mortgage has been given, it should be recorded so that everyone may know that the association is holding the property as security and has priority of lien on the same. The note need not be recorded but pains should be taken to make sure that the terms of the note and the mortgage are in conformity. The phraseology in such cases should be as simple and clear as possible. A typical example of a note and of a mortgage as used by Kansas Associations follows:

1. By permission of the "Lawrence Building and Loan Association."
FIRST MORTGAGE NOTE

Lawrence, Kansas, 191

The Douglas County Building and Loan Association

OF LAWRENCE, KANSAS,

Having advanced to the sum of DOLLARS

Upon Shares of Class G of the capital stock of said Association, evidenced by Certificate No., and in consideration of such advance hereby agree to pay the dues upon said shares together with interest upon the amount so advanced, payable in monthly installments, as follows: each and every month thereafter, to and including the month of 


It is also agreed that the undersigned may at any time make payment in whole or in part of said loan or advance, and all payments in excess of the regular monthly payments hereinbefore provided for, shall be a payment upon principal and stop interest on that amount. It is also agreed that the full amount of the principal remaining due may be paid at any time by the payment of interest for one additional month, and in that event there shall be credited upon this obligation the full amount of the dues paid upon said shares of stock, with dividends thereon at the rate of eight per cent. per annum, as shown upon said shares of stock.

The makers hereof further agree as follows:

FIRST. To pay all taxes and assessments of every kind and nature levied upon the real estate mortgaged to said The Douglas County Building and Loan Association of Lawrence, Kansas, when the same are by law due and payable, and insurance premiums to secure the amount of insurance hereinafter provided for.

SECOND. To immediately procure and maintain, and keep in the possession of said Association, without lapse, policies of insurance against fire and lightning in the sum of Dollars and tornado insurance in an amount to be agreed upon covering the buildings now or to be hereafter erected upon said mortgaged premises, in some responsible insurance company, until the debt secured by this obligation, with interest, is fully paid, said policies to have subrogating clauses attached, making loss, if any, payable to said Association, as its interest may appear, which policies and clauses shall be issued by companies and upon forms approved by said Association.

THIRD. To keep and maintain the buildings now on said premises, or which may be hereafter erected thereon, in good condition at all times, and shall not suffer waste thereon.

FOURTH. That in case of failure on their part, or on the part of their successors or assigns or grantees, to pay all taxes and assessments when by law they become due and payable, or a like failure to keep in force policies of insurance hereinafter provided for, that the said Association may pay said taxes and assessments, and maintain said insurance, and that the amounts so expended by it shall be a lien on premises described in the mortgage given to secure the payment of this note and the same may be recovered with interest at the rate of ten per cent. per annum.

FIFTH. The undersigned hereby assigns to said The Douglas County Building and Loan Association the rents, and income arising at any and all times from the property mortgaged to secure this note, and do hereby authorize the Association at its option to take charge of said property; collect and receipt for all rents and income, and apply the same on the payments, insurance premiums, taxes, assessments, dues, repairs or improvements necessary to keep property in tenantable condition, or other charges provided for in this note, provided said payments, dues or charges are three months in arrears. This assignment of rents to continue in force until the amount secured by this note is fully paid.

The undersigned agree that a failure on their part, or on the part of their successors or assigns or grantees, to comply with the foregoing agreements, designated in paragraphs one, two and three, or a failure for a period of six months to make payment of dues or interest, or if become indebted to said Association in a sum equal to the gross amount of the dues, interest and other charges for a period of six months, then said Association may, at its option and without notice to them, declare the whole amount of said loan, or advance, to become due and payable, and that foreclosure of said mortgage may be had; and in case of any such failure the amount due under this contract, whether dues upon stock, interest, taxes or insurance, shall draw interest at the rate of ten per cent. per annum from the time of such default until paid.
Example of a Building and Loan First Mortgage Note.
MORTGAGE
FROM

TO THE
Douglas County Building and Loan Association
OF LAWRENCE, KANSAS

State of Kansas, Douglas County, ss:
This instrument was filed for record
in the_______ day of __________________________
A. D. 19____, at __________ o'clock _______ M.
and duly recorded in Book __________________________
in page____________________
Sec, $_____________________________________

_________________________  Register of Deeds

_________________________  Deputy

The debt secured by this mortgage has been paid in full, and the Register of Deeds is authorized to
release it of record.

The Douglas County Building and Loan Association.

By ____________________________
Secretary, Lawrence, Kansas, 191
(SEAL)
This Indenture, Made this ______ day of ______________________ of Douglas County, in the State of Kansas, of the first part, and The Douglas County Building and Loan Association of Lawrence, Kansas, of the second part.

Witnesseth: That the said part ______________________ of the first part, in consideration of the sum of ______________________ DOLLARS, the receipt of which is hereby acknowledged, do by these presents grant, bargain, sell and convey, unto said party of the second part, its successors and assigns, all of the following described real estate, situated in the County of Douglas, State of Kansas, to-wit:

To Have and to Hold the Same, Together with all and singular, the tenements, hereditaments and appurtenances thereunto belonging, or in anywise appertaining, forever.

PROVIDED ALWAYS, And this instrument is executed and delivered to secure the payment of the sum of ______________________ DOLLARS with interest thereon, and such fines and charges as may become due to said party of second part under the terms and conditions of the contract note secured hereby, advanced by the said The Douglas County Building and Loan Association to the party _______ of the first part upon _______ shares of Class G of the capital stock of said Association, evidenced by Certificate No. _______, which said shares have been assigned to said Association with all the future payments, earnings and dividends thereon, which said interest and dues on said shares, the first part agree to pay monthly installments, making a total monthly payment of $ __________, payable as follows:

on or before the ______ day of ______________________, 191 , and a like sum on or before the ______ day of each and every month thereafter to and including the month of ______________________, 191 .

Now, if said party of the first part shall cause to be paid to the party of the second part the amount due it under said contract note, in accordance with the terms thereof, and comply with all the provisions and agreements in said note contained, then these presents shall be void; otherwise in full force and effect, and may be foreclosed as in said contract note provided.

In Witness Whereof, The said party of the first part has hereunto set his hand the day and year first above written.

______________________________

STATE OF KANSAS,
COUNTY OF DOUGLAS,

Be it remembered, that on this _______ day of ______________________, A. D. 191 , before me, the undersigned, a NOTARY PUBLIC in and for the the County and State aforesaid, came who _______ personally known to me to be the same person who executed the within instrument of writing, and such persons duly acknowledged the execution of the same.

IN TESTIMONY WHEREOF, I have hereunto set my hand and Notarial seal the day and year above written.

______________________________

My Commission expires ______________________ 191 .
Example of a Building and Loan Mortgage.
Members, as well as associations, derive certain advantages in giving their notes. The chief advantage to a shareholder, in giving a note, is that while he has the use of the borrowed money, he still retains his full membership in the association. When the note is paid, his stock is released from the lien and he is again a free stockholder. The question is often asked whether a member may pay a building and loan note before maturity. This is permissible under the following considerations: "A shareholder may pay a loan at any time, upon application to said corporation, by giving thirty days notice in writing, upon such terms and conditions as may be prescribed in the by-laws of the association."  

When a member's loan has been paid by the maturity of his shares, he has a right to have his mortgage satisfied of record, and any other securities held by an association returned to him. The satisfaction can be enforced by the borrower through legal procedure. The burden of proof is on the plaintiff, who must establish the fact that the loan has been paid in full by him. If, however, the borrower has been unable to make his payments and therefore unable to mature his shares, the association may, according to law, purchase or dispose of the property to satisfy the mortgage. "Any corporation created by or under this act is hereby

2. Joseph H. Sundheim - Law of Building & Loan Associations, p. 170. "Building associations usually give to one or two of their officers a general letter of attorney to satisfy mortgages."
authorized and empowered to purchase at any sheriff's or other judicial sale, or at any other sale, public or private, any real estate upon which such corporation may have or hold any mortgage, judgment, lien or other encumbrance, when the same may be necessary to protect said corporation, and to sell, convey, or lease at pleasure the real estate so purchased to any person or persons whomsoever."

Foreclosure.

Although building associations take all the precautions above mentioned in making loans, it occasionally happens that they must exercise the right of foreclosure. In Kansas no association has a right to foreclose a mortgage before at least six months have elapsed, during which time the member has failed to pay dues, interest, fines or other charges required by the by-laws or stipulated in the mortgage. When this period has elapsed, "No notice of the commencement of proceedings, other than service of process, as required by law, need be given to the defaulting member, as he is bound to know when he is in arrears." Sundheim further states that when the writ is drafted it must show on its face the default on the part of the defendant, on which the plaintiff relies, and which made the whole debt become due and payable, so as to entitle the association to an immediate right of action.

1. Kansas Building and Loan Laws - Article 13. (L.1899 Chapter 78, Section 13, May 15)
Upon foreclosure, the defaulting borrower is charged not only the amount of the loan, but also dues, interest, fines, premiums, if any, taxes, insurance, and any other charges in arrears. The defaulting member is given credit for the withdrawal value of the shares pledged. The Kansas Statute provides that the defaulting member shall also be paid the balance of the amount realized from the sale of the property, after the loan and all legal charges have been satisfied. If the property, on a sheriff’s sale, does not bring the amount of the loan, it is often bought by the association and becomes its property, to be sold at either a profit or a loss.

Withdrawal Privileges of Members.

By withdrawal is meant, the voluntary termination of membership in an association. This is accomplished upon terms provided in the by-laws and by the Kansas statutes governing the same. We find that building and loan members are more fortunate and have more privileges than have members in other investment corporations and life insurance companies. In the latter companies, a member can scarcely, if ever, withdraw the first years of the policy without losing all the money that he has paid out in premiums during the first year. The reason for this is that the first payments go to pay the

commission of their salesmen and for other expenses. In a building and loan business, a member can always draw out every cent that he has paid in, and such interest as the by-laws may authorize. This privilege is considered by members of building and loan associations as a very valuable attribute. It, however, may be an unmixed evil, inasmuch as this easy withdrawal feature does not penalize the members. They are therefore tempted to withdraw for very slight causes. Fifty per cent of the shareholders never mature their shares.

The above only holds true for savings members who have not pledged their shares in security for loans. The following facts are stressed by the Kansas Laws on the withdrawal of shares: "No shareholder shall be entitled to withdraw whose stock is pledged as security for a loan from the association without first paying the amount due the association."

To protect associations, in case circumstances should ever arise when the holders of savings stock might make a run on an association, as is so often done on banks, such members are required to give one month's notice of withdrawal. The notice must be delivered to the secretary of the association at such time as is provided by the by-laws. There might still be danger of having to pay out so much money that there would not be a sufficient amount left

1. Kansas - Building and Loan Laws - Article 16, (L. 1899, May 15.)
with which to satisfy borrowers, were it not for the following provision: "At no time, however, shall more than one-half of the receipts of the corporation for any fiscal month be applicable to the demands of withdrawing shareholders, or of shareholders whose stock has been forfeited in the manner hereinafter provided, without the consent of the directors."  Whenever there is not enough money to meet withdrawal demands, the members are paid in the order of their withdrawal notices. The payments are always made in cash and never in the assets of an association.

We have already intimated that members may withdraw all the money paid in to an association, in addition to such rate of interest as is prescribed in the by-laws. Joseph H. Sundheim calls this the "withdrawal value" of a share. He also makes the following distinction between withdrawal value and book value.

"The 'withdrawal value' is the amount actually paid in, in addition to such proportion of the profits, or such rate of interest, as may be prescribed by the by-laws, or fixed by the board of directors by virtue of authority, conferred by the by-laws, less fines and other charges. The 'book value' is the proportionate amount of net assets, including profits or losses of the association, applied to a share of its stock, taking into consideration the amount actually paid in, and the length of time the association has
had the use of the money. Members only receive the actual
book value when their stock matures.\textsuperscript{1} The by-laws and
statute laws permit associations in Kansas to charge a small
withdrawal fee.

\textsuperscript{1} Law of Building and Loan Associations, p. 155.
\textsuperscript{2} See Chapter III, Membership fees.
CHAPTER VI

ASSESSMENT AND TAXATION OF ASSOCIATION ASSETS

We have noted that building and loan associations in the United States have assets of some four billions of dollars. This large amount of wealth should make some contribution to the public revenues. The associations, however, do not pay taxes in the same proportion or on the same basis as do other corporations. Both Federal laws and the laws of Kansas grant exemptions from taxation in some particulars to building and loan associations.

A tax has been defined "as a charge and pecuniary burden for the support of government, for raising revenue for public purposes in which the community that pays it has an interest." The right to impose taxes in the United States belongs to the people who represent the sovereign power. In writing on the control of taxation as a basic right, one writer states: "In constitutional States taxation is a popular right; it is the way in which people allocate among themselves the financial burdens of the state. The power and willingness of the people to tax themselves are the best tests of democracy in any state."  It is not our purpose to prove

that the right of taxation belongs to the people, for that is self evident. We wish to point out that if the people have the right to tax themselves, they also have the right to exempt certain persons, property or types of business.

Reasons for tax exemptions of associations.

Before Congress or state legislatures may exempt certain persons, property or business, there should be very good reasons for so doing. Joseph H. Sundheim has enumerated a few valid reasons as follows: "The purpose of exemption is to encourage and help those who cannot or ought not to pay a tax, or to promote an institution from which the community and the state receives other benefits, to encourage which the state foregoes its right to tax." We have already shown how the individual's life, character, and efficiency is favorably affected through home ownership. The community and the state are also greatly benefitted, socially and economically. Legislatures are generally willing to grant some exemptions to agencies whose efforts are directed toward the betterment of the nation's housing problem.

Another reason given is that if no exemptions are allowed there is danger of double taxation. "The money collected by these associations, to a very large extent, goes into real estate. It is used to purchase, build and improve houses and buildings of every kind and nature. Millions of

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1. Law of Building and Loan Associations, p. 194.
dollars of taxable property is created by them. The member pays the tax on the real estate and to tax the assets of the association would be double taxation payable by the same party." Another reason is that a large proportion of the funds come from the poorer classes of people who are least able to bear the burden of taxation.

Federal tax exemptions of associations.

The federal tax provisions to which we shall refer in this chapter are taken from the Federal Revenue Act of 1921. Section 231 states: "That the following organizations shall be exempt from taxation under this title; domestic building and loan associations, substantially all of the business of which is confined to the making of loans to members, and co-operative banks without capital stock organized and operated for mutual purposes and without profit." This is truly a broad exemption including all associations. For some time there was a question, however, whether it included those associations in Kansas which have permanent or fixed capital stock. It may be wise here to give the Treasury Department's Interpretation: "In general a building and

1. Ibid. 2. R. Holty Myers, Building and Loan Explained, p. 51 - states: "All business is not equally important to the human race. I take the building and loan associations as something that is particularly high in its ideals and the value of its service to humanity, perhaps the most valuable thing that is done today. The most needed thing the world over is to provide home for the human race. The door posts of a man's home are the goal posts in life's great game of football. A man's home is the head of the diamond, the home plate where the runs of life are scored."
3. Federal Revenue Act of 1921. Title 2, Section 231.
loan association entitled to exemption is one organized pursuant to the laws of any state, territory or the District of Columbia, which accumulates funds to be loaned primarily to its shareholders for the purpose of building and acquiring homes. In order to be exempt the association must be mutual, that is, all of its stockholders or members must share in the profits on substantially the same footing; and must be so operated that substantially all of its business is confined to the making of loans to bona fide shareholders. A building and loan association otherwise exempt does not lose its status because--

1. It has paid up shares which are preferred as to earnings, and have a definite rate of interest which may be higher than the rate of dividends paid on other stock.

2. It borrows money (accepting deposits is held to be a form of borrowing) which it uses for loans to shareholders, the dues, fines, and penalties paid by shareholders being inadequate for this purpose.

3. It makes loans to non-members from accumulated funds which are not needed for loans to shareholders. In any case, however, the burden will be upon the association to show that substantially all of its loans are made to members.
4. The amount of its prepaid or full paid stock is disproportionate to running or installment stock, provided that the issuance of such prepaid or full stock is ancillary to the furtherance of the main business of the association; that is, that it is intended to provide a fund from which loans may be made primarily to persons subscribing to running or installment stock to enable them to acquire or build homes."

The above exemptions apply to associations. The following concerns the exemptions of individual members. "So much of the amount received by an individual after December 31, 1921, and before January 1, 1927, as dividends or interest from domestic building and loan associations, operated exclusively for the purpose of making loans to members, as does not exceed $300 per year." Outside of this exemption all income derived by an individual from money in an association, is subject to the same income tax regulations as all other income.

Stamp Taxes.

In addition to exempting building and loan associations from paying income taxes, and exempting individuals from paying income taxes on the first $300 derived in divi-

1. The Treasury Department's Interpretation, relating to the income tax under the Revenue Act of 1921. Article 515-1922.
dends or interest from domestic associations, the federal laws exempt associations from paying stamp taxes. The law states: "That there shall not be taxed under this title any bond, note or other instrument, issued by the United States or stocks and bonds issued by co-operative building and loan associations which are organized and operated exclusively for the benefit of their members and make loans only to their members." No revenue stamps are therefore required on stock issued by associations, or on transfers of stock. Some states collect a stamp tax but the Kansas Statutes also exempt associations in this respect.

**Kansas Laws governing assessment and taxation of association funds.**

One of the things that differentiates our state laws on building and loan associations from those of most other states is the fact that over one-half of the associations in Kansas issue permanent or fixed capital stock. Funds that are secured by associations from the sale of permanent stock are subject to the same taxes as are stocks of other corporations. The law governing such associations reads as follows: "Stockholders in any building and loan association doing business in this state and owning shares of permanent or fixed capital stock in said associations shall be assessed and taxed on the true value of such shares in the city or

1. The Federal Revenue Act, 1921, Title XI - Section 1101
township where such company is located, and the president, secretary, cashier or other managing officer, thereof, shall, under oath, return to the assessor, on demand, a list of the names of such holders of permanent or fixed capital stock and the amount of and value of such stock held by each, including the value of any divided profits or surplus; and such building and loan association shall pay the tax assessed upon such capital stock and individual profits or surplus and shall have a lien thereon until the same shall have been satisfied; but if, from any cause, the tax so levied upon such capital stock of such company shall not be paid by such company the property of the individual stockholder shall be held liable therefor."

Taxation of associations not having permanent or fixed capital stock.

The mutual associations in Kansas that do not issue permanent or fixed capital stock are governed by the following provision in making their returns for assessment and taxation:

"Every building and loan association doing business in this state without permanent or fixed capital stock shall return for assessment and taxation the actual value in money of its office fixtures and furniture, and also the value of its assets in excess of the cash surrender value of the withdrawable shares outstanding on the first day of March, deducting there-
from the assessed value of any real estate to which said
building and loan association holds the title in fee simple
in which its surplus assets may be invested, and such real
estate shall be assessed as other lands and lots are assessed."

The foregoing laws have all specified the conditions
under which associations, whether permanent or mutual, shall
list their assets for assessment and taxation. The state
laws governing taxation of building and loan associations do
not differ radically from those governing similar institutions.
In fact the taxation of permanent associations are very simi-
lar to those that apply to banks. Most of the laws have been
passed to avoid as little double taxation as possible.
Shareholders list withdrawal value of shares.

Most people, including assessors, do not seem to
have a definite idea as to the laws governing the listing of
building and loan shares for taxation purposes. Only three
things need to be kept in mind by the average shareholder.
They are: first, all shareholders are required to list the
withdrawal value of all shares, excepting rural credit shares,
second, those shares that members have pledged as collateral
for a loan need not be listed, third, all rural credit shares
are exempt from all taxation. "Every shareholder in any
building and loan association doing business in this state
shall individually list for taxation with his other personal

1. Kansas Building and Loan Laws, Article 40 a, (L. 1909,
March 10)
property, the cash withdrawal value of all withdrawable shares of stock held by him on the first day of March, excepting rural credit shares, and shares upon which there is an indebtedness to the building and loan association secured by mortgage on real estate or by shares of stock pledged as collateral, which shares shall be listed at the withdrawal value thereof, less any bona fide indebtedness secured thereby."

No attempt has been made in this study to ascertain the number of shareholders who are actually escaping taxation by resorting to the bad practice of not listing building and loan shares with the assessor. Assessors have been at a loss to check up on such offenders and therefore can not be blamed for this evil. But assessors can not be excused for the overassessment of building and loan shares by listing them at their full book value instead of at their withdrawal value. Too often loan stock and rural credit shares have also been listed, when the law specifically states that such stocks were exempt. Recently the above mentioned abuses are being remedied by sending all assessors full instructions on how to list and assess building and loan shares.

1. Kansas Building and Loan Laws, Article 40 b. (L. 1909, March 10)
CHAPTER VII

SUPERVISION AND SECURITY THROUGH STATE LAWS.

Kansas Laws make for Safety.

The safeguards taken by associations in the making of loans have already been explained in Chapter V. Briefly summarized: Associations require borrowers to subscribe for association stock in an amount equal to the loan, thus providing for the repayment of this loan; loans are not to exceed 50% of the value of the property; property to be insured and all taxes paid by borrower until loan is paid. Such precautions as the above, coupled with honest and efficient management forms the real security of building and loan associations. Other safeguards which are more general in nature will be discussed in this chapter.

Prospective investors frequently ask concerning the safety of associations. They are justified in asking this question, for associations have not always been as safe as they are today. In 1899, when building societies in Kansas were first placed under the supervision of the banking department, ten associations were found to be insolvent. Five were nationals and five were domestic. The former liquidated through a trustee, the stockholders receiving only 50% of the principal which they had paid in, (the latter) through a receivership, paying their
stockholders in full. The bank commissioner had the following to say about the national associations: "They were conceived in sin and brought forth in iniquity and existed in their early history for the sole benefit of the gang."

Concerning the domestic associations the bank commissioner wrote in his first report: "One association had engaged in a savings-bank business, paying regular rates of interest on regular certificates of deposits and deducting regular dividends of eight per cent to non-borrowing members. But not one cent of dividends had ever been declared, credited or paid to borrowing stockholders and they received absolutely no profits."

The foreign associations doing business prior to 1899 were guilty of still greater abuses and all of them sooner or later became insolvent. John Friendenthal, bank commissioner in 1899, wrote concerning them as follows: "One from St. Joseph Mo., paid its manager $10,000 per year, and an attorney was paid $5,000 for revising its by-laws."

Thousands of dollars were invested and lost by Kansas people in this association alone. Enough has been said to show that the early associations in Kansas were anything but safe. The bank commissioner concluded his observations of this

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1. First Bank Commissioners report, 1899, May 10. John Frienden-
2. thel. Bank Commissioner to Governor Stanley of Kansas.
early period as follows: "I could enumerate a score of foreign associations that have become insolvent and have robbed our people in a shameful manner, but it is a painful subject and I will not enlarge upon it."

Building and loan bureau established.

The building and loan associations have continued to grow in Kansas until by 1923 the bank commissioner, even with the help of a deputy, could not give them the supervision and attention that they deserved. A building and loan bureau was therefore created in the office of the bank commissioner in 1923. The chief officer of the bureau is the state supervisor who is appointed by the bank commissioner for a term of four years. He draws a salary of $3000 per year, plus necessary traveling expenses. The other officers of the bureau are the assistant supervisor and a clerk. The chief supervisor is bonded for $5000 and the assistant for $3000, said bonds are filed in the office of the secretary of state.

Associations are required to file semi-annual reports.

The Kansas law requires all associations in the state to file in the supervisor's office semi-annually a financial statement. The statement must be verified under oath by the president or secretary of the association. Any willful swearing to any statements that are untrue is deemed

1. Ibid. p.69 #3.
2. Kansas Building and Loan Laws, Article 25, (L. 1915 - Amended 1923)
perjury. The reports are made within twenty days after the
date to which they relate, and are accompanied with a filing
fee of five dollars. Secretaries or officers who neglect to
file the reports are subject to a fine of not less than $20
nor more than $200 for each offense. The fines are paid into
the school fund of the state. A copy of each report is filed
in the office of every association and a copy is published in
at least one newspaper in the county. Secretaries are also
required to mail every stockholder a correct statement of the
assets and liabilities of the association as of December 31,
of each year.

Associations examined annually.

Kansas is one of the thirty-four states that re-
quires the supervisor to make an annual examination of all as-
sociations in the state. Two states require a semi-annual ex-
amination, while one state only examines once in three years.
In order to facilitate the work the Kansas statutes have given
the supervisor the right to administer oaths, take testimony,
compel the production of any books or papers that may be nec-
essary for a thorough investigation. The supervisor notes the
following: The nature of the resources; mode of conducting
business, action of directors, investment of funds, etc. Upon
completion of the examination the supervisor sends to the pres-

1. Ibid. P.70-# 2.
ident of each association examined a report of his findings. The associations are charged a fee for each examination which they pay to the supervisor according to the following schedule:

- $2.00 for each $10,000 of assets for first—$500,000.
- 1.50 " " $10,000 up to $1,000,000.
- 1.00 " " $10,000 over one million up to 2,000,000.
- .50 " " $10,000 all additions over—2,000,000.

A minimum fee of $15.00 is charged for the annual examination.

When the supervisor has examined all associations he sends his annual report to the bank commissioner, who in turn transmits it as a part of the bank commissioner’s annual report to the governor. The annual report of the supervisor shows the financial condition of all associations on the thirty-first day of December.

Causes of insolvency.

We have now noted some of the safe-guards which the Kansas statutes provide the investor in building and loan stock. But good laws and good supervision cannot make institutions absolutely safe, for one must allow for the human elements of carelessness and dishonesty which often appear in the best regulated corporations. A few other causes of insolvency are, poor management, occasional losses on loans, poor methods of accounting and calculating profits. In spite

2. Kansas Building and Loan Laws, Article 27, (2235)
of these causes only one association in Kansas has become insolvent during the past twenty-five years. This speaks very highly for the honesty and judgment of associations secretaries and directors.

**Procedure in case of insolvency.**

Whenever the state supervisor finds that associations are conducted in an unsafe, unauthorized and unbusiness like manner, it is his duty to notify the officers and directors of such an association to that effect. The officers and directors are then allowed sixty days within which time they must make the assets sufficient and correct any unlawful practices. If they are not able to make good all discrepancies within this period the supervisor with the approval of the bank commissioner, institutes proceedings in the district court in the county in which the association is located. The proceedings restrain or enjoin the association from doing any further business.

If an association is insolvent, it is the duty of the supervisor to take charge of it at once. He takes over the business and all property and effects, and ascertains its actual value and condition. When the supervisor is satisfied that the association cannot liquidate its indebtedness to the satisfaction of all its creditors, he reports the condition and insolv-

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1. Kansas Building and Loan Laws, Article 28, (2236 as Amended)
vency to the attorney general, who institutes proper proceedings in the proper court for the purpose of appointing a receiver. The receiver is given sixty days after his appointment in which to wind up the business for the benefit of creditors and stockholders. This is the only thing the receiver can do, for he has no power to carry on the business of a building and loan association. Joseph H. Sundheim, writing about the effects of insolvency, states: "In this connection it should also be remembered that the moment one of those building and loan associations is declared insolvent, that moment its right to collect the monthly or weekly payments from its members ceases, and the mortgages of the borrowing members at once become due and payable and may be foreclosed. In such an event the entire purpose of the association fails, and thus results in a dissolution of the existing contractual relations between the association and its members except for the purpose of liquidating its affairs. Upon these propositions, as far as we know, there is no diversity of opinion."

Evidence of safety.

The Kansas laws governing building and loan associations give the investor ample protection, providing they are also faithfully executed. To show that the laws are also enforced we will examine some evidence that indicates a very high

standard of safety, which could only have been attained through the strict adherence to the letter of the law. We will quote not only the state supervisor of Kansas, but also other supervisors in the middle west and see if the results that have been attained in Kansas also predominate in the neighboring states.

The period covered by the letters found below date back in some instances to 1900. During this time we have passed through at least two complete business cycles, an excited war period with its rising prices, and a period of depression marked by sharp falling prices and values. It is a period marked with innumerable commercial and financial failures. In spite of these facts the following very satisfactory reports were received from state building and loan supervisors.

Letters from State Supervisors.

Kansas.

"I beg to advise that this state has had but one building and loan failure in the past twenty five years."

(Signed) L. E. Roush, Kansas State Supervisor, Feb. 6, 1923.

Missouri.

"This is to advise that failures among associations in this state have been very few, and the loss to depositors was very, very small. There have been some voluntary liquidations among these associations, but these were consented to by all the

1. Letters taken from the Burton Building and Loan Association Prospectus for 1924 - Kansas City, Mo.
parties concerned."

(Signed) F. C. Millspaugh,
Commissioner of Finance, Feb. 3, 1923.

Nebraska.

"The operation of these societies has been very successful and satisfactory in Nebraska. We have not had a failure or a receiver covering the last twenty years."

(Signed) J. E. Hart,
Secretary of the Department of Trade & Commerce, Feb. 2, 1923.

Colorado.

"There has not been a failure among the building and loan associations, operating under the supervision of this bureau, in Colorado, since 1911."

(Signed) A. M. Strong,
Auditor of the State, Feb. 5, 1923.

Oklahoma.

"There has been no failure in this state since 1910, and at that time there was only a very small loss to stockholders."

(Signed) O. M. McCoy,
State Building and Loan Auditor, Feb. 6, 1923.

The following letter was received from the secretary of the oldest association doing business in Kansas. It is now almost fifty years old and has had an enviable record.

1. Original letters on file in the office of the "Gibraltar Savings and Loan Association, Houston, Texas."
Dear Sir:

"The Union Building and Loan Association, Emporia, Kansas, was chartered March 26, 1880. The name was changed to Citizens Building and Loan Association on March 15, 1921. This association was through all these years instrumental in helping to build homes, make additions thereto and furnish an opportunity for the accumulation of funds along the lines of weekly savings and has been operated without the loss of one penny to its members."

(Signed) L. Jay Buck, Secretary.

March 12, 1925.

These reports are typical of almost all of the other thirty-seven states in the union that maintain some measure of supervision.

Bank Failures in Kansas compared with those of loan associations.

Reports from bank commissioners concerning bank failures in Kansas are much gloomier than those we have observed for building and loan associations. There have been sixty bank failures among state banks alone in Kansas during the past five years. There are at present almost ten millions of dollars in certificates on the guaranty fund due depositors. Not all of the banks have been entirely liquidated, but for those that have been adjusted, the guaranty fund has been

1. Letter from the Citizens Building and Loan Association, Emporia, Kansas, March 12, 1925.
called upon to pay over fifty per cent of the total deposits. This guaranty fund was never allowed to exceed one half million dollars. It could therefore not absorb all the losses of those sixty banks. Similar reports could be had from Oklahoma and other states in the middle west where many banks have failed in the past five years. Surely building and loan associations have an enviable record for safety that cannot even be compared with the many losses of banks.

In conclusion, we may say that regulation and supervision in Kansas has been satisfactory, especially if we remember that it is still in the experimental stage, since the state supervisor was first appointed in 1923. Professor H. F. Clark, writing on the regulation of associations, states: "This whole subject of supervision is so new that the conclusions that may be drawn from its present condition are far from satisfactory. One might say that it is like trying to make a statistical study of a thing which is never at rest, even for a moment."

CHAPTER VIII

SUMMARY AND CRITICISM.

Our study has covered the general history of building and loan associations, showing their probable and early origin in China and Greece, and their more modern establishment in Great Britain. Their history in the United States was treated more fully, stressing especially their growth from 1831 to January 1, 1924. The greatest growth of the associations has taken place since the opening of the twentieth century. Twenty-five years ago there were 5,872 associations in the United States, now there are more than 10,500. Ten years ago their membership was less than 3,000,000, today there are more than 7,500,000. Financially the associations control one tenth as much money as do all the banks in the United States. During the year 1924 associations advanced more than $1,260,000,000 on mortgage security towards the building of homes. The building and loan associations in the United States are doing a big business, are fulfilling a worthy purpose, and have a wonderful record of achievement.

By far the major part of this study has been given to the history and operation of building and loan associations in Kansas. The following facts have especially been emphasized:
1. The early history of associations in Kansas since their first incorporation almost 50 years ago, most attention being given to their operation since placed under the Banking Department in 1899. In that year their total assets were $3,667,186; today they are over $70,000,000.

2. Building and loan association defined and purpose stated.

3. Classification of associations according to plan used.

4. Incorporation and organization of associations with special reference to the charter, by-laws, directors, and officers.

5. A survey to determine the kinds of stock used in building up the business.

6. Methods frequently used in the investment of association funds.

7. A detailed study of loans made to members comparing such loans with ordinary straight loans.

8. A study of foreclosure proceedings of an association and withdrawal privileges of members.

9. A study of Federal and Kansas Laws pertaining to the assessment, taxation and exemption of association assets and shares owned by the individual stockholder.

10. An analysis of the safety of building and loan associations with special reference to the duties of the
state supervisor, semi-annual reports of associations and annual examination of every association.

This final chapter briefly summarizes the history of building and loan associations and the study made of their operation in Kansas. It closes with a few criticisms suggested by the study of the subject and a statement of some problems that seem to be facing the association at present.

Criticism.

When one takes up the study of building and loan associations, he is immediately impressed with the fact that here at least is one institution that is not conducted like most other institutions in our modern age, for the profit of a few owners. All building and loan literature stresses the factor of mutuality almost as much as it does the fact that their chief purpose is the building of homes, and providing a safe place for the people's earnings. We would almost hesitate in criticising any institution that is founded on such worthy principles, were it not for the fact that in Kansas more than half of the institutions are not at all mutual. More than 90% of the members in the permanent stock associations in Kansas do not share equally in the losses or the profits of the association, but they are guaranteed a fixed rate of interest just as are people who deposit their money in banks or other savings institutions. If there are any losses or profits they are charged or credited to the less
than ten per cent who are the owners of the permanent stock.

R. Holtby Myers, in an attempt to justify permanent or guarantee stock associations in California, Kansas and Washington, states:

"The West is different. Our climate, customs, laws and conditions have no parallel. The West is cosmopolitan, and composite, having drawn its population from all lands, having attracted American born from every state in the Union. ---In these Western States we have gathered the progressive, restless, and ambitious types and it will be a long time before our institutions become fixed and thoroughly settled.---It was under these conditions that the capital guarantee or permanent stock associations came into favor." This line of reasoning does not seem valid, inasmuch as the mutual associations in Kansas, as well as those in the states that border Kansas have had excellent results in the past. Oklahoma, a much newer state than either California, Kansas or Washington, with its shifting population, does not have a single permanent stock association. All of its associations are of the mutual type and have an enviable record of success and safety. Another claim that is made for the permanent stock associations is that they always maintain a fixed permanent investment of money which cannot be withdrawn and

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1. Building and Loan Explained, p. 16.
and which sum is used to guarantee a definite interest rate and a fixed date of maturity. This advantage is trivial, as most of the older mutual associations in Kansas have just as large fixed sums represented in their contingent fund. Then too, mutual associations have in the past been able to pay their shares at the end of the stipulated period and sometimes sooner, if the monthly dues have been paid in advance.

No desire exists to condemn the permanent stock associations, for we are not propagandists, but rather appreciate the work done by all associations in Kansas, whether mutual or permanent stock. It is our opinion, however, that the latter plan is not the best, since it is not mutual, thus violating one of the oldest principles of the building and loan movement. The Kansas Law has tried to make them mutual, in part, by not allowing permanent stock higher dividends than is paid to the other highest interest paying shares of the association. But permanent stock associations are getting around the law by placing the surplus of profits in a special fund and then granting stock dividends to the holders of permanent stock.

Another criticism of the building and loan movement is the lack of training of the employees. Proper education such as most bankers generally receive should double their efficiency and put them on a par with other financial institutions. When this has been done, we see no reason why the
secretaries of all associations, both new and old, should not be paid at least a living wage, that they may not be compelled to do half a dozen odd jobs in order to make a decent living. Further, we believe that associations have spent entirely too much time and advertising, trying to tell people about their extraordinary success in the past, about the wonderful thrift of Benjamin Franklin, and about the satisfaction that comes with home ownership. The above facts are stressed in almost every building and loan prospectus, pamphlet, speech or advertisement that has been examined. Even the building and loan league proceedings are full of such irrevelant material, We believe that association employees, and people in general are saturated with such material. What all need apparently is more fundamental knowledge of the principles underlying the building and loan program.

In this connection it may be said that most of the associations in Kansas now have plans worked out which show the investor the advantages of savings accounts and certificates. But there is still room for standardization. The 132

1. The following is a fair sample of this literature: American Building and Loan Association, The Better Way Pamphlet, 1924. "Young couple build a home. Build a real home. One wherein there is a mother and a daddy, a bit of green lawn and flowers in front and a garden in the rear. Get a big rover dog to love and be loved by the older children. To romp and play with them, and a toy doggie for the baby. Build into your home love, kindness and purity, as well as building material. Own it and cherish it, as the dearest spot on earth. Do these things and you will have done your duty to God, to Country, to fellow-men and to yourself."
associations are using "57 varieties" of tables to explain less than half a dozen kinds of shares. The tables are still too complicated to be easily comprehended by the average would-be investor. Many of the monthly dues are stated in dollars and cents which makes it difficult to see at a glance just how much an investment will earn. Tables could be worked out so that the monthly dues would be stated in even dollars, in which case one could readily understand them. For instance, $5.00 per month for 120 months, matures $1000 10.00 per month for 120 months, matures $2000 15.00 per month for 120 months, matures $3000 20.00 per month for 120 months, matures $4000 25.00 per month for 120 months, matures $5000 50.00 per month for 120 months, matures $10,000.

Our chief criticism, however, is directed not at the methods used by associations for securing funds, but rather against the inadequate methods, or rather lack of method, of explaining the loan. Associations are woefully lacking in material, illustrations, and examples which show how loans may be made; the advantages to be gained over straight loans, the method of repayment, etc. We believe that associations should make a special effort to get such material before the people so that more would come into associations and take advantage of the privileges offered. Many people, wishing to borrow from
associations, have not done so simply because the secretaries, with inadequate material for explanation, have been unable to explain the loan in all its details. We know of one association which in one instance failed to secure a good $10,000 loan simply because the secretary was not able to convince the borrower that he would be paying not 9½ but only 6½% for the money borrowed. With proper material this could have been readily explained.

An article digested from "The Magazine of Wall Street" shows the progress of a $1,000 loan towards extinction, a payment of $10.00 per month being made by the borrower. The table below is given for a two year period which shows the idea of its operation.

**TABLE SHOWING THE REPAYMENT OF A LOAN.**

<table>
<thead>
<tr>
<th>Month</th>
<th>Payment on Interest</th>
<th>Dues to mature Prin.</th>
<th>Still Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$5.00</td>
<td>$5.00</td>
<td>$995.00</td>
</tr>
<tr>
<td>2</td>
<td>4.98</td>
<td>5.02</td>
<td>989.98</td>
</tr>
<tr>
<td>3</td>
<td>4.95</td>
<td>5.05</td>
<td>984.93</td>
</tr>
<tr>
<td>4</td>
<td>4.92</td>
<td>5.08</td>
<td>979.85</td>
</tr>
<tr>
<td>5</td>
<td>4.89</td>
<td>5.11</td>
<td>974.74</td>
</tr>
<tr>
<td>6</td>
<td>4.87</td>
<td>5.13</td>
<td>969.61</td>
</tr>
<tr>
<td>7</td>
<td>4.84</td>
<td>5.16</td>
<td>964.45</td>
</tr>
<tr>
<td>8</td>
<td>4.82</td>
<td>5.18</td>
<td>959.27</td>
</tr>
<tr>
<td>9</td>
<td>4.79</td>
<td>5.21</td>
<td>954.06</td>
</tr>
<tr>
<td>10</td>
<td>4.77</td>
<td>5.23</td>
<td>948.83</td>
</tr>
<tr>
<td>11</td>
<td>4.74</td>
<td>5.26</td>
<td>943.57</td>
</tr>
<tr>
<td>12</td>
<td>4.71</td>
<td>5.29</td>
<td>938.23</td>
</tr>
<tr>
<td>13</td>
<td>4.69</td>
<td>5.31</td>
<td>932.97</td>
</tr>
<tr>
<td>14</td>
<td>4.66</td>
<td>5.34</td>
<td>927.63</td>
</tr>
<tr>
<td>15</td>
<td>4.63</td>
<td>5.37</td>
<td>922.26</td>
</tr>
<tr>
<td>16</td>
<td>4.61</td>
<td>5.39</td>
<td>916.87</td>
</tr>
<tr>
<td>17</td>
<td>4.58</td>
<td>5.42</td>
<td>911.45</td>
</tr>
<tr>
<td>18</td>
<td>4.55</td>
<td>5.45</td>
<td>906.00</td>
</tr>
<tr>
<td>19</td>
<td>4.53</td>
<td>5.47</td>
<td>900.53</td>
</tr>
<tr>
<td>20</td>
<td>4.50</td>
<td>5.50</td>
<td>895.03</td>
</tr>
<tr>
<td>21</td>
<td>4.47</td>
<td>5.53</td>
<td>889.50</td>
</tr>
<tr>
<td>22</td>
<td>4.44</td>
<td>5.56</td>
<td>883.94</td>
</tr>
<tr>
<td>23</td>
<td>4.41</td>
<td>5.59</td>
<td>878.35</td>
</tr>
<tr>
<td>24</td>
<td>4.39</td>
<td>5.61</td>
<td>872.74</td>
</tr>
</tbody>
</table>
Building and loan associations make similar tables for every loan made, inserting also the interest earned by said payments every six months. Loan association secretaries would do well to make up a hypothetical table showing in this manner how an entire loan is repaid. This could be shown to prospective borrowers and would simplify greatly the explanation of the loan.

Kansas laws and supervision are undoubtedly as adequate as are found in other states. Yet many of our building and loan laws have not been revised since 1899. They contain numerous provisions that are now obsolete. Our laws in regard to these associations could be amended and revised so as to produce more equitable and uniform legislation. But it seems that the associations in Kansas have been more concerned in getting laws passed against other savings and investment companies, than in revising their own laws. It appears that the building and loan associations are encroaching too much on the work of the blue sky bureau when they attempt to get legislation passed against other savings and investment companies. We believe that their efforts can better be expended in an attempt to revise the building and loan laws.

Finally, the entire building and loan fields need carefully trained employees. This can be accomplished either by training young men at the building and loan institute, or
by exerting their influence so that courses in building and loan functions will be given in our universities and colleges, as courses are now taught in banking. For employees already in the field it may be possible to work out beneficial correspondence courses. Only in this way can building and loan practices be developed upon uniform and scientific lines. This will enable them to realize the greatest good in carrying out their splendid ideals of saving and home ownership.

Problems facing Kansas Association.

In conclusion, a few suggestions for improvement are added. The suggestions may be considered as problems facing the Kansas associations at the present time. In order that associations may reach their maximum accomplishments there should be greater co-operation between permanent stock and mutual associations. The work should be simplified and made as uniform as possible within each plan. The procedure of associations and the tables used may also be simplified so that savings members and prospective customers may easily understand them and know just exactly where their investment stands at all times.

Loan costs to borrowers should be computed in advance, and illustrations showing the method of repayment of a loan should be made so clear that they may be easily understood by the average investor who is unskilled in finance.
He should know the actual rate he is paying for borrowed funds and the relative cost of similar borrowings elsewhere. A special effort should be made in an attempt to secure favorable legislation on taxation; adequate supervision and regulation, and, when necessary, laws that will curb any unfair competition. Finally, better means of education for both the people within the movement or enterprise and those without. This can best be brought about by a closer co-operation with the building and loan institute and with state and national leagues. Association literature should explain the fundamental principles underlying the building and loan movement in such a manner that the average intelligent reader who is seeking information along these lines may readily understand the problems involved.

We close this study believing that building and loan associations operated upon safe, sound and equitable methods are the most potent agencies yet established in Kansas for the stimulating of steady savings, industry, thrift, home owning and good citizenship.
APPENDIX - A

Model Set of By-Laws.

(These By-Laws are prepared with the aim of fully complying with the law governing Building and Loan Associations in the State of Kansas.)

ARTICLE I.

Who Can Become Stockholders. All persons who can enter into a legal contract by themselves, their guardians or otherwise, may become members of this association by subscribing for one or more shares of stock as hereinafter provided, which membership shall continue in force in their name on the books of the Associations.

ARTICLE II.

Section 1 - Control of the Association. - The affairs of the association shall be managed and controlled by a Board of seven directors. No person shall be eligible to become or shall continue a director unless he shall be the owner of at least two shares of the capital stock of the association, and not delinquent in any manner upon any payment due from him to said association. They shall be elected by ballot according to Section 3, Article II of the present by-laws at the regular or special meeting of the stockholders and shall hold office until the next annual meeting of the stockholders or until their successors have been duly elected and qualified.

Section 2 - Annual Meeting of Stockholders for Election of Directors. - The annual meeting of stockholders for the election of Directors shall be held on the last Tuesday of January of each year, at the principal office of this association, in the city of Lawrence, Kansas, at the hour of 7:30 o'clock p. m. In case of failure to elect Directors at the annual meeting, the Secretary shall call another meeting for the purpose of an election within thirty days thereafter, which called meeting may be adjourned from time to time until an election shall have been made.

Section 3 - How Stock Shall be Voted. - Any stock of this Association may be voted by the stockholder whose name is on the books of this association, as the owner of such stock, or by the guardian, who shall be entitled to one vote for each share of stock so held. No stock can be voted until all payments and charges shall have been fully paid to this Association. Absent members may be represented by written proxies dated not longer than six months prior to the meeting.

Section 4 - Judges of Election. - The Directors of the Association may, at its last regular meeting in December of each year, elect three Judges of Election who shall be stockholders, but who shall not be officers, directors or employes of this Association. Such Judges of Election are hereby empowered to hear and determine all questions of the right of any person to vote upon any stock offered for that purpose.

Section 5 - Notice of Annual Meeting. - At least ten days prior to the annual meeting a notice thereof shall be mailed to each stockholder at his address, as shown upon the books of the Association.

Section 6. - Business Meeting. - Any and all business pertaining to this Association may be brought before the annual meeting of Stockholders, and acted upon by them, without any special notice of the same being given.

Section 7 - Annual Report. The officers of this Association shall, each year, prepare a full report of the condition of this Association, financially and otherwise, as existing on the 31st of December of the year immediately preceding the annual meeting of the stockholders, which shall be printed and mailed with notice of said meeting.

Section 3 - Quorum and Annual Meeting. - Ten per cent of the Stock in force shall constitute a quorum at any annual or special meeting of stockholders, and a majority of stock represented shall govern.

ARTICLE III.

Section 1 - Special Meeting of Stockholders. - Special Meetings of Stockholders may be held at any time, at the principal office of this Association, upon the call of the Board of Directors, or ten per cent of the Stockholders whose stock
shall not be in arrears at the date of said call. Such call shall be dated and signed by persons calling the same, and shall fully specify the object for which meeting shall be called. Such call shall be filed with the Secretary of this Association at least thirty days before the date set for the meeting.

Section 2 - Secretary to Give Notice. - The Secretary, upon receiving said call, shall at once, and at least twenty days before the date set for such meeting in said call, give notice of such meeting, in the manner hereinbefore stated, fully specifying the object for which such meeting shall have been called.

ARTICLE IV

Section 1 - Election of Officers by Directors.-As soon as the Annual meeting of the Stockholders shall have adjourned the newly elected Directors shall qualify, organize, and shall elect by ballot, a President, Vice-President, Secretary, Treasurer, and General Attorney, who shall hold office for the ensuing year, or until their successors shall have been elected and qualified. The President and Vice-President shall be elected from the Board of Directors, but the Secretary and Attorney shall not be Directors.

Section 2 - Quorum at Meeting of Directors. - A majority of the Directors elected shall constitute a quorum and a majority vote of those present at any meeting shall govern.

Section 3 - Shall Require Bonds.- The President, Vice-President, Secretary and Treasurer, shall give bond in a standard Surety Company for the faithful performance of their duties in not less than the following amounts: President and Vice-President, $1,500.00 each; Secretary, $8,000.00; Treasurer, $2,000.00; said bonds to be approved by the Board of Directors and by the Bank Commissioner, and to be deposited according to law with the Bank Commissioner of the State of Kansas.

Section 4 - Auditing Committee. - The Board of Directors shall elect annually, an auditing committee, consisting of two Stockholders, whose stock shall not be in arrears at the date of such election, nor become in arrears before date of report. This committee shall at least two times a year inspect all books, papers and securities of this Association, and may, if
deemed advisable, employ a competent accountant whose report shall be submitted to the Board of Directors.

Section 5 - Regular Meeting of Directors. - The Board of Directors shall hold regular meetings monthly at the call of the Secretary in the Principal office of the Association.

Section 6 - Special Meeting of Directors. - Special meetings of the Board of Directors may be called by the President or Secretary, or by five members of the Board of Directors, as often as the interests of the Association may require. Members of the Board of Directors may receive as compensation for their services not to exceed the sum of five dollars for each board meeting attended during their term of office.

ARTICLE V.

Section 1 - Duties of the President. - It shall be the duty of the President to preside at all meetings of Stockholders and Board of Directors, and sign all certificates of stock. He shall, under its corporate seal, after the same shall have been passed upon by the Board of Directors, sign and execute, jointly with the Secretary, except as shall be otherwise provided by the Board of Directors, all contracts in the name of the Association and all warrants for the payment of money and shall perform all other duties pertaining to the office of President. The Board of Directors may allow him compensation for services whenever, in its judgment, the business of the Association will warrant doing so.

Section 2 - Duties of the Vice-President. - The Vice-President shall perform all the duties of the President in his absence.

Section 3 - Duties of the Secretary. - The Secretary shall attend all the meetings of the Stockholders and of the Board of Directors; have custody of the records and seals; issue all notices; sign all certificates of stock; make such reports as the law and the Board of Directors may require; receive all moneys, papers and securities and keep a complete record of the same. He shall promptly deliver all the money to the Treasurer, taking his receipt therefor, and shall hold all records, papers and securities, subject to the order and direction of the Board of Directors. Semi-annually, at the close of business, on the 30th day of June and 31st day of December each year, he must prepare and present to the Board of Direc-
tors a detailed statement of the condition of the Association as of that date, which statement must be a duplicate of the one on file with the State Bank Commissioner. This statement must be kept on file in the office of the Association, subject to examination at any time by any member, director, auditor or auditing committee. The Secretary shall receive as compensation for his services such sums as shall be decided by the Board of Directors.

Section 4 - Duties of the Treasurer. - The Treasurer shall receive from the Secretary all moneys paid to the Association, giving receipt therefor, and daily deposit the same when received with such bank or banks as the Board of Directors may designate. He shall disburse the same only upon proper warrants signed by the President and Secretary. No bills to be paid without the approval of the Board of Directors.

Section 5 - Duties of the General Attorney. - It shall be the duty of the General Attorney to attend to all legal matters that may be submitted to him by the Association. He shall receive such compensation as is agreed upon with the Directors.

Section 6 - To Appoint Officers Pro-Tempore. - If any officer shall have any specified duty to perform under these By-Laws, and shall by reason of death, sickness, absence, or from any other cause whatsoever, be unable to perform such duty, the Board of Directors may, by resolution, appoint any other person that they may deem best to act for such officers, pro-tempore, and the acts of any such officer, so appointed, shall for the purpose of these By-Laws be deemed the acts of such officer.

Section 7 - To Fill Vacancy in Board of Directors. - In case of a vacancy in the Board of Directors by death, resignation, or otherwise, the Board shall have the power to fill such vacancy until the next annual meeting of the Stockholders.

Section 8 - To Declare Vacancy in Board of Directors. - If any Director fails or neglects to attend any regular meeting of the Board of Directors for three consecutive times, it shall be the duty of the Board, without notice, to declare such member's office vacant and proceed to fill the vacancy as hereinbefore recited; Provided, that this penalty may be suspended in case of sickness or accident that incapacitates the member from attendance.
ARTICLE VI.

Section 1 - Capital Stock. - The authorized Capital Stock of this association is Two Million ($2,000,000.00) Dollars, divided into shares of One Hundred ($100.00) Dollars each.

Section 2 - Kind of Stock. - All stock may be issued in such series as the Board of Directors shall determine. The following kinds of stock may be issued: Savings Stock, Loan Stock, Full-paid Stock, Deposit Stock, Rural-Credit Full-paid Stock, and Rural-Credit Savings Stock.

Section 3 - Savings Stock. - may be issued upon such terms as the Board of Directors shall determine. When the amount paid and the accrued dividends shall equal the par value of the stock, said stock shall be due and payable in cash at its par value.

Section 4 - Full Paid Stock. - Shall be issued upon the payment of the sum of $100.00 in full payment of each share. Such certificates may be withdrawn at a discount not exceeding two per cent, thirty days' notice being required: Provided, however, that such discount shall not exceed the accrued dividends upon such stock. After three years, withdrawal is permitted upon thirty days' notice without discount. Such stock shall be paid interest out of the earnings of the Association at a rate not to exceed six per cent per annum from the date of issue, payable semi-annually at the Association's office on the first days of each succeeding six months after date of issue.

Section 5 - Loan Stock. - Loan Stock, shall be issued only to members desiring loans upon real estate. The stockholder shall be required to make monthly payments as stated in the following table, and when said payments, together with the accrued dividends thereon, shall equal the par value of his stock, said stock shall be due and the proceeds thereof shall be applied to the payment of the loan for which it was given as security. Excess payments shall be permitted on Loan shares, the same to participate in dividends in the same proportion as regular payments.
Table of Monthly Rate for Each Share of $100.00 Including Interest.

Terms of payments based on estimate of probable maturity.

<table>
<thead>
<tr>
<th>Period</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 months</td>
<td>$8.79</td>
</tr>
<tr>
<td>24 &quot;</td>
<td>4.60</td>
</tr>
<tr>
<td>36 &quot;</td>
<td>2.13</td>
</tr>
<tr>
<td>48 &quot;</td>
<td>2.49</td>
</tr>
<tr>
<td>60 &quot;</td>
<td>2.07</td>
</tr>
<tr>
<td>72 &quot;</td>
<td>1.80</td>
</tr>
<tr>
<td>84 &quot;</td>
<td>1.61</td>
</tr>
<tr>
<td>96 &quot;</td>
<td>1.46</td>
</tr>
<tr>
<td>108 &quot;</td>
<td>1.36</td>
</tr>
<tr>
<td>120 &quot;</td>
<td>1.27</td>
</tr>
</tbody>
</table>

Any member may mature his Loan Stock at any time by giving the Association thirty days' notice in writing, and paying all dues, interest, and advances that may be a lien upon such stock. Such matured stock shall be applied to the payment of the loan for which it was given as security.

Section 6 - Deposit Stock. - May be issued upon the payment thereon of any sum not less than ten per cent of the par value of the certificate. Upon each of such shares the holders thereof may make additional payments in any sum at any time until the amount paid in, plus the dividends credited, equals par value, when the share will be deemed to have matured. Dividends will be credited to Deposit shares on the amount paid in for the average time the same has been invested at such rate of Dividend as may be determined by the Board of Directors, and shall be withdrawable under the same rules that govern the withdrawal of Savings shares.

ARTICLE VII.
RURAL CREDIT SHARES.

Section 1 - Under authority and within the provisions of Chapter 96 of the Session Laws of 1915, Rural Credits Full-Paid and Installments Savings Shares may be issued of the par value of $100.00 per share.

Section 2 - Rural Credit Full-Paid Shares. - May be issued upon a payment of the par value thereof. Fractional shares may be issued. These Full-Paid shares shall bear dividends at a rate to be determined by the Board of Directors. Divi-
dends shall be payable semi-annually at the office of the Association. Such Full-Paid shares shall be withdrawable in whole or in part, or may be sold and transferred, or assigned but no transfer will be valid until it is recorded on the books of the Association. The Association reserved the right to call in these Full-Paid shares upon giving thirty days' notice. The last certificates issued shall be the first called in.

Section 3 - Rural Credit Savings Shares - May be issued to be paid for in any sums at intervals until the amount paid in plus dividends credited equals the par value. Fractional shares may be issued. These Installment shares shall bear a definite dividend at a rate to be determined by the Board of Directors. Dividends shall be credited semi-annually. Whenever these Installment shares mature they shall be paid in cash and canceled, or they may be re-issued as Rural Credit Full-Paid shares. Any portion of the amount to the credit of these Installment shares shall be withdrawable, or the may be sold and transferred, or assigned, but no transfer will be valid until it is recorded on the books of the Association. Holders of these Installment shares shall be given pass-books in which all payments, dividends and withdrawals shall be entered.

LOANS.

Section 1 - Rural Credit Loans may be made on non-negotiable notes secured by first mortgages on farm property located within Douglas County, Kansas, as provided in Chapter 96 of the Sessions Laws of 1915.

Section 2 - Interest on Rural Credit loans shall be payable semi-annually.

Section 3 - Borrowers shall be given passbooks in which shall be recorded payments of interest and principal.

Section 4 - The Board of Directors may prescribe suitable regulations governing the making and payments of Rural Credit loans, in accordance with state laws.

ARTICLE VIII.

Section 1 - Power of Directors to Limit Sales of Stock. - The Directors shall have the power at any time to limit the number of shares held by any one person.

Section 2 - Payments, When Due. - Payments on all Saving and Loan Stock are due on the 10th day of the month and
shall be paid before the last day.

ARTICLE IX.

Section 1 - Paying Withdrawals. - Not more than one-half of the receipts of the Association in any one month shall be used to pay withdrawals without the consent of the Board of Directors.

Section 2 - Requiring Withdrawals. - The Board of Directors may require Stockholders to withdraw such portion of their shares as the Board may determine, to prevent an unprofitable accumulation of money in the treasury, after first giving thirty days' notice to the holders thereof. The last certificates issued shall be the first called in.

Section 3 - Transfers. - Any Stockholder may transfer his stock at any time when they are not in arrears, by endorsing such transfers on the back of his certificate, which must be approved by the Secretary of the Association, and the proper entries made on the books. Certificates must be sent to the home office for transfer record.

Section 4 - In Case of Death. - The legal representative of a deceased holder of unpledged shares may, by giving written notice to the Secretary of the Association, within sixty days after such demise, surrender the certificate of stock and receive in full payment, the actual value of the stock.

Section 5 - Lien in Case of Debt. - The Association shall have a lien on each share of stock for all debts and charges of whatever kind or nature, due or owning it from the owner of such shares, and may deduct the amount thereof from the value of such shares, at its maturity or withdrawal. It may refuse to transfer such share or shares until all charges against the same are paid.

ARTICLE X.

Section 1 - Contingent Fund. - The Board of Directors shall provide a Contingent Fund in accordance with Section 47, Chapter 78, of the Kansas Building and Loan Association Laws. As far as possible, all losses shall be paid out of such fund. The Directors shall invest such Contingent Fund in such securities as permitted by the laws of the State of Kansas.
Section 2 - Distribution of Profits and Statements.—On the first day of January and July, in each year, and at quarterly periods if the Directors shall so determine, all profits shall be ascertained and credited or paid to the shareholder in accordance with certificate of shares issued to him, and all losses and expenses adjusted and charged off. And at the same time a full statement of the financial condition of the Association shall be made to the Board of Directors.

ARTICLE XI.

Section 1.- Loans on Real Estate.—This Association shall loan its funds at a fixed rate of interest, or interest and premium, as hereinafter provided, or in case it is necessary in order to keep its funds loaned out, loans may be made to others than members.

Section 2 - Loans to members may be made not exceeding the face value of the shares held by them, in accordance with the rules hereinafter established, or which may be from time to time established by the Board of Directors.

Section 3 - Loans to persons not members may be made when, in the judgment of the Board of Directors, it is necessary in order to keep funds of the Association properly loaned out, such loans to be made upon good and ample real estate security and at such rate of interest per annum as shall be fixed by the Board, not to exceed ten per cent per annum for the full period of the loan, said interest to be paid monthly in advance, unless a different contract shall be made under the authority of Section 4 of this Article, and provided that the total amount thus loaned to non-members shall at no time exceed twenty per cent of the assets of the Association.

Section 4 - The Board of Directors may, when they deem it for the best interests of the Association, contract with a borrowing member for other than monthly periodical payments of interest and dues, upon the shares of stock assigned to the Association as collateral to the loan, such payments not to be more than six months apart, and the said Board may also contract with such persons, not members of the Association, for other than monthly payments of interest, not more than six months apart, and may provide for the repayment of the principal in periodical installments, or in the full amount thereof at the expiration of the time for which the loan runs.
Section 5 - Paying Loans Before Maturity. - Any borrower may pay and cancel a loan at any time provided all payments have been made to date of cancellation.

Section 6 - Security on Real Estate. - All loans upon real estate must be secured by first mortgages on the property; loans to be limited to seventy-five per cent of the appraised value. All loans and mortgages will be dated on the first day of the month in which the loan is made, and shall bear interest from that date. Such loans shall be evidenced by a promissory note. The payment of such loans shall be secured by mortgages, deeds of trust or such other instruments as may be required by the General Attorney and the Board of Directors. All notes, stock notes, and mortgages taken by this Association shall be non-negotiable and non-assignable.

Section 7 - Taxes. - During the continuance of the loan all taxes and assessments on the property must be promptly paid when due, and the receipt sent to the Secretary.

Section 8 - Foreclosure. - Any borrowing shareholder who may be six months in arrears in monthly payments, or shall be come indebted to the Association in a sum equal to the gross amount of the dues, interest, fines and other charges for the period of six months, the Association may proceed, according to law to foreclose the mortgage given by such borrower as security for a loan. The General Attorney, upon receipt of notice of such arrears from the Secretary, shall at once foreclose all mortgages, securing loans, upon which the borrower is delinquent, as aforesaid, unless otherwise ordered by the Board of Directors.

Section 9. - Insurance. - Any building, situated on real estate on which loans are made, shall be kept insured by the owner, in some reliable insurance company, to be approved by the Association, at his own expense, loss, if any, payable to this Association, as its interests may appear; and in case the owner shall fail to obtain or maintain such insurance, this Association shall insure the building, charging the owner with the premium, which remaining unpaid, with interest, shall be included in any decree of foreclosure or in settlement thereof.

Section 10 - Loans on Stock of the Association. - Any member can borrow on unpledged shares ninety per cent of the cash withdrawal value thereof, upon assigning and delivering to
the Association, his or her certificate as security. The interest on such loans shall not be less than six per cent nor more than nine per cent.

ARTICLE XII.

Section 1 - Legal Action. - Time and the strict performance on the part of each Stockholder shall be the essence of all contracts between him and the Association. The waiver by the Association of any default or any failure on the part of any Stockholder to make any payment or perform any duty or obligation incumbent upon him, shall not be taken as a precedent nor stop the Association from availing itself of any other default or failure on the part of such Stockholder.

ARTICLE XIII.

Section 1 - Amendments. - These By-Laws may be altered or amended at any annual or special meeting of the Stockholders. In no case, however, shall any amendment or change in any way affect an existing certificate or contract without the consent of the Stockholder. Provided, however, that notice of a proposed amendment, a copy of that section of the By-Laws which it is proposed to amend, and the exact wording of the amendment itself, shall be mailed to each Stockholder at least ten days before the meeting at which it is to be acted upon.