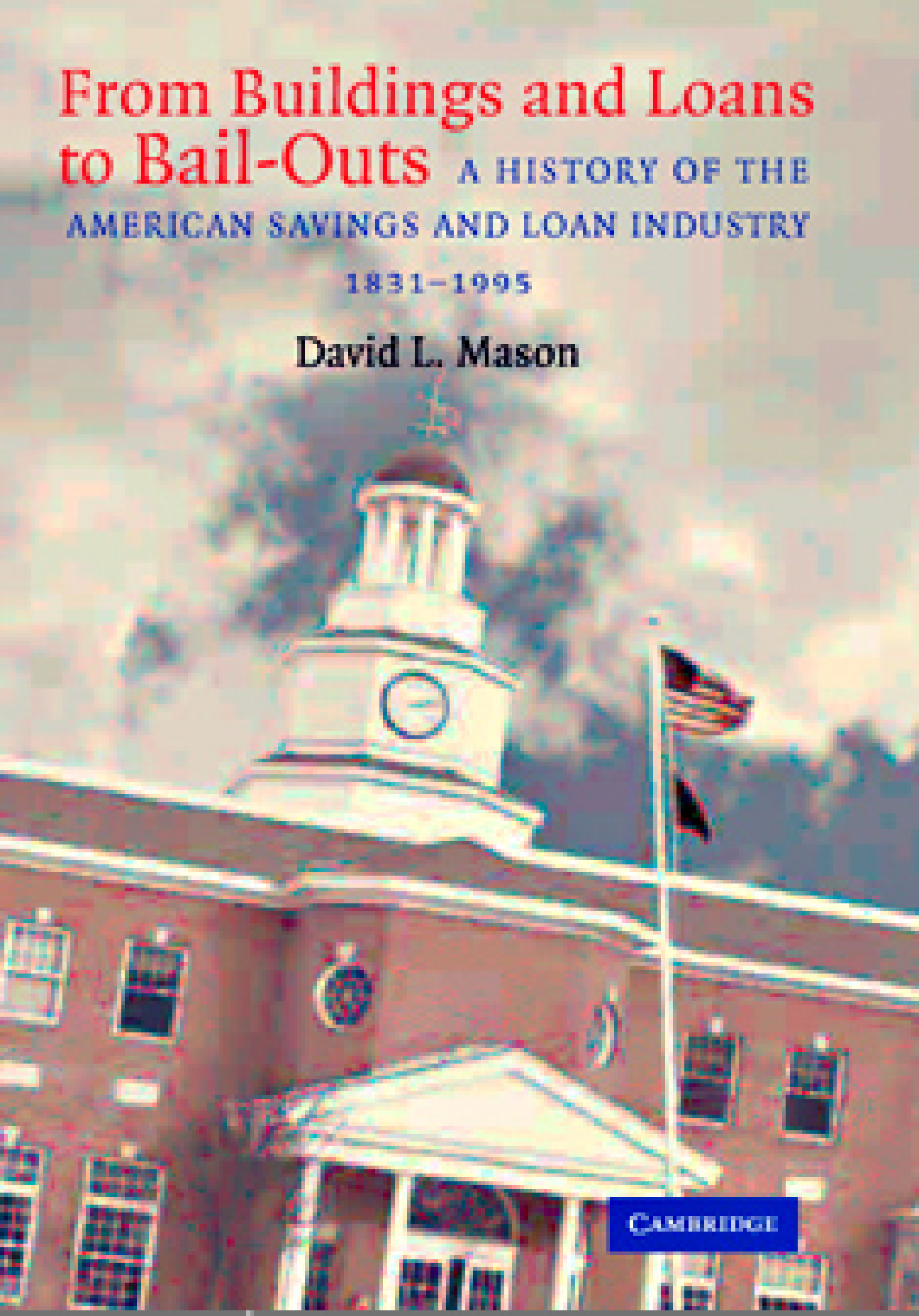
From Buildings and Loans to Bail-Outs

A HISTORY OF THE AMERICAN SAVINGS AND LOAN INDUSTRY

1831–1995

David L. Mason



CAMBRIDGE

CAMBRIDGE www.cambridge.org/9780521827546

This page intentionally left blank

FROM BUILDINGS AND LOANS TO BAIL-OUTS

For most Americans, the savings and loan industry is defined by the fraud, ineptitude, and failures of the 1980s. These events, however, overshadow a long history in which thrifts played a key role in helping thousands of households buy homes. First appearing in the 1830s, savings and loans, then known as building and loans, encouraged their working-class members to adhere to the principles of thrift and mutual cooperation as a way to achieve the "American Dream" of home ownership. This book traces the development of this industry, from its origins as a "movement" of a loosely affiliated collection of institutions into a major element of America's financial markets. It also analyzes how diverse groups of Americans, including women, ethnic Americans, and African Americans, used thrifts to improve their lives and elevate their positions in society. Finally, the overall historical perspective sheds new light on the events of the 1980s and analyzes the efforts to rehabilitate the industry in the 1990s.

David L. Mason is Assistant Professor of History at Young Harris College. Prior to earning his Ph.D. in Business History from The Ohio State University, he served as a corporate banker for nearly a decade, holding positions at the Bank of America and the Resolution Trust Corporation. He is also the author of articles for *Essays in Economic and Business History* and *Proceedings of the Ohio Academy of History*.

FROM BUILDINGS AND LOANS TO BAIL-OUTS

A History of the American Savings and Loan Industry, 1831–1995

DAVID L. MASON
Young Harris College

CAMBRIDGE
UNIVERSITY PRESS

CAMBRIDGE UNIVERSITY PRESS
Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo

Cambridge University Press
The Edinburgh Building, Cambridge CB2 2RU, UK

Published in the United States of America by Cambridge University Press, New York

www.cambridge.org
Information on this title: www.cambridge.org/9780521827546

First published in print format 2004

ISBN-13 978-0-511-21167-6 eBook (Adobe Reader)
ISBN-10 0-511-20809-X eBook (Adobe Reader)

ISBN-13 978-0-521-82754-6 hardback
ISBN-10 0-521-82754-X hardback

For Dad

CONTENTS

LIST OF TABLES

ACKNOWLEDGMENTS

Completing this project would not have been possible without the aid and support of many individuals. While I was fortunate to have access to nearly one hundred years of trade journals and conference proceedings with regard to thrifts from dozens of libraries across the country, making sense of this material was a daunting task. It was made immeasurably easier by my advisor Mansel G. Blackford, who kept my work focused and helped me develop my ideas on the effects S&Ls had on American society. William R. Childs provided me with valuable insights into the history of government/business relations, and led me to think seriously about just when S&Ls became a true financial industry. Likewise, the seminars I took under the guidance of K. Austin Kerr helped me formulate my basic approach to writing this history.

My research could not have been completed without the assistance of several talented and friendly archivists. Allen Fisher at the Lyndon B. Johnson Presidential Library provided invaluable assistance researching the collections of that impressive repository. Pat Wildenberg and Dale Mayer at the Herbert Hoover Presidential Library helped me to better understand Herbert Hoover's devotion to the needs of families and better housing. Don Shewe at the Jimmy Carter Presidential Library provided both invaluable assistance and stories about the OSU History Department faculty while he was a graduate student in the 1960s. I also deeply appreciate the financial assistance used to complete my work from the Herbert Hoover Presidential Library and the Franklin and Eleanor Roosevelt Research Institute. Special thanks go to Robert Surabian, who provided me with unrestricted access to the records of Medford Cooperative Bank, and Lorraine Silva, who regaled me with stories of her life as a community banker.

Preparing any manuscript for publication is a daunting task, but for me the process was made infinitely less stressful by the fact that I worked with some very patient people. Frank Smith at Cambridge University Press was very understanding when the inevitable delays occurred, and his enthusiasm

for the project was always appreciated. I especially want to thank my readers Paul Miranti and Ed Perkins for their insightful and constructive comments and suggestions; every author should be fortunate enough to have such supportive peers. Eric Crahan and Catherine Felgar at Cambridge University Press and Shubhendu Bhattacharya at TechBooks also provided invaluable assistance in the editing process. Mistakes, however, are inevitable, and I take full responsibility for them. Finally, I would like to thank my mother for always asking me how the book was coming, and thanks to Jeff and Sandy for never bringing up the subject.

INTRODUCTION

In his movie *It's a Wonderful Life* the director Frank Capra tells the story of George Bailey, the manager of the Bailey Bros. Building and Loan. This thrift association is in Bedford Falls, a small community where people know each other, families are stable, and personal morals are strong. Although the town also has a bank, most of the working-class residents belong to the local building and loan. A turning point in George's life comes on Christmas Eve when an audit reveals that $5,000 is missing from the thrift. George is unable to account for the funds, and after the banker Henry Potter accuses him of stealing the money, George panics and considers suicide. To prevent this, George's guardian angel Clarence lets him see what life in Bedford Falls would be like if he were never born, and by extension if his thrift did not exist. In a world without George and his building and loan, Potter controls the town and dominates the lives of its residents. Called Pottersville, the town is no longer peaceful and happy but a place where drinking, vice, and debauchery reign supreme. Most of the people rent apartments from Potter, have dysfunctional families, and generally regard each other warily. The experience makes George realize how important he and his work are to the community, which causes him to keep on living and face arrest for malfeasance. In the end, the people of Bedford Falls rally to support George with donations that not only cover the missing funds but also lead the authorities to drop the criminal charges against him.[1]

[1] One journalist described this as the nation's "first S&L bail out." Kathleen Day, *S & L Hell: The People and the Politics Behind the $1 Trillion Savings & Loan Scandal* (New York: W. W. Norton & Co., 1993), 38; *It's A Wonderful Life* (Metro-Goldwyn-Mayer, 1948); Vito Zagarrio, "It Is (Not) a Wonderful Life: For a Counter-reading of Frank Capra," in Robert Sklar and Vito Zagarrio, editors, *Frank Capra: Authorship and the Studio System* (Philadelphia: Temple University Press, 1998), 64–94; James Agee, *Agee on Film* (New York: Grosset & Dunlap, 1969), 233–4; Ray Carney, *American Vision: The Films of Frank Capra* (New York: Cambridge University Press, 1986), 379, 381–2; "*It's a Wonderful Life,*" *Savings and Loan News* 67 (February 1947), 17.

In this cinematic masterpiece, Capra's main objective was to "encourage audiences to recognize the heroism involved in merely living a helpful but ordinary life." However, Capra also provided an accurate sketch of America's thrift industry during its heyday of the late 1940s and early 1950s. An examination of the movie from the perspective of the Bailey Bros. Building and Loan reveals that the primary goal of a thrift was to help working-class men and women become homeowners. By following the basic principles of systematic savings and mutual cooperation, thrift members could borrow money to buy their homes. The movie also revealed the widespread assumption of Americans that private homes provided the best environment for raising a family, and that pride of owning a home generated higher personal self-esteem and good citizenship. Finally, because the building and loan was such an integral part of Bedford Falls, when events threatened to close this thrift, the town fought to save it.[2]

Although Capra apparently never intended *It's a Wonderful Life* to be an homage to the savings and loan industry, he nonetheless provided a useful snapshot of a business that, to date, has not received much scholarly examination. This is not to say that historians have ignored the study of finance in America, as evidenced by many valuable histories of investment and commercial banking.[3] One reason for the growing number of works on these industries is that each was critical in financing big business and making America an economic superpower. Similarly, historians have closely examined the relationship between business and government, especially those actions that helped the federal government assume greater economic and social responsibilities in the twentieth century.[4] Finally, while scholars have explored the role financial intermediaries played in the growth of American cities and suburbs, the majority of works in this area focus on federal government activities and not on those of savings and loans.[5] Because my project

[2] Wes D. Gehring, *Populism and the Capra Legacy* (Westport, CT: Greenwood Press, 1995), quote 112.

[3] For representative histories, see Vincent P. Carosso, *Investment Banking in America, a History* (Cambridge, MA: Harvard University Press, 1970); Benjamin J. Klebaner, *American Commercial Banking: A History* (Boston: Twayne Publishers, 1990); Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance* (New York: Atlantic Monthly Press, 1990); William F. Hixson, *Triumph of the Bankers: Money and Banking in the Eighteenth and Nineteenth Centuries* (Westport, CN: Praeger, 1993); Edwin J. Perkins, *Wall Street to Main Street: Charles Merrill and Middle-Class Investors* (New York: Cambridge University Press, 1999).

[4] Seminal works include Thomas K. McCraw, *Prophets of Regulation: Charles Francis Adams, Louis D. Brandeis, James M. Landis, Alfred E. Kahn* (Cambridge, MA: Belknap Press of Harvard University Press, 1984); Thomas K. McCraw, editor, *Regulation in Perspective: Historical Essays* (Cambridge, MA: Harvard University Press, 1981); Richard H. K. Vietor, *Contrived Competition: Regulation and Deregulation in America* (Cambridge, MA: Belknap Press of Harvard University Press, 1994).

[5] See Sam Bass Warner, *Streetcar Suburbs: The Process of Growth in Boston, 1870–1900* (Cambridge, MA: Harvard University Press, 1978); Kenneth T. Jackson, *Crabgrass Frontier:*

combines elements from all three areas into one study, it fills the scholarly gap in the literature on S&Ls, and helps define their overall role in American business history.

At the end of the twentieth century, America's 1,103 thrift institutions controlled more than $863 billion (in US billion) in assets, equivalent to about 8 percent of the nation's gross domestic product in 1999. Thrifts continue to serve as a significant source of residential home mortgages and are the second-largest repositories for consumer savings in the country.[6] Despite their critical importance to the financial structure of the United States, thrifts have been grossly neglected by scholars. Only five extensive histories of this industry are available. All were written by industry insiders, and none cover the events of the S&L crisis.[7] Conversely, books and articles on the financial debacle of the 1980s abound. Unfortunately, many are journalistic accounts that focus on the criminal misconduct associated with individual thrift failures. Furthermore, only a handful of these works place the events of the decade in any historic perspective.[8]

This study attempts to correct these deficiencies in three ways. First, by examining the entire history of the American savings and loan industry, I

The Suburbanization of the United States (New York: Oxford University Press, 1985); Robert Fishman, *Bourgeois Utopias* (New York: Basic Books, 1987).

6 Office of Thrift Supervision. *2002 Fact Book: A Statistical Profile on the United States Thrift Industry* (Washington, DC: Office of Thrift Supervision, April 2003), 1, 4.

7 H. Morton Bodfish, *History of Building and Loan in the United States* (Chicago: United States Building and Loan League, 1931); Horace Russell, *Savings and Loan Associations* (Albany: M. Bender, 1960); Josephine Hedges Ewalt, *A Business Reborn: The Savings and Loan Story, 1930–1960* (Chicago: American Savings and Loan Institute Press, 1962); Leon T. Kendall, *The Savings and Loan Business: Its Purposes, Functions, and Economic Justification* (Englewood Cliffs, NJ: Prentice-Hall, 1962); A. D. Theobald, *Forty-Five Years on the Up Escalator* (privately published, 1979). Bodfish wrote his history to celebrate the centennial of the industry, and it was distributed at the annual convention of the thrift trade association. Russell's work is primarily a memoir of the author's career at the Federal Home Loan Bank Board, while Ewalt wrote her book while serving as the chief publicist of the thrift trade association. Kendall was the chief economist for the United States Savings and Loan League and wrote his monograph for the Commission on Money and Credit. Theobald's book is the only detailed history of the thrift industry between 1930 and 1979.

8 Representative books include Paul Zane Pilzer, *Other People's Money: The Inside Story of the S&L Mess* (New York: Simon and Schuster, 1989); Stephen Puzzo, Mary Fricker, and Paul Muolo, *Inside Job: The Looting of America's Savings and Loans* (New York: McGraw-Hill, 1989); James O'Shea, *The Daisy Chain: How Borrowed Billions Sank a Texas S&L* (New York: Pocket Books, 1991). Among the few books that include a basic history of the thrift industry are James Ring Adams, *The Big Fix: Inside the S&L Scandal* (New York: John Wiley & Sons, 1989); Kathleen Day, *S&L Hell: The People and Politics Behind the $1 Trillion Savings and Loan Scandal* (New York: W. W. Norton, 1993); Ned Eichler, *The Thrift Debacle* (Berkeley: University of California Press, 1989); James Barth, *The Great Savings and Loan Debacle* (Washington, DC: AEI Press, 1991); Mark Carl Rom, *Public Spirit in the Thrift Tragedy* (Pittsburgh: University of Pittsburgh Press, 1996); Kitty Calavita, Henry N. Pontell, and Robert H. Tillman, *Big Money Crime: Fraud and Politics in the Savings and Loan Crisis* (Berkeley: University of California Press, 1997).

not only place the recent past in a broad context, but also offer new insights into the development of consumer finance. Second, my extensive use of industry sources provides a different perspective about how and why S&Ls responded to the array of different economic conditions and crises that they faced over the years. Finally, by accessing previously untapped government archival documents I enhance our understanding of the relationship between the industry and federal regulators.

Given this multifaceted approach, my work should interest scholars in a variety of fields. For economic and business historians, this study strengthens our understanding of how American finance developed over time; in particular the role small enterprises play in meeting the financial needs of consumers. It also contributes to the literature on government-business relations and thus will be of interest to scholars of political science. Similarly, scholars focusing on "household" finance will find this work a valuable resource on the development of various types of lending, such as installment and mortgage loans. Meanwhile, business professionals will learn more about how financial firms evolve over time. Finally, academics focused on African American, ethnic American, and women's studies will find new information that expands and breaks new ground in understanding the relationship between these groups and American business.

Although a chronological history, this study is organized around four broad themes. The first focuses on the evolution of saving and loans business practices. Thrifts began as a way for working-class men and women to obtain affordable long-term home mortgages and simultaneously have access to a safe repository for savings. They were typically nonprofit cooperatives, which were owned by their members and often relied on word-of-mouth advertising to attract business. As neighborhood businesses, civic leaders usually served in top leadership positions, and the close ties these managers maintained with the local community allowed thrift members to better monitor the association's lending activities. Finally, thrifts employed a variety of legal structures and lending procedures that were tailor-made to meet member needs. While such eclectic practices often served members well and met local financial needs, they also made thrifts appear to be less prestigious than commercial banks.[9]

The thrift industry remained a small but important source of consumer finance for the first one hundred years of its existence, and although S&Ls used more uniform practices, they remained member-owned institutions. This changed after World War II when the postwar housing boom produced

[9] For a discussion of the role of agency in business and finance see Jonathan Barron Baskin and Paul J. Miranti, Jr., *A History of Corporate Finance* (New York: Cambridge University Press, 1999), 20–24 and Jonathan Barron Baskin, "The Development of Corporate Financial Markets in Britain and the United States, 1600–1914: Overcoming Asymmetric Information," *Business History Review* 62 (Summer 1988), 199–237.

an unprecedented demand for mortgages. To meet this demand, the industry developed innovative business procedures, and some thrifts even began to raise funds by selling stock on the open market. The growth that resulted from this period significantly enhanced the image of thrifts as financial institutions, and gave the industry greater political and business clout. It also, however, caused the industry to become divided into a handful of large institutions capable of competing directly with commercial banks and thousands of smaller, more traditional, associations. Although competition between thrifts and banks for funds was especially high during the 1960s, in terms of lending S&Ls continued to be undiversified, with mortgages accounting for more than 80 percent of industry assets. Because most S&Ls used relatively short-term variable-rate deposits to make these long-term fixed-rate loans, the industry was in a very vulnerable position when the economy deteriorated and interest rates rose sharply in the late 1970s.

Despite efforts by the industry to create loan structures that minimized the effects of high rates on consumers, S&Ls lost millions during this period. These problems became so severe that the industry was allowed to enter new lending fields and diversify their loan portfolios. Unfortunately, many of these new business areas were riskier than traditional mortgage finance, and managers had to acquire new skills to participate in them profitably. The fact that hundreds of S&Ls became insolvent during the 1980s showed that not all associations successfully made the transition. While fraud played a role in some S&L failures, the vast majority of these insolvencies resulted from ill-advised lending decisions and the inability of managers to respond to the problems associated with rapid growth. Significantly, a common trait among the thrifts that survived the 1980s was that they approached deregulation more cautiously and remained focused on meeting the consumer finance needs of their local service territories.

The process of how thrifts refined their operating and management procedures reveals that both external forces and internal initiative drove change. For the first one hundred years of the industry's existence, thrifts faced few competitive challenges, in part because they were relatively small and narrowly specialized financial institutions. After World War II, however, competitive pressures from commercial banks and the federal government forced thrifts to adopt more formal business procedures, and in the extreme to rethink their mission as financial institutions. Some responded by offering services that made them virtually identical to banks, while others remained focused on providing home mortgages and consumer loans. Other innovations occurred because managers were proactive. S&Ls were among the first financial institutions to offer fully amortizing mortgages, a very consumer-friendly form of finance, and pay compound interest on deposits. Similarly, their emphasis on service led thrifts to pioneer the use of drive-up windows, branch offices, and consumer technology such as automated teller machines.

The second theme examines the role of the national thrift trade association in the development of the industry.[10] While thrifts organized local, state and regional trade groups to promote their business interests, it was the United States Savings and Loan League, the industry's national trade group that proved to be the most influential. Like trade associations in other industries, the League began as an informal organization whose chief function was to act as a forum for thrift leaders to meet. This role changed significantly in the 1920s and 1930s, as the League assumed new responsibilities that included the development of uniform business practices in accounting, real estate appraising. It also played a larger role in publicizing both the industry and the ideals of thrift and home ownership. A key figure in this transformation was Morton Bodfish, who led the League from the late 1920s to after World War II. His organizational improvements gave the trade group the capacity to take a leading role in the industry's growth after the war.

The League was at its height of power in the 1950s and early 1960s when thrifts were emerging as an important source of consumer finance. Under the leadership of Norman Strunk, the national trade association continued to portray thrifts as modern, innovative, and local financial institutions. Such efforts helped the industry attain its present status as a dominant source for long-term home finance and a major repository for savings. As the industry grew, however, the League's work was hindered by the competing interests of large and small thrifts, which limited its ability to present unified positions on political and business issues. One consequence of this industry disharmony was that the League played only a nominal role in the process of deregulation. Although the League regained its political influence in the 1980s, the severity of the S&L crisis discredited the trade group and in 1991 it was disbanded.

Despite the broad successes achieved by the League during its nearly one hundred years of existence, this study clearly shows that industry support for its national trade association was very inconsistent. During the early twentieth century, the League often encountered stiff resistance from members in its efforts to change industry practices. Similarly, the creation of the system of federal regulation required the League to not only lobby Congress, but also wage an extensive promotional campaign to convince thrifts how various governmental programs would benefit them. Another important characteristic of the League's history was that even though a majority of all thrifts belonged to the trade association, its policies usually favored the interests of its largest members. This growing inability to represent the needs of smaller

[10] Seminal studies on trade associations include Louis Galambos, *Competition & Cooperation; The Emergence of a National Trade Association* (Baltimore: Johns Hopkins Press, 1966); William R. Childs, *Trucking and the Public Interest: the Emergence of Federal Regulation, 1914–1940* (Knoxville: University of Tennessee Press, 1985); Robert F. Himmelberg, *The Origins of the National Recovery Administration: Business, Government, and the Trade Association Issue, 1921–1933* (New York: Fordham University Press, 1993).

thrifts was critical in the formation of competing trade associations that challenged the League's authority.

The third theme focuses on the evolution of relations between the thrift industry and government. Thrift leaders, like those in other financial industries, generally regarded government regulation as both a blessing and a curse. While they approved of measures designed to protect and promote their business, they also wanted the government to give them free reign to grow and broaden operations. Thrift regulation first began in the late nineteenth century at the state level. Initially it was well received because state oversight helped limit competition and produced more uniform business practices that, in turn, increased public confidence. The economic turmoil of the Great Depression led to federal regulation of thrifts, and by 1934 S&Ls had the support of a central reserve credit bank, a program of deposit insurance, and a system of federal chartering. Significantly, League leaders took an active role in designing these laws, which they saw as important in protecting thrifts from competition and promoting their growth. Furthermore, because the League used the close ties it developed with regulators over the years to influence the formation of thrift regulations, some observers claimed that the industry had captured these agencies.

The most recent period of major change in government-business relations happened in the 1980s, when Congress deregulated the thrift industry. Following the financial losses associated with the unprecedented changes in interest rates in the late 1970s, regulators realized that a more flexible system of regulation and oversight was needed if the thrift industry was to remain strong. Significantly, commercial banks, investment banks, and financial services firms faced many of the same challenges as S&Ls, and all these industries underwent dramatic change during the decade. The goal of deregulation was to make thrifts more competitive by allowing them to diversify their loan portfolios into areas beyond consumer finance. These included the right to make commercial loans, hold junk bonds, and make direct equity investments in real estate.

Financial deregulation was not, however, a straightforward process. Because the federal government insured the deposits of both thrifts and banks, legislators had to ensure that allowing these firms to enter new business areas would not result in greater risks to the insurance funds. Consequently, when regulators relaxed the restrictions on thrifts, they should also have increased the level of oversight and enforced greater lender discipline. Unfortunately, regulatory supervision of S&Ls declined in the early 1980s for a variety of reasons, and despite efforts to impose stricter controls beginning in 1984, industry oversight at both the state and federal levels remained inadequate. Consequently, lenders who made well-intentioned but ill-advised loans were not held strictly accountable for their actions, and managers intent on fraud found it easier to commit their illegal acts. The result was one of the worst financial disasters in American history that has directly cost taxpayers

more than $160 billion to resolve. Given the magnitude of the thrift crisis, in 1989 Congress imposed greater restrictions on thrifts, and while not complete re-regulation the new rules were intent on refocusing S&Ls on their core mission of providing home finance.

The analysis of thrift oversight reveals two consistent characteristics. First, changes in the level of government regulation were rarely proactive but rather came in response to economic downturns and industry crises. State oversight of thrifts began after the Depression of 1893, federal regulation occurred during the Great Depression, and deregulation was driven by rising interest rates in the late 1970s. The second trend was that when change did occur, larger S&Ls tended to be among the first to utilize the benefits of regulation and deregulation, while smaller associations took a more deliberate "wait and see" attitude. For example, it took nearly twenty years for a majority of thrifts to become members of the federal deposit insurance system. While internal disagreements over the level of regulation were not unique to the thrift industry, they also often reflected broader divisions within the industry.

The final theme in this study focuses on the role savings and loans played in promoting home ownership and popularizing the home as one element of the "American Dream" of individual home ownership. When industrialization in the nineteenth century allowed for the separation of commercial and domestic activities, the image of the home underwent a radical transformation. Rather than being a place where family and work chores occurred simultaneously, the home came to be regarded as a distinct environment where parents could focus on raising children. Interestingly, the "new" family-oriented home also became the place where people learned the moral values that made them good citizens. Thrifts readily identified with the changed image of the home, and by the 1890s were publicizing to working-class men and women how owning a home offered not only financial security and a healthy place to raise a family, but also led to greater personal self-esteem and ultimately a stronger country. This image was best captured in the slogan for the national thrift trade association – "The American Home. The Safeguard of American Liberties."

Aside from popularizing the idea that thrifts produced "good Americans," the industry played a major role in changing where Americans wanted to live. One trend in the demographic history of the United States has been the steady movement of people from rural to urban and suburban areas. While the growth of cities and suburbs required a variety of changes, ranging from improvements in transportation to how homes were built, the availability of affordable financing was also critical. The "democratization" of the home loan by the thrift industry, which involved making it easier to qualify for and repay a mortgage, helped transform suburbia from a nineteenth-century retreat for the rich to the predominant residence for the twentieth-century middle class. It also helped give the United States one of the highest percentage

of private home ownership in the world and helped make home equity a major source of household wealth.

It clearly would be an exaggeration to claim that S&Ls were responsible for changing how Americans viewed the home, or determining where people wanted to live, but it is fair to say that the romantic ideals held by many thrift leaders allowed the industry to play a crucial role in shaping these processes. For the first one hundred years of the industry's existence, S&L publications emphasized thrifts as being part of a social uplift movement that was more concerned with improving people's lives than making a profit. While this belief was greatly eroded by the 1950s, S&L managers continued to stress their commitment to the local community as the key difference between their institutions and other financiers. Even at the end of the twentieth century, these ideals still resonate with consumers and remain a defining characteristic of the industry.

I have divided this work so that each chapter focuses on a major period of change or innovation. Chapter 1 traces the development of thrifts during the nineteenth century and focuses on four major topics: how and why the thrift industry began, why savings and loan leaders cultivated an image of their business as a self-help movement, the role of women in encouraging industry growth, and the rise and fall of "national" thrifts and their impact on the industry. Chapter 2 covers the years 1900 to 1929, a period when the national trade association emerged as the true leader in the thrift industry. The major topics include how the trade association encouraged thrifts to adopt more uniform business practices, its efforts to promote thrift development and home ownership, the rise of ethnic savings and loans, and how the prosperity of the 1920s affected the thrift industry.

Chapter 3 analyzes how and why state and federal regulation began, and the effects these laws had on the industry. Because thrift leaders played an active role in securing regulation, the programs created often protected and promoted industry interests. Still, not all managers agreed on the need for regulation, and the League worked hard to gather industry support for the federal programs to ensure their success. Chapter 4 focuses on business and organizational changes from 1930 to 1945 and includes an analysis of how the industry dealt with the financial hardships of the Great Depression, as well as the competitive challenges associated with increased federal involvement in home finance. Chapter 5 covers the first decade after World War II, which is generally considered the thrift industry's "glory years." This section details how the industry took advantage of the natural postwar demand for housing to become the dominant institutional source of residential finance in the country. While the growth of suburbia was important to this expansion, League promotional activities, favorable regulations, and innovations by individual thrift managers also contributed to this process.

Chapters 6 and 7 analyze the events of the twenty-five years that preceded deregulation of S&Ls in the 1980s. While the industry continued to

post steady growth, an overarching theme is the widening gap between large and small associations. Among the sources of disagreement were, first, how to respond to the competitive threats posed by commercial banks and federal housing programs, and second, how best to utilize an ever-increasingly growing array of technological innovations. At the same time, the industry had to contend with the problems associated with greater regulatory scrutiny and congressional actions that included the loss of their tax-exempt status and the imposition of interest rate controls. This section ends with a review of how the unprecedented economic problems of the 1970s affected the industry and contributed to thrift deregulation.

Chapter 8 focuses on thrift deregulation and an overview of the S&L crisis of the 1980s. A review of key legislation passed during this decade and the events surrounding the failure of hundreds of thrifts provides evidence that this financial debacle resulted from a combination of forces, and that there is no one dominant cause. While fraud was a factor in the failure of dozens of thrifts, bad lending decisions and lax supervision were clearly the leading causes of insolvency. Chapter 9 discusses thrift re-regulation and examines the efforts to liquidate the billions in assets held by insolvent thrifts. It includes a critical assessment of the major reasons why thrifts failed, and examines the state of the thrift industry toward the end of the twentieth century. Chapter 10 concludes the study by evaluating the overall roles that regulators, trade groups, outside competitive pressures, and internal forces played in shaping the development of the thrift industry during its long history.

An appendix includes case studies of two savings and loan associations, which are intended to illustrate elements of success and failure in the industry. The first is of Empire Saving and Loan Association, a thrift located near Dallas, Texas, which failed in 1983 as a result of criminal activity. An analysis of this insolvency reveals that, although management fraud was critical to the collapse, an equally important factor was the inability of regulators to intervene in a timely manner. The second case study is of Medford Cooperative Bank, near Boston, which was formed in 1887 and continues to profitably meet the financial needs in its local community. This analysis reveals that a key reason for success was that it was committed to serving the financial needs of the local community it served, a trait that traditionally has been associated with the thrift industry.

My examination of the American savings and loan industry indicates that thrifts have served, and continue to serve, a vital function in this country's financial system. Thrifts are responsible for perfecting the system of home finance that has become the standard used by the federal government and all other home lenders. Also, by making mortgages affordable to ordinary Americans, thrifts made owning a home a reality for millions of families and in turn helped make home ownership the chief source of household wealth. At the same time, because thrifts are the only financial institutions that trace

their roots to a broad cooperative movement, these businesses promoted self-help ideals and helped create an image of the home that have since become integral elements of American popular culture. Finally, the fact that most thrifts continue to operate as community-based businesses committed to specialized areas of consumer finance shows it is possible to operate successfully in an increasingly competitive financial marketplace dominated by large, diversified institutions.

1

A MOVEMENT TAKES SHAPE, 1831–1899

The creation and early development of a savings and loan industry in America reflected many of the broad social and economic changes that occurred during the nineteenth century. Building and loan associations (B&Ls) first appeared in 1831 as a way to help working-class men and women have the opportunity to become homeowners. B&Ls patterned themselves after the British building societies that pioneered a system of home finance based on systematic savings and mutual cooperation between society members. While the American thrift business grew slowly during the first forty years of its existence, growth accelerated in the 1880s, and soon thrifts were in operation across the country. While a steady stream of innovations designed to make thrifts more efficient accounts for part of this growth, the businesses also benefited from increased publicity by thrift leaders directed at both the working class and Progressive era social reformers. These people portrayed B&Ls as being part of a self-help movement capable of improving the lives of working-class men and women and alleviating many of the social ills affecting industrial cities. Although these changes led to strong business expansion, their success also spawned the creation of "national" B&Ls whose primary objective was to enrich their organizers at the expense of their members. The failure of these fraudulent thrifts during the 1890s significantly tarnished the image of the thrift business, but the "nationals" crisis also led to the formation of state and national trade associations, called Leagues, intent on promoting and protecting B&L business interests. Eventually, a national League would become the central force in preparing the thrift movement for the challenges of the twentieth century.

BRITISH TRADITIONS OF HOME FINANCE

Although private financing of homes first began in China more than five thousand years ago, institutional lending for residential purposes originated in eighteenth-century England. The building society movement was the first

effort to help people not in the upper classes become homeowners, and its creation resulted from a variety of forces. The first of these was the effort by yeoman farmers to become private landowners. Traditionally, British elites had controlled most of the arable land in the country, which they rented to farmers, but in the 1640s small groups of merchants with excess capital challenged this arrangement by forming land buyers' societies. First appearing in the English Midlands, these businesses bought large tracts of land, which they subdivided and sold outright to farmers. The upper classes, however, realized that making farmers direct landowners and not tenants reduced their power base, and they tried to suppress these groups. Despite such opposition, land buyer societies flourished well into the eighteenth century.[1]

The second development that contributed to the appearance of British building societies was the friendly society movement, which also began in the British Midlands in the late 1600s. Friendly societies were self-help cooperatives whose mostly working-class members made regular contributions into a common fund and in times of need received benefits in the form of interest-free loans. Members could make a claim for hardships caused by unemployment, illness, or losses associated with fire and robbery. In the eighteenth century, the number of societies grew rapidly, in part because of the religious revival known as the "Great Awakening." This evangelical movement emphasized the need for social holiness in which men should work to help the poor, sick, and underprivileged. This focus on "helping your fellow man" in a spirit of self-help and self-reliance, combined with broader social changes associated with industrialization, led to the formation of more than 7,000 societies by 1800. Also, the popularity of the movement led to the first government involvement in the activities of a cooperative movement when the passage of The Friendly Societies Act of 1793 required these groups to register with Parliament.[2]

The third force that aided the rise of British building societies was the growth of cities during the First Industrial Revolution. The rise of factories caused a tremendous demand for unskilled labor, and, as people responded to this demand nearly every major British city experienced unprecedented growth. Between 1800 and 1850, the populations of London and Edinburgh rose by 240 percent. Glasgow experienced a 460 percent increase, while Birmingham and Manchester more than tripled in size. One consequence of urban expansion was that housing conditions began to deteriorate, since the low wages earned by most workers forced them to live in crowded tenements. For skilled workers with higher incomes, an alternative to the tenement was home ownership, but rising real estate prices in the city made it hard for these

[1] Seymour J. Price, *Building Societies: Their Origin and History* (London: Franey, 1958), 1, 5–7.

[2] E. J. Cleary, *The Building Society Movement* (London: Elek Books, 1965), 9–11, quote 9; Price, *Building Societies,* 10–12, quote 11; Peter Gray, "A Brief History of Friendly Societies," *http://www.afs.org.uk/research/researchpgrayhistorypage.htm*, accessed 31 August 2003.

people to save enough to buy a house outright. If they wanted to borrow from traditional mortgage lenders, they had to make substantial down payments, and they often had to repay the full loan in just a few years.[3]

In 1781, the experience of the land buyers and friendly societies, which showed how mutual cooperation and systematic savings could achieve goals difficult for individuals alone, combined with the need for urban housing led to the creation of the first building society in Birmingham. As in the case of other cooperatives, people joined by subscribing to shares in the society, which made them all part owners. Because few of these middle-class members could buy these shares at their face value, they paid for them over time in regular monthly installments. When enough money accumulated, the society held a lottery to see who would receive a loan to buy a home, but because the loan was equal to the face value of the subscribed shares, it was actually an advance on the unpaid shares. To repay these loans, members continued to make their regular monthly share payments to which was added interest for the loan. This interest, along with any fines and initiation fees, was profit for the building society that the officers distributed to the members as dividends. When all members had taken out and repaid their home loans, the building society terminated operations.[4]

Because building societies succeeded only if all members adhered to the ideals of mutual cooperation and systematic savings, once people joined they could not transfer or withdraw their money. Also, failure to make timely share or loan payments resulted in fines and penalties. Furthermore, anyone who joined after a society began business had to make a first payment large enough so that the value invested in the new shares was the same as the total amount paid by the original shareholders. This was necessary to ensure that all members shared equally in any dividends. Given such stringent requirements, most societies had fewer than twenty-five members, but it was also common for building societies to admit both men and women as members and treat them as equals. Another characteristic of these societies was that the officers, who were often society members or community leaders, usually served without pay, and meetings were held at local taverns – all in an effort to minimize operating expenses. This last trait often resulted from behests of pub owners, who sold food and drink to the members during the meetings. As a result, many building societies named themselves after their meeting places.[5]

[3] B. R. Mitchell, *European Historical Statistics 1750–1970* (New York: Columbia University Press, 1978), 12–14; J. B. Leaver, *Building Societies, Past, Present and Future* (London: J. M. Dent and Sons Ltd., 1942), 6–8; Price, *Building Societies*, 14.

[4] Leaver, *Building Societies,* 8–9; Cleary, *Building Societies,* 16; Price, *Building Societies,* 5–16. Price dates the first society to 1775 in Birmingham.

[5] Sir Harold Bellman, *The Thrift Three Millions* (London: Abbey Road Building Society, 1935), 24–5, 30.

The growth of industrial cities gave rise to another important financial institution, the mutual savings bank. These were the first financial institutions specifically designed to help those of limited means save for the future, and their organizers were motivated to help the needy based on the moral argument that they were "deserving poor." The first mutual savings bank, called the Tottenham Benefit Bank, was organized by the prominent social reformer Priscilla Wakefield in 1804. Believing that "the only true secret of assisting the poor is to make them agents in bettering their own condition," Wakefield wanted her bank to teach its members how to save and not squander their earnings. To do this, she adopted the share purchase plan used by building societies, in which members had to make regular savings contributions or face penalties. The bank placed these funds in very secure investments, and the interest earned was credited to the member accounts. Similarly, when the shares matured, the member could either withdraw the money or keep it on account. Because mutual savings banks were simple to operate and served socially acceptable purposes, they were so popular that by the end of the nineteenth century they held more than £57 million for their 1.6 million depositors.[6]

By 1825, sixty-nine building societies operated in Great Britain, primarily in the industrial regions of the Midlands and the North. As more of these informal groups were organized, it became necessary for the government to provide them with some type of legal definition and recognition. Initially, Parliament placed them within the jurisdiction of the Friendly Societies Act, but their more specialized operations led to the creation of the Building Society Act, passed in 1836. At the same time, societies developed standardized operating procedures, which made forming a new association easier. The number of new societies multiplied to 2,050 by 1851 and to more than 3,642 by 1895. The assets of these groups also grew rapidly, increasing from approximately £17 million to £54.8 million over the same period. The fact that asset growth exceeded the number of new societies is particularly interesting since the period from 1876 to 1896 was a deflationary period in Great Britain; this underlines how important these nascent financial institutions were to their members. A final consequence of this growth was that as people emigrated from England, they often took the building society ideals with them to their new homes.[7]

[6] H. Oliver Horne, *A History of Savings Banks* (London: Oxford University Press, 1947), 23–6; Mary B. Murrell, "Women's Place in the Building Association Movement," *Financial Review and American Building Association News* [hereafter *FRABAN*] 12 (November 1893), 279; Minnie F. Phillips, "Woman's Relation to Building and Loan Associations," *American Building Association News* [hereafter *ABAN*] 18 (January 1899), 22.

[7] Donald McKillop and Charles Ferguson, *Building Societies: Structure, Performance and Change* (London: Graham & Trotman, 1993), 5–25; Leaver, *Building Societies*, 7, 12–15; Bellman, *Thrift Three Millions,* 15, 329.

THE STATE OF HOME FINANCE IN AMERICA

In eighteenth-century America, institutional home finance was virtually nonexistent, primarily because few people needed to borrow to buy a house. Land was relatively cheap, if not free, and raw materials to build homes was abundant. These conditions began to change during the First Industrial Revolution, when urban centers like Philadelphia and New York experienced rapid growth. Between 1790 and 1830, the populations of these cities rose 380 percent and 595 percent, respectively, and one consequence of this was that city housing became more expensive, often requiring some form of outside financing. Initially, private individuals with excess capital provided most of this credit; but because these were loans based on personal connections this system of finance was not widely available, and there were many inconsistencies between lenders regarding loan terms and conditions.[8]

While private mortgage lending was the leading source of home finance in America well into the twentieth century, there were other institutional alternatives. One was the commercial bank, which offered the advantages of greater availability of money for lending and more standardized loan terms than private individuals. There were, however, several drawbacks to borrowing from a bank for a mortgage. Because bank deposits could be withdrawn on demand, bank loans had to be fairly liquid, and to compensate for the low liquidity of real estate, home buyers had to make substantial down payments (up to 60 percent of appraised value) in order to receive a loan. The structure of bank loans was also problematic, since mortgagees usually made interest-only payments during the life of the loan with the full principal due at maturity, a period of no more than five years. A final limitation of commercial bank finance was that only state banks could make mortgages, since national banks by law could not make real estate loans except to buy farm land for agricultural purposes.[9]

Another institutional lender involved in residential finance was the mutual savings bank, which also came to America from England in 1819. Similar to the associations inspired by Priscilla Wakefield, mutual savings banks were neighborhood institutions designed to help the poor and working class save

[8] Kenneth A. Snowden, "Mortgage Lending and American Urbanization, 1880-1890," *Journal of Economic History* 48 (June, 1988), 274–7; Kenneth T. Jackson, *Crabgrass Frontier: The Suburbanization of the United States* (New York: Oxford University Press, 1985), 115–27; James Johnson, *Showing America a New Way Home* (San Francisco: Jossey-Bass Publishers, 1989), 32–7; Naomi R. Lamoreaux, "Information Problems and Banks' Specialization in Short-Term Commercial Lending: New England in the Nineteenth Century," in Peter Temin, editor, *Inside the Business Enterprise: Historical Perspectives on the Use of Information* (Chicago: University of Chicago Press, 1991), 161–204.

[9] Morton Bodfish and A. D. Theobald, *Savings and Loan Principles* (New York: Prentice-Hall, 1936), 18–23; Benjamin J. Klebaner, *American Commercial Banking: A History* (Boston: Twayne Publishers, 1990), 72–4; Nelson L. North and DeWitt Van Buren, *Real Estate Finance* (New York: Prentice-Hall, 1928), 36–7.

for the future. Despite the use of the term "mutual," savings banks were not owned by their customers but rather were managed by a group of trustees who made loans on behalf of the depositors. To fulfill their mission as safe repositories, savings banks usually invested in low-risk and highly liquid state and municipal bonds, but since these deposits were also long term the banks also made home loans. While these mortgages had longer terms than commercial banks, the need to ensure safety meant that savings banks also required large down payments from borrowers. Furthermore, mutual savings banks were not national and could only be found in the Northeast.[10]

A third institutional source for real estate finance was the insurance company. The first modern insurance company was Lloyd's of London, a mutually owned British firm founded around 1688. The basic operating plan of this and other mutual insurance companies was that the members pooled their funds and agreed to provide protection to their clients against the risk of loss resulting from a variety of hazards. By the nineteenth century, insurance companies had expanded their lines of business to provide benefits if the policyholder died. While the main reason people had life insurance policies was to provide financial security for their beneficiaries, they also used them as savings accounts since most companies paid dividends on the policies and allowed policyholders to borrow from or withdraw these funds after a certain period of time. To cover policy claims and earn a return for investors, insurance companies invested their money in bonds as well as long-term commercial and residential mortgages. Similar to other institutional lenders, insurance companies required a large down payment from the borrower.[11]

CREATING AN AMERICAN THRIFT BUSINESS

Although home buyers could obtain residential mortgages from a variety of financial institutions, the lending restrictions often limited their availability to people with substantial savings. This situation created an opportunity to create an American version of the British building society, which occurred in January 1831 when forty-five men in the suburban Philadelphia town

[10] Alan Teck, *Mutual Savings Banks and Savings and Loan Associations: Aspect of Growth* (New York: Columbia University Press, 1968), 9–17; James Henry Hamilton, *Savings and Savings Institutions* (New York: Macmillian Company, 1902), 30–45; "Building Associations and Savings Banks," *Gunton's Magazine* 10 (April 1896), 246–7; Edwin J. Perkins, *American Public Finance and Financial Services, 1700–1815*, (Columbus: Ohio State University Press), 1994, 151.

[11] Robert F. Bingham and Elmore L. Andrews, *Financing Real Estate* (Cleveland: Stanley McMichael Publishing, 1924), 95–100; Bodfish and Theobald, *Savings and Loan Principles*, 32–5; Perkins, *American Public Finance and Financial Services*, 299; Kenneth A. Snowden, "The Evolution of Interregional Mortgage Lending Changes 1870–1940: The Life Insurance–Mortgage Company Connection," in Naomi Lamoreaux and Daniel M. G. Raff, editors. *Coordination and Information: Historical Perspectives on the Organization of Enterprise* (Chicago: University of Chicago Press, 1995), 242–4.

of Frankford formed the Oxford Provident Building Association, the first savings and loan association in the United States. Because many of these organizers came from the English Midlands and were familiar with building societies, the operating plan of their new financial institution closely resembled that of its British counterparts. Members subscribed to shares in the association and paid for them in monthly installments. They received loan advances on these shares to buy homes through an auction by submitting bids indicating the loan fee and interest rate they would pay. The member/borrower then continued to make the monthly payments on the shares, as well as the loan interest and a portion of the loan fee, and the officers distributed these profits to the members as dividends. Finally, when the members repaid all their loans or paid for their shares in full, Oxford Provident ended business.[12]

While the main purpose of this first thrift was to provide home loans, an equally important objective was to instill habits of systematic savings and mutual cooperation in members. Not only did late payments incur fines, but anyone withdrawing funds prior to maturity had to pay a substantial penalty. Similarly, the highest bidder for a loan did not automatically receive an advance. Rather, an officers' committee had to declare a person eligible to receive a loan by checking the property, which the member pledged along with the subscribed shares as security, as well as the member's "character" and ability to pay the debt. Similarly, members did not receive dividends in cash; rather, the B&L officers credited these funds to the account of each member. Not only did this requirement preserve the money available for lending, but because the amount owed on the shares fell, members realized compound interest on their investments.[13]

"AMERICANIZING" THE THRIFT BUSINESS

Although building and loans were an effective way for people of modest means to become homeowners, there were a number of operational problems that limited their ability to serve large groups of people. First, it was hard for anyone to join a thrift after it began business. Because all members shared equally in thrift dividends, new members had to make back payments to put them on a par with existing shareholders. Another problem appeared when thrift shares neared maturity and the money received from loan repayments increased. Because this potentially meant the association would have

[12] H. Morton Bodfish, "$9,000,000,000 in Small Homes," *The Ladies Home Journal* 47 (January 1931), 21; Horace Clark and Frank Chase, *Elements of the Modern Building and Loan Association* (New York: Macmillan, 1930), 15–17; Henry Rosenthal, *Cyclopedia of Building, Loan and Savings Associations,* Fifth Edition (Cincinnati: American Building Association News Publishing, 1928), 101–3.

[13] Seymour Dexter, *A Treatise on Cooperative Savings and Loan Associations* (New York: D. Appleton, 1889), 66–74.

idle funds, thrift officers would often force nonborrowing members to take advances, or require them to liquidate their shares prior to maturity. Finally, the biggest limitation to this original "terminating plan" of operations was that the association was not a permanent entity and had to end business after the members repaid their loans or paid for their shares in full.[14]

To correct these structural weaknesses, B&Ls began to issue shares periodically on set dates. This minor innovation, which appeared in the 1850s and became known as the "serial plan" of organization, accomplished several goals. First, the steady issuance of shares made the thrift a perpetual entity since members could join over time. Also, by treating each issue of shares as a separate transaction, members could share equally in dividends without having to make back payments. Similarly, the steady addition of new members helped ensure a high demand for loans, which in turn allowed people to join a thrift simply to save long term. While the serial plan quickly replaced the terminating plan, this new structure also had problems. Since each series had individual dividend and payment requirements, officers needed more complex record-keeping systems to track account balances and had to employ more precise cash management skills to ensure that enough funds were available to pay off each series as it came due. Also, if members wanted to keep their money in the thrift after shares matured, they had to subscribe to new shares and resume making monthly payments. Finally, in areas with rapid growth issuing shares only on set dates could unduly limit business activity.[15]

By the late 1870s, these shortcomings led to a new form of thrift structure, the "permanent plan," in which the B&L issued shares whenever the need arose. The permanent plan introduced a number of innovations, including passbooks in which to record deposits and dividends, and the matured share given to members who did not want to withdraw their savings after the original shares came due. The permanent plan also led to the widespread use of reserve funds to account for loan losses. Under the terminating and serial plans, each shareholder had the same amount of money invested in the thrift, which meant it was possible for the thrift to directly charge loan losses as they occurred against profits while still treating all members equally when calculating dividends. When thrifts issued shares individually, however,

[14] Edmund Wrigley, *How to Manage Building Associations,* Fourth Edition (Philadelphia: J. P. Lippencott, 1894), 81–7; Herbert Francis DeBower, "Building and Loan Associations Make Both Men and Women," in Robert Marion LaFollette, *The Making of America*, v. 10, *Public Welfare* (Chicago: The Making of America Company, 1908), 229.

[15] Because the first thrift to issue multiple series of shares was the Third Oxford Provident Building Association, the serial plan also was known as the "Philadelphia plan;" Rosenthal, *Cyclopedia of Building, Loan and Savings Associations,* 108–11; C. Floyd Byers, "Building and Loan Associations" (unpublished M.A. thesis, The Ohio State University, 1927), 47; H. Morton Bodfish, "The Serial Era," in H. Morton Bodfish, editor, *History of Building and Loan* (Chicago: United States Building and Loan League, 1931), 91–2.

the share balance of each shareholder was different, and so if the thrift continued to subtract actual losses from profits newer members suffered more. To correct this inequality, thrifts set aside up to 5 percent of earnings into reserve funds for potential defaults and calculated dividends out of the remainder. When actual losses occurred, they were charged against the reserves and not profits.[16]

A fourth form of thrift operating structure was the "Dayton plan," which was introduced in the mid-1880s by the Mutual Home and Savings Association of Dayton, Ohio. Thrifts using the Dayton plan, which was based on procedures developed by the English building societies, also issued shares individually, but members were allowed to apply for loan amounts that exceeded the value of their subscribed shares. In addition, these associations often accepted deposits and made loans to nonmembers, although the interest rates on these accounts were inferior to share holders. Other innovations under the Dayton plan included allowing members to make share payments at any time and in any amount, as well as the ability to withdraw money prior to maturity without penalties. Finally, these thrifts eliminated the use of loan auctions and made mortgages at set rates determined by the officers.[17]

The most significant innovation of the Dayton plan, however, lay in how it calculated loan repayments. A typical B&L loan was repaid through the "sinking fund" method in which the loan matured when the member paid for the subscribed shares in full. One problem with this repayment scheme was that the interest portion of the loan remained constant even as the principal balance fell. Also, it was hard to set a precise loan maturity date when repayment was affected by the level of dividends paid by the association. Dayton plan thrifts improved on this by tying loan payments to the interest rate rather than the dividend rate, which meant using the outstanding principal balance to calculate the interest portion of the loan payment. While this change allowed borrowers to know exactly when their loans would mature, the primary benefit was that the loan accrued lower interest charges than the sinking fund calculation method. These innovations marked the birth of the modern amortizing mortgage, a consumer-friendly home loan that was available only from thrifts for nearly forty years.[18]

[16] Henry Rosenthal, *Building, Loan and Savings Associations* (Cincinnati: American Building Association News, 1911), 56–8; Rosenthal, *Cyclopedia of Building Loan and Savings Associations,* 117–18.

[17] Reuben M. Goldstein, *Building and Loan Associations of Ohio* (unpublished B.A. thesis, University of Cincinnati, 1923), 18–22; Byers, "Building and Loan Associations," 15–16; Bodfish and Theobald, *Savings and Loan Principles*, 47–50.

[18] H. E. Buker, "Building and Loan Association Fundamentals and Methods: The Ohio Plan," *Proceedings of the Thirty-Second Annual Meeting of the United States League of Local Building and Loan Associations* (Chicago: American Building Association News Publishing Co., 1924),

A fifth major operating plan appeared in the late 1890s and was used primarily in Oregon, Kansas, and California. This structure, which became known as the "guarantee stock plan," required thrift directors to purchase nonwithdrawable stock as a form of reserve and guarantee that members would earn a specific dividend rate on deposits. If profits exceeded the required dividend payments, the officer/stockholders received the excess, but if profits were insufficient to meet the required payments, the balance came from the stock fund, which stockholders had to replenish. One benefit of this plan was that the reserve fund gave members greater confidence in the overall safety of the association. Also, since the thrift officers held this stock, management had an incentive to operate as efficiently as possible. Finally, thrifts that used this plan could advertise dividend rates with certainty, which was a strong marketing tool to attract funds.[19]

An overarching characteristic of all these different operating procedures was that their success required the close cooperation of thrift members and management. Similar to the British building societies, most American thrift officers were community leaders elected by the membership. One advantage of such close relationships was that many of the risks associated with borrowing and lending money could be better controlled. Because borrowers naturally know more about their own creditworthiness than lenders do, lenders must be cautious in selecting between safe and risky loan applicants as well as ensure that borrowers do not engage in risky activities with loan proceeds. B&Ls managed these risks in a number of ways. First, borrowers typically had to be shareholders, which gave them a financial stake in the success of the thrift. Second, many thrift managers used a borrower's character as part of the loan approval process. Third, rules enforcing systematic savings and mutual cooperation provided an additional safeguard on member defaults or loan losses. Finally, the visibility of thrift management and their willingness to offer products tailor-made to meet member needs gave shareholders confidence that their savings were being invested prudently.

143; Josephine Hedges Ewalt, *A Business Reborn* (Chicago: American Savings and Loan Institute Press, 1962), 39; A. D. Theobald, *Forty-Five Years on the Up Escalator* (Chicago: privately published, 1979), 245.

[19] The guarantee stock plan appeared in Oregon, Kansas, and California because of the problems these states experienced during the nationals crisis; R. Holtby Meyers, *Building and Loans Explained* (Cincinnati: American Building Association News, 1924), 27–31; R. Holtby Meyers, "The California Guarantee Stock Plan," *ABAN* 41 (December 1921), 552; Wilfred George Donley, "An Analysis of Building and Loan Associations in California, 1920–1935," (unpublished doctoral dissertation, University of California, Berkeley, 1937), 20–7; R. Holtby Meyers, "The Guarantee Sock Plan," *Proceedings of the Thirty-Second Annual Meeting of the United States League of Local Building and Loan Associations*, 149–52; Joseph H. Sundheim, *Law of Building and Loan Associations*, Third Edition (Chicago: Callaghan and Company, 1933), 16.

DEFINING THE THRIFT MOVEMENT

By the late 1870s, B&Ls began to appear across the Northeast and Midwest, and as business grew thrift leaders saw the need to create a more uniform public image of their business. Significantly, they described the thrift business as a "movement" not an industry; and this deliberate word choice reflected the fact that many of these leaders identified with the broader effort in America during the late nineteenth century to encourage greater political, social, and economic cooperation. The most prominent of these cooperative efforts included the Knights of Labor, the Farmer's Alliances, Populism, and organized social reform campaigns – all of which were formed as ways to help their members cope with the changes created by industrialization. Like the thrift movement these movements relied on grassroots organization and mutual assistance to achieve growth. Moreover, while material benefits were important, each group tried to achieve far-reaching and often idealistic social goals that would improve the nation as a whole. This combination of practical benefit and social uplift was a common trait in all these popular movements.[20]

The Knights of Labor was one of the first movements to gain national attention in the nineteenth century. Founded in 1869, the Knights objected to the control that monopolies and bankers exercised over the economy and sought to emancipate workers from wage "slavery." The Knights wanted to organize all workers regardless of skill in a "great brotherhood." These wage earners would in turn pool their resources into producers' cooperatives and use these groups to gain greater power and help them enter the capitalist class. The Knights had other goals for bettering the conditions of the working class, including an end to contract and child labor and the creation of the eight-hour day, which they argued were needed to give workers leisure time for improving their social lives. The Knights were an inclusive organization accepting workers of all skill levels and both sexes; blacks were included after 1883 (though in segregated locals). By 1886 the Knights had more than 700,000 members, but membership fell rapidly after the movement became associated with the deadly Haymarket Square Riot that year; by the end of the century it had vanished into obscurity.[21]

Another area where cooperative efforts were strong was among the farming communities of the Great Plains. Often isolated from their neighbors,

[20] Ellen Furlough and Carl Strikwerda, "Economics, Consumer Culture, and Gender: An Introduction to the Politics of Consumer Cooperation," in Ellen Furlough and Carl Strikwerda, editors, *Consumers Against Capitalism? Consumer Cooperation in Europe, North America, and Japan, 1840–1990* (Lanham, MD: Rowman & Littlefield, 1999), 6–27.

[21] Steven Leiken, "The Citizen Producer: The Rise and Fall of Working-Class Cooperatives in the United States," in Furlough and Strikwerda, *Consumers Against Capitalism?* 101–3; Leon Fink, *Workingmen's Democracy: The Knights of Labor and American Politics* (Urbana: University of Illinois Press, 1983), xii–xiv, 13–35.

farmers were at the mercy of railroads to send their crops to market and to big businesses for everyday goods. To increase their economic power, farmers formed cooperatives under the auspices of the Grange and Farmers' Alliance, which pooled the resources of growers into one entity and gave farmers greater leverage to negotiate prices with shippers. They also formed local cooperative stores to buy machines and other goods in large quantities and at lower costs. By 1890, the Farmers' Alliance claimed more than three million members, and in 1892 it expanded its activities into politics with the People's Party. Also known as the Populists, this grassroots political group advocated state ownership of railroads, a graduated income tax, lower tariffs, and easier access to money through the free coinage of silver and a "subtreasury" plan. Populism was successful at the state and local levels, and its ideas on government activism ultimately had important effects on both the Democratic and Republican parties.[22]

A third movement of the late nineteenth century was the rise of organized social reform groups led by religious leaders and women. Organizations such as the Young Women's Christian Association, the Woman's Christian Temperance Union, and Hull House focused on alleviating the economic and social problems experienced by the urban poor. Reformers preached a "social gospel," which maintained that in order for people to lead pure lives they had to have decent homes and opportunities to develop their talents. To create these opportunities, reformers organized vocational instruction programs, ran shelters and hospitals, and promoted physical fitness and temperance. They also advocated civil service reform, an end to child labor, and greater government regulation of big business. Much of this work was coordinated locally with women taking a leading role, and while the participants in these programs realized practical benefits the organizers also emphasized the moral effects of self-improvement.[23]

The Knights of Labor, the Farmers' Alliances, and to a lesser extent Populism and the social gospelers shared several important characteristics with thrifts that helped define them as movements. First, these were nonprofit groups that relied on mutual cooperation for their success. Second, they were primarily grassroots organizations that were easy to form. Third, they were often based on democratic principles, with the leaders usually coming from the membership. Fourth, these movements focused primarily on the least

[22] Norman Pollock, *The Populist Mind* (Indianapolis: Bobbs-Merrill, 1967), xli; Lawrence Goodwyn, *Democratic Promise: The Populist Movement in America* (New York: Oxford University Press, 1976), xi–xxiii; Michael Kazin, *The Populist Persuasion: An American History* (Ithaca, NY: Cornell University Press, 1998), 1–7; Robert C. McMath, Jr., *American Populism: A Social History, 1877–1898* (New York: Hill and Wang, 1993), 83–107.

[23] Samuel P. Hays, *The Response to Industrialism, 1885–1914* (Chicago: University of Chicago Press, 1995), 92–110; Kathleen Donohue, "From Cooperative Commonwealth to Cooperative Democracy: The American Cooperative Ideal, 1880–1940," in Furlough and Strikwerda, *Consumers Against Capitalism?* 115–30.