The Prolonged Resolution of Troubled Real Estate Lenders During the 1930s

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—Preliminary—

Abstract

Building and loan associations (B&Ls) in Newark, New Jersey collectively suffered a set of severe balance sheet shocks to their mortgage lending businesses during the Great Depression. Resolution was postponed as regulators were unwilling to take large-scale action, and as laws were revised to allow for indefinite withdrawal restrictions. Many associations were frozen for nearly a decade, suffering from illiquidity but reluctant to raise cash by selling assets at a loss. In the medium run, a market-based resolution mechanism developed in the form of a secondary market for B&L equity share liabilities. Shareholders barred from withdrawal incurred large losses on this market. At the same time, B&Ls used the market to avoid realizing some losses by exchanging foreclosed real estate for their second-hand share liabilities. More formal resolution ultimately took place from 1938 to 1943, first consisting heavily of closures, and then of reorganizations in 1942 and 1943. Reorganizations were spurred by a large scale federal intervention arranging for liquidity injection and liability insurance, and by higher real estate prices during the run up to World War II.

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1. Introduction

Building and loan associations (B&Ls) were the dominant institutional residential real estate lenders of the interwar period. This paper studies how one group of particularly troubled B&Ls, in Newark, New Jersey, responded to a set of shocks during the Great Depression, including damaged balance sheets, outdated institutional structures, and ultimately the loss of public confidence. The focus on B&Ls in the mid-Atlantic region is deliberate, as B&Ls were unusually numerous prior to the Depression in this region, with roughly 500 based in Newark alone, and the 1930s recovery of these institutions was remarkably prolonged compared to the national pattern (see Ewalt (1962) and Snowden (2001, 2003)).[1]

This paper has two parts. First, I describe the endogenous emergence of a secondary market for B&L liabilities in the mid-to-late 1930s. I analyze how it served as a market-based resolution mechanism for shareholders to exit from their associations and for management to dispose of real estate. The pattern of market prices appears to be consistent with a decade-long liquidity shortage created by an unwillingness by B&Ls to sell real estate at a loss to raise cash. Second, I describe the formal resolution process in the 1938-1943 period, which occurred at a significant lag relative to commercial banks and even most other B&Ls. The federal role was large, as the Reconstruction Finance Corporation provided new liquidity and the Federal Savings and Loan Insurance Corporation provided share insurance. However, many of the most insolvent associations simply liquidated instead of reorganizing.

These resolution strategies were made necessary by tragically poor credit quality and fragile contractual structures. Foreclosed real estate (all in New Jersey, by law) peaked at 56 percent of the Newark B&L assets in 1938, while northern New Jersey real estate prices suffered particularly large declines between 1930 and 1940. Nevertheless, New Jersey state regulators had neither the resources nor the desire to exercise anything but a fairly light hand throughout the 1930s. There is little evidence that the state ever considered large scale capital or liquidity injections, bad asset purchases, or some other form of systematic

[1] Of an estimated 12-13 thousand B&LS active across the country in 1930, more than 4,000 were located in Pennsylvania and about 1,500 in New Jersey. The activity in Maryland is not well documented as B&Ls were wholly unregulated in that state until the 1940s, but crude estimates suggest around 1,000 to 1,500 associations. The focus on New Jersey is due to its superior data, and the sub-focus on Newark is due to the rich history of the 499 B&Ls, most very small, that operated in that city. B&Ls in this region lagged the pattern of recovery typical for B&LS in most of the country, where closures and reorganizations were largely finished by 1939.

resolution. Indeed, no Newark B&L was considered systemically important. Until the strong federal intervention in the very late 1930s, Newark B&Ls in many senses exemplified the populist ideal of financial firms left to recover on their own, without state directed resolution or bail-outs. However, legal changes did short circuit some actions by B&L liability holders. New Jersey legislators and jurists shielded B&Ls from forced closure via liquidity problems, through the revision of state law and legal interpretations to allow B&Ls to more or less indefinitely restrict withdrawals.

Unsatisfied demands for withdrawals were a major headache for Newark B&Ls during the 1930s. These institutions' core liabilities were equity shares that involved commitments to invest additional funds over several years as a form of systemized thrift. Though this funding source ostensibly reduced maturity mismatch, the Depression prompted widespread moves by Newark's shareholders to access their savings by converting their shares into more liquid and safe assets. Many associations simply "froze," as managers were persistently unwilling to pay withdrawals by liquidating their real estate in a depressed market. Correspondingly, associations were unable to attract what would have been highly dubious new investments. Their illiquidity shackled them even as it protected their solvency, at least according to book value. Newark B&Ls lost public confidence as delayed withdrawals stretching into the late 1930s and early 1940s.

The frozen nature of some Depression B&Ls may be partly attributable to shortcomings in their underlying contractual framework, which emphasized mutuality but made no clear provision for resolution in the case of protracted disagreement. In particular, it appears that the liquidity of share investments had widely varying worth across different members. State law usually allowed majority rule, but lawsuits regarding reorganization and asset disposition nevertheless caused two or three year delays in some prominent cases, even though minority bloc shareholders rarely won those suits. As a result, the apparent reluctance of part-time, unpaid managers to realize losses may reflect an underlying paralysis brought on by *de facto* unanimous rule.

Such was the despair of Newark B&L shareholders that some resorted to selling their shares for 25-50 cents on the dollar of book value via a fairly well-organized secondary market. The endogenous development of this market is notable inasmuch as it was a market-based resolution mechanism, although ultimately an imperfect substitute for more formal resolutory actions. With data on these secondary market prices in 1939 and 1940 for about two-thirds of Newark's active B&Ls, I find the median trading price of a share to be about 40 percent of book value.

At these prices, when shareholders sold shares on the secondary market, they realized losses that associations were reluctant to realize. Buyers of discounted shares subsequently used those shares to purchase real estate from B&Ls at the nominal (much higher) par value of the shares. To a B&L, exchanging real estate for discounted shares at par value was equivalent to selling real estate for cash at a lower price, except that the cash sale resulted in losses for *all* shareholders, whereas the exchange for second-hand shares resulted in a loss only to the shareholder who had sold shares on the open market, and that loss occurred off book. The ability to effectively transfer some losses to the exiting shareholders appears to have been important to clearing the real estate market, as B&Ls were not generally otherwise willing to transact their real estate at prices necessary to clear the market.

The secondary market began to fade in the second half of 1930s as more formal resolutions picked up. By 1945, the 499 B&Ls that were active in Newark in 1930 had executed 239 voluntary liquidations, 50 bulk transfers of assets, 103 reorganizations, 41 state seizures, 27 mergers, and other more minor structural actions. The industry was reduced to 55 associations in 1945.

Broadly speaking, the major structural events came in two waves. The first wave, roughly 1938-1940, consisted most heavily of voluntary liquidations, bulk sales (more similar to liquidations than mergers), and state seizures. The associations exiting were largely the ones with the weakest balance sheets; they tended to have larger holdings of foreclosed real estate, to be less profitable, and to have relatively heavier discounts of their shares on the secondary market. These were hopeless cases that had delayed reckoning as long as they could.

Reorganizations were the most important development during the second wave of resolutions primarily in 1942 and 1943. After years of experimentation, Newark B&L managers were aided by Federal Home Loan Bank officials in coalescing around a reorganization strategy, ironed out sometime during 1939 and implemented on a wide scale soon thereafter.

The strategy involved spinning off bad assets (foreclosed real estate, delinquent loans) into separate entities, receiving a liquidity infusion from the Reconstruction Finance Corporation (secured by the bad assets) to satisfy immediate pent-up withdrawals upon reorganization, and qualifying for coverage by the Federal Savings and Loan Insurance Corporation. Federally insured associations formed the core of the post-war savings and loan industry in New Jersey, following the national thrift association pattern but at a lag. This reorganization strategy was able to provide the intangible asset of public confidence that Newark B&Ls had lost during the 1930s. The RFC money was critical to addressing the persistent maturity mismatch, and the war-time economic expansion also contributed to the liquidation.

The next section gives background on the real estate market in the 1930s and the experience of B&Ls, with particular focus on Newark. The paper then proceeds chronologically, focusing first on the secondary share market in Section 3, and then turning to the waves of liquidations and reorganization in Section 4. Section 5 concludes.

2. Background

2.1 General B&L background

Building and loan associations, the predecessors of savings and loan associations, were mutually owned thrift organizations that invested almost wholly in real estate assets.[2] Here I focus largely on the industry as it existed in New Jersey. There was a certain amount of diversity in B&L practices across the country, and so readers interested in a more thorough and geographically generalized discussion would find useful the information in Snowden (1997, 2001, 2003), Bodfish (1931, 1935), Bodfish and Theobald (1938), Clark and Chase (1925), and Ewalt (1962).

The 499 B&Ls in Newark at the end of 1930 were generally quite small, even relative to other community lending institutions. For example, the median number of borrowing members was 104, and ninety percent of the associations had fewer than 250 borrowing members. State law put some limit on B&L size with restrictions such as prohibitions

[2]The transition to *savings* and loan terminology occurred during the 1930s and 1940s. It was partly a re-branding, but it also reflected a set of institutional changes away from the more unsuccessful business practices central to the old B&L industry.

against branching, the use of agents, or the granting of mortgage loans on properties located outside of the state of New Jersey. These restrictions should not be overstated, though, because large associations did exist: the largest five associations in Newark had over 11,000 borrowing members combined in 1930, and the largest association in Newark, the West End B&L, usually ranked as about the fourth largest B&L in the country.

Snowden (1997) suggests that the small traditional size of B&Ls (not just in Newark but across the country) was a choice of the associations' management (e.g. local builders) who had little desire to manage associations larger than what was necessary to provide financing for their other businesses.[3] Altogether, though, the large number of associations in Newark, a city of about 400-450 thousand people at the time, was a bit unusual. This extreme preponderance of associations was a feature shared by neighboring cities in New Jersey, Pennsylvania, and Maryland. Roughly half of the country's estimated 12-13 thousand B&Ls were located in these three states. Free entry appears to have played a role in explaining the number of associations: the state regulator in New Jersey, for example, had no authority during the 1920s to deny a charter based on the saturation of a community by existing B&Ls, whereas such an assessment was required in the chartering of commercial and savings banks.[4] New mortgage lending in Newark was accomplished in the 1920s to a large extent by an increase in the extensive margin of the number of associations by 182.

Holdings of non-real estate assets were fairly negligible prior to the Depression, as shown by Table 1, which displays the aggregate balance sheet of Newark B&Ls in 1930 and 1937.[5] Newark B&Ls assets were heavily concentrated in residential real estate loans, but it should be noted that some also invested in commercial properties in the 1920s, particularly apart-

[3]Along these lines, Piquet (1930) tabulates the occupations of New Jersey B&L presidents and secretaries, and finds they were most commonly builders, realtors, and insurance brokers, as well as merchants, clerks, and accountants. In this sense, the growth of the B&L industry was a development endogenous to the relative immaturity of institutional mortgage markets in late 1800s and early 1900s. Snowden rejects an alternate hypothesis that the small size of most B&Ls was chosen in order to ease peer monitoring. Historically, during the late 19th century there was the so-called "National" movement of B&Ls consisting of larger and more geographically diverse associations. As Snowden (2003) demonstrates, this movement imploded in a large wave during the 1890s, and in the areas where they were located the growth of B&Ls was retarded into the 1920s.

[4]Entry was even more free in Maryland, which had no state regulation of B&Ls whatsoever until the 1940s.

[5]I use data from 1930 in this example because 1930 is the first year in which reserves and unapportioned profits are reported separately from apportioned profits.

ment buildings and some small business properties such as store-fronts or parking garages. This expansion into non owner occupied lending was criticized, at least in retrospect, but its extent is difficult to quantify as the published balance sheets do not separate out different types of mortgage collateral.[6]

The liability structure of Newark B&Ls is probably quite foreign to modern readers. Some states had introduced deposits or other deposit-like liabilities as legal funding mechanisms for B&Ls, but many states, including New Jersey, maintained the traditional equity dominated liability structure shown in Table 1. The resulting ownership structure was quite diffuse, motivated by mutual ideals. In the same spirit, management usually served part time and were often unpaid.

2.2 The Northern New Jersey Real Estate Market in the 1930s

The nation as a whole experienced a severe housing crisis in the early and mid 1930s. Unemployment reached catastrophic highs and contributed to the delinquency of large numbers of mortgage borrowers. For example, a study of 22 cities by the Department of Commerce found that, as of January 1, 1934, nearly 45 percent of mortgaged, urban, owner-occupied homes were in default.[7] Unemployment in Newark was still about 16 percent in 1940 according to the census, with another 4 percent of the labor force in emergency relief programs.

Property values plummeted along with prices in general, causing borrowers to lose large amounts of equity. The best available national price index for single family housing declined 24% between 1929 and 1933.[8] Alternatively, the decennial census shows that the median value of an owner-occupied house fell, by 1940, to 61 percent of its 1930 level, though this could reflect compositional changes. Newark's price declines were even more severe, with the

[6]Some measure is available in RFC loan files which are careful to characterize the collateral available. For example, at the West End B&L, the largest association in Newark, the majority of owned real estate parcels were traditional 1-4 family residential properties, but by value apartment buildings constituted about two-thirds of the available collateral. From a small sample of RFC loan files, apartment building loans and real estate appear to be more common at the larger associations, while the non-residential properties held by smaller associations were mixed use properties such as a store combined with a dwelling. At the Enterprise B&L which is discussed later in this paper, 15 of 18 real estate parcels were 1-4 family residences, and the other 3 were mixed-use properties.

[7]Via Wheelock (2008). The definition of default is not clearly articulated but likely it refers to some stage of delinquency.

[8]Source: Snowden, Kenneth A., "Single-family house price indexes and median asking price: 1890-1947." Table Dc826-828 in *Historical Statistics of the United States, Earliest Times to the Present: Millennial Edition*, edited by Susan B. Carter, Scott Sigmund Gartner, Michael R. Haines, Alan L. Olmstead, Richard Sutch, and Gavin Wright. New York: Cambridge University Press, 2006.

same median price falling to 52 percent of its 1930 level. Much of the decline likely occurred in the first few years of the decade, but even in 1939 an HOLC survey described real estate prices in Newark as "still shrinking from the high levels of the late 1920s."[9] In such an environment, foreclosures mounted, and correspondingly there were very large increases in holdings of foreclosed real estate at Newark B&Ls. Statistics collected by the Home Owners' Loan Corporation indicate that the flow of foreclosures in Newark did not materially decrease from their peak until 1937, and were still quite elevated in 1939. Prodigious quantities of institutionally owned real estate had a persistently depressive effect on prices in the market. In 1938, a federal agency noted that, in Northern New Jersey, "At least until such time as this liquidation by the B&L associations is farther advanced, there would appear to be little prospect of any improvement in prices; possibly even the contrary."[10]

New construction was depressed. According to the 1940 census, only 5 percent of Newark's dwelling units in 1940 were built during the 1930s, compared to 26 percent in the 1920s. This is notably worse than the country as a whole, in which about 16 percent of 1940 dwellings were built during the 1930s. Altogether, while it it is difficult to fully quantify, Newark's housing market appears to have had a particularly difficult recovery after 1933. Ongoing suburbanization out of Newark appears to have been a contributed to the weakness, and home-buyers in the 1930s were less interested in the old and large houses that were common in parts of Newark but becoming obsolete. High property taxes were a persistent burden as well, since Newark was in a severe fiscal crisis during the 1930s.[11]

2.3 1930s loan losses and liquidity problems

At the beginning of the 1930s, Newark B&Ls generally had little liquidity, small capacity to absorb losses, and their assets were wholly undiversified in real estate loans. This model had led the growth of the industry in the 1920s, yielding relatively high returns to shareholders which attracted further funds and new entry. In Essex County (containing Newark

[9]HOLC officials were in good position to observe these trends since they were in charge of selling their own foreclosed properties. Source: Field Report titled "Survey of Economic, Real Estate, and Mortgage Finance Conditions in Five Counties in Northern New Jersey," p. 11, September 30, 1939; Box 48, City Survey File; Records of the Home Owners' Loan Corporation, Record Group 195.3; National Archives II, College Park, MD.

[10]Report on Newark, NJ, p. E111; Box 4, City Survey Files; Records of the Home Owners' Loan Corporation, Record Group 195.3; National Archives II, College Park, MD.

[11]Beito (1989), p. 112.

and a few suburbs), total assets at B&Ls more than tripled from $145 million in 1922 to $549 million in 1929.

Low asset liquidity is appropriate only if liabilities cannot run off quickly. Ostensibly, this was the case, as New Jersey B&Ls were thrift institutions that were not designed to engage in maturity transformation: their main liabilities were equity shares purchased through installment savings contracts. In these "installment" shares, a shareholder committed to monthly payments, and their share(s) would mature when those payments, combined with apportioned profits (retained earnings), reached a prefixed maturity value, usually in about 11-12 years. However, shareholders retained the right to withdraw after at most 6 months, though at some sacrifice of claim to profits.[12] During boom times, satisfying withdrawals was easy with new share investments continually being received. The distinction between installment shares and deposits thus was blurred. Other funding was also obtained with "income" shares, which were similar to certificates of deposits, as the full maturity value of an income share was paid up front and cash dividends were then paid out instead of accumulated. B&Ls also levered up a bit with borrowed money from commercial banks.

Acquisitions of foreclosed real estate in Newark's severely depressed housing market compromised the shallow layer of incumbent liquidity.[13] Share withdrawals picked up as shareholders lost confidence in B&Ls and as they needed access to their savings during the Depression. A flurry of legislation and court decisions guarded New Jersey B&Ls from withdrawal demands, gutting the former six month limit. Two major changes in particular are worth highlighting. First, in mid-1932, the New Jersey Supreme Court ruled that even after six months, withdrawals could still be restricted, because withdrawing members would be violating B&L mutuality by decamping with a greater share of their associations' profits than would be left for the remaining members. The ruling considered withdrawal to be a statutory privilege accorded to members rather than a contractual right. Second, asserting "emergency" powers during 1933, a new law allowed the Commissioner of Banking and Insurance virtually complete discretion in restricting withdrawals. This authority was

[12]Those profits vested usually at 20 percent per year, so by 5 years there was no penalty for withdrawal.

[13]As an interesting historical note, Piquet (1930) states that the 1929 stock market crash led to a small crisis of confidence in New Jersey B&Ls, sparking withdrawals and freezing up some institutions. This episode would be in line with the idea that the stock market crash was important for the uncertainty it created.

repeatedly extended until September 1940, and though the original law and its extensions were challenged many times on constitutional grounds, the law was never struck down.[14]

Withdrawal restrictions lasted for years at many Newark B&Ls and were terrible for shareholder relations. Comprehensive data on withdrawal restrictions are not available, but reports and examples from the period abound. As late as 1939, a Federal Home Loan Bank Board report noted that the "majority of the associations are still on a restricted withdrawal basis."[15] In 1940 the Secretary of the New Jersey B&L League similarly stated that, prior to many reorganizations, "shareholders were being paid little or nothing, perhaps $25 a month as a necessitous case."[16] In 1940, the largest association in Newark, the West End, had "an unpaid withdrawal list reaching several millions which hadn't been materially reduced since about 1933." Prior to reorganization, "many of the shareholders thought that it was frozen tighter than any concrete that was ever poured."[17] The RFC, considering a loan to the West End for reorganization, noted that the West End's "frozen nature has caused many shareholders to withhold their monthly payments and not reinvest their maturities, as well as to react against new shareholder investments." Of five associations with RFC loan files between 1938 and 1941 that I have viewed, all were still restricting payment on withdrawals, and some on maturing shares.

In 1935, an HOLC report stated B&Ls had "completely destroyed public confidence by restrictions on withdrawals and recapture of dividends."[18] In 1939, the same characterization remained: "Building and loan associations in the Northern New Jersey Area, once having resources per capita ranking among the highest in the country, today, excepting a comparatively few, are in a generally frozen condition and lack public confidence."[19]

[14] Eventually this was modified to stipulated that, if in each month an association used one-third of its net receipts to pay maturities or add to maturity reserves and another one-third to pay withdrawals, then shareholders were categorically barred from suing that association to seek a withdrawal.

[15] Report titled "Comparison of HOLC activities and the building and loan situation with economic, real estate, and mortgage finance conditions in northern New Jersey," p. 5; Box 52, City Survey Files; Records of the Home Owners' Loan Corporation, Record Group 195.3; National Archives II, College Park, MD.

[16] *Building and Loan Guide and Bulletin*, July 1940, p. 56.

[17] *Building and Loan Guide and Bulletin*, February 1940, p. 49

[18] Field Report titled "Summary, Survey of Essex County New Jersey," p. 1, October 30, 1935; Box 48, City Survey File; Records of the Home Owners' Loan Corporation, Record Group 195.3; National Archives II, College Park, MD.

[19] Report titled "Comparison of HOLC activities and the building and loan situation with economic, real estate, and mortgage finance conditions in northern New Jersey," p. 5; Box 52, City Survey Files; Records of the Home Owners' Loan Corporation, Record Group 195.3; National Archives II, College Park, MD.

Foreclosed real estate was ultimately at the source of these issues. Newark B&Ls entered the Depression with loan loss reserves constituting less than 1 percent of liabilities. Augmenting their loss reserves naturally impacted shareholders' investments: the reserves were first taken from unapportioned profits, then by reclassifying previously apportioned profits (kept on books until shares matured), then from earnings.[20] Any reclassification of apportioned profits was subject to return to shareholders if reserves ultimately exceeded losses, which contributed to the unwillingness of B&L managers to actually tap the loss reserves by liquidating real estate at a loss. As an example, Table 7, discussed below, itemizes the loss reserves held by the Enterprise B&L in 1941; 40 percent of the loss reserves had been established by recapture of apportioned profits.

The reclassification of apportioned profits was a serious blow to borrowers as well. In the traditional "pledged share" B&L loan, a borrower accumulated shares just as an investor did; when the shares matured they would be used to extinguish the full principal debts. Admittedly, the mixing of a share contract on the liability side with a mortgage on the asset side is confusing. One way to think about this is to imagine a fully amortized mortgage in which a bank, rather than using the non-interest portion of the monthly payment to extinguish part of the principal debt, instead invested it in equity shares of the bank. The term of such a loan would not fixed but rather would depend on the profitability of the institution itself; highly profitable institutions would return greater profits, allowing shares to mature faster. The opposite can happen as well, though. When apportioned profits were taken back and new profits were limited if they existed at all, borrowers were forced to make payments for longer periods than they had anticipated. Some frustrated borrowers defaulted or moved their loans to other institutions, further depriving B&Ls of needed income.

By 1937 real estate constituted an incredible 54 percent of Newark B&L assets. It is important to note, though, that real estate was kept on books at the cost of acquisition. In the mid-1930s, while still building loss reserves, most B&Ls would likely have been immediately

[20] This reserve building was required by order of the state regulator and was probably the most significant state-level intervention. Of course, modern accounting rules would have required even larger provisioning at earlier dates. The set of policies governing reserve building were implemented as Orders 1 and 1A, on March 14, 1933, authorized by emergency legislation passed in the preceding days. These orders were modified by Orders 3 and 3A, dating to May 23, 1933. This laws was originally set to expire within one year, but was repeatedly renewed, with the last renewal that I can find preserving it until 1940.

insolvent if their real estate had been marked to market. Newark B&Ls faced the classic problem of disposing large amounts of foreclosed real estate in a severely depressed market. Without the discipline of meeting withdrawal demands, modern accounting standards, or an effective regulatory resolution regime, real estate liquidation and loss realization was repeatedly put off. As late as 1940, the President of the Federal Home Loan Bank of New York described Newark's B&L managers as hoping for a miracle:

> In far too many cases, the directorates of financial institutions substantially burdened with foreclosed real estate, rather than facing the facts and marketing their steadily depreciating properties at current values (writing off whatever loss may be necessary in the process) are, unconsciously perhaps, engaging in one of the biggest real estate speculations of all time. For in such cases managements are refusing to sell at current levels solely in the hope that at some future and undeterminable date they will be able to get higher prices."[21]

One B&L manager described some colleagues as "apparently waiting for the millennium to come before selling their properties. They have their eyes only on the cost."[22]Of course, in the new millennium, we have our own foreclosed real estate problems.

These delays in loss realizations helped lead to the creation of the secondary share market, in which shareholders realized losses that associations as a whole refused to. This market is examined in the next section.

3. Secondary market

The secondary market in B&L shares is significant as it allowed shareholders to realize losses that associations were themselves reluctant to realize. This in turn actually created an opportunity for B&Ls to sell their real estate in exchange for shares. B&Ls recorded their real estate assets at book value rather than market value. In that context, selling the real estate for shares was often more attractive than selling it for cash, since sales for shares had higher nominal prices (which mattered to the B&L), but lower effective prices (which

[21] George Bliss, *Newark Sunday Call*, 21 April 1940, part IV p. 10.
[22] *Building and Loan Guide and Bulletin*, August 1936, p. 25.

mattered to the purchaser). The result was that B&Ls avoided taking some losses on their real estate, as the shareholders selling their shares were realizing those losses.

To understand these mechanics better, in this section I first detail the market participants and the development of this market, and then turn to an analysis of the secondary market and its impacts.

3.1 Market Participants

By the late 1930s, it became common practice for B&L associations to sell their real estate in exchange for their own share liabilities.[23] Correspondingly, the demand side of the second-hand share market largely consisted of people purchasing shares in order to use them as a means of payment for real estate. Some demand for shares also came from mortgage borrowers who were able to pay some of their outstanding debts with shares in the association from which they had borrowed, but this type of exchange appears to have been clearly secondary in importance to the real estate transactions.[24]

The supply side participants were, naturally, those shareholders that wished to liquidate their shares immediately, at a loss.[25] Presumably, these shareholders were restricted from withdrawing their funds, as described in Section 2.

Two other sets of actors also operated in this market. Market functioning was aided by so-called speculators, who helped provide liquidity, and by brokers, who intermediated between buyers and sellers.[26] Not much can be said about the speculators, but regarding brokers there is evidence of a fairly competitive market; in 1939, at least 9 brokerage firms regularly advertised their services in the *Sunday Call*. Examples of such advertisements are reproduced in Figure 1.

3.2 Development of the market

The earliest hints of the B&L share market start in 1933, when the first advertisements for broker services appeared, such as in Figure 1. It was not until 1938 that the market appears

[23] Real estate sales were reported as "one of the most important factors" for the "increased activity" during 1939 in this share market.

[24] The *Sunday Call* describe these transactions as "not nearly as frequent as real estate sales" but nevertheless there was "little doubt that they have been a contributing factor in creating a market for shares of many associations" (9 July 9 1939, part III p. 6).

[25] For a contemporary description, see, for example, *Sunday Call* 5 January 1941, part V p. 3.

[26] The *Sunday Call* described speculators as key to maintaining liquidity for some shares with infrequent real estate sales (9 July 1939, part III p. 6).

to have really matured. In 1938, managers were still uncertain how their shareholders would react to the maturing market, and whether they would have even more difficulty recruiting additional shareholders if such prospective shareholders saw their shares trading for twenty five or fifty cents on the dollar.[27] Meanwhile, state regulators and leaders of the B&L movement saw the share market as an opportunity to liquidate the industry's real estate, and so consistently exhorted associations to exchange real estate for shares. These efforts succeeded. Over 1939, trading activity spread to the shares of more and more associations. By the end of 1939, most shareholders had become familiar with the market, how it worked, and why it existed.[28]

The market appears to have been at its most active from 1938 to 1940. Trading activity then declined in latter 1940 and especially 1941. These declines were generally attributed to years of real estate liquidation which left the stock of remaining properties reduced, and to a decline in the number of shares for sale at low prices, perhaps as the most desperate shareholders had by 1941 generally sold their shares.[29] Advertisements for broker services became more common in the late 1930s, peaking at about 9 or more in each issue of the *Sunday Call* in 1939. Advertisements then fell to three by 1941, two in 1943, and zero in 1946.

3.3 Analysis of the market

In January 1939, the median bid quote for the shares of active Newark B&Ls was 39 cents. Such a price would represent a large loss for any shareholder selling at the time. The source of the data is noted in the appendix and the data itself will be analyzed in greater detail below. For now, the median price is noted in order to gauge the scale of losses being realized by shareholders who sold their shares.

By realizing a loss via the secondary share market, a shareholder essentially created a surplus that was available to two parties: the other shareholders of their B&L, and the real estate purchasers. To appreciate the surplus created, imagine for demonstration's sake that

[27](*BLGB*, July 1938, p. 71)

[28]*Sunday Call*, 9 July 1939, part III page 6.

[29]*Sunday Call*, 4 January 1942, part IV p. 9. Along the same lines, in April 1941 a Federal Home Loan Bank Board document noted that "share sales are fast drying up due to absorption of cheap certificates." "Report on Newark, New Jersey" p. 7; April, 1941; Box 47, City Survey File; Records of the Home Owners' Loan Corporation, Record Group 195.3; National Archives II, College Park, MD).

a B&L had paid $400 to purchase, on the secondary market, its own shares with book value of $1,000. No B&L did this, but suppose that one did.[30] Liabilities would have decreased $600 more than assets, leaving a surplus of $600 to be distributed to the other shareholders. Suppose, for example, that the B&L had a paper loss of $600 on some piece of real estate that had not yet been realized. The B&L could use this transaction to increase loss reserves by that amount, as the loss was essentially covered by the exiting shareholder. The B&L itself therefore would avoid ever formally realizing the loss, something we know they were eager to avoid.

In reality, instead of B&Ls purchasing shares directly from shareholders, the real estate purchasers acted as intermediaries. Both the B&L and the real estate purchaser had some bargaining power, and so in any given sale of real estate sale in exchange for shares, they appear to have split the available surplus. The benefit to the real estate purchaser was via the price: while the nominal prices of the transactions did not go down (and actually appear to have been higher than in conventional sales), the effective prices did decline since shares were cheaply obtained. The benefit to the B&L was that by selling its property at a higher nominal price, it was able to retire more liabilities than it could have with a conventional sale. This is an interesting situation in which both the supply and demand sides to the real estate transactions benefitted by the use of shares; the key is that these benefits originated in the loss taken by the shareholder who sold shares.

As an example, suppose an association was willing to sell a piece of real estate for $1,000 in cash and a $5,200 mortgage, but a second offer was made for $800 in cash and $6,700 in shares. The second offer is attractive to the demand side participant, since the shares were more than likely obtained for half price or less—about $3,350. The second offer is also attractive to the B&L on the supply side, since, with a nominal price of $1,300 more than the first offer, fewer losses would have to be realized by the B&L's remaining shareholders.

The above example is an actual case study discussed at length in at a conference of B&L managers in mid-1938. To this particular B&L, the managers of which were still learning about the share market, neither offer clearly dominated the other, even though the second

[30] As far as I can tell, this would not have been legal in New Jersey. Even if it was legal, though, B&Ls with secondary market activity in their shares probably did not have the cash for such purchases, and shareholders would likely have reacted negatively if available cash had been used to this end.

offer had a much higher nominal price. As the market matured, though, the value of these share transactions became more apparent. The historical record generally supports a pattern in which B&Ls sold their real estate for higher nominal prices when shares were part of the payment.

An even more lopsided example fits the same pattern. A B&L manager described how his association had acquired a property valued at $10,000, expected a loss on the property, and had two offers for its sale. The first was for $8,500 in cash and a mortgage, the second for $6,000 in cash and $5,000 in shares. The second offer actually gave the association the rare opportunity to record a gain on a piece of foreclosed real estate, and still involved a smaller outlay to the purchaser than the conventional offer.[31]

As in the preceding examples, payment for real estate typically consisted of some combination of a cash down payment combined with a mortgage or with shares.[32] If the shares were part of the transaction, they would be applied to the nominal transaction price at book value, and subsequently cancelled as liabilities. Associations considered both types of offers.

Since shares were cheaply obtained and could be used at face value in real estate transactions, B&L properties came to be seen as relatively cheap compared to other New Jersey real estate. The New Jersey state regulator, for example, described the competitive environment in this manner:

> A considerable volume of sales is resulting from the use of shares in exchange for real estate. Many associations are able to secure a competitive advantage in the real estate market by this means and have thus been able to create a real estate activity which otherwise would not have existed. This has resulted in returning a considerable amount of property back to private owners thus reducing the overhang of institutionally owned real estate.[33]

[31] *Building and Loan Guide and Bulletin*, June 1939, p. 58.

[32] Some sources from the period note that these transactions were subject to the approval of the state regulator. However, the reality was that *every* real estate transaction required the approval of the state regulator – with one major caveat. The caveat is that if associations adopted a real estate classification plan which gave each parcel a grade from A to D, they were able to unload the "C"s and "D"s without seeking regulatory approval. It appears that regulatory approval was either easily obtained or that associations made use of this classification scheme, since the market for shares was so widespread. See *Building and Loan Guide and Bulletin*, June 1939, p. 56.

[33] *Building and Loan Guide and Bulletin*, December 1938, p. 30.

This quote helps articulate the sense in which the secondary share market helped associations liquidate real estate. Share sales only "created" these transactions if associations suffered from downward nominal price rigidity. By 1938, the real estate market was not as dysfunctional as it was in 1933; at a low enough price, a B&L would have been able to sell its real estate for cash and a mortgage, albeit at a realized loss. The quote indicates, though, that without the share market, Newark's B&Ls were not willing to lower their prices enough to entice such conventional offers. As a result, the share market was credited for "creating" real estate transactions.[34]

Consistent with this interpretation, some observers criticized B&Ls for these sales' negative effect on market prices:

> Building and loan associations as a whole are being charged with 'dumping' of acquired properties due to their acceptance of shares at par toward purchase price of real estate, when such shares could be purchased at substantial discounts.... It is open to question whether it is really dumping or whether it is not merely finding levels at which business can be done.[35]

Other HOLC documents note that the HOLC was at a competitive disadvantage against B&Ls because of the low effective prices via the use of shares. The HOLC was very much in a position to know this, since it had large amounts of its owned foreclosed real estate awaiting liquidation.

The key takeaway here is what these sales tell us about the B&L liquidation process. We know that Newark B&Ls were very reluctant to sell their real estate at a loss compared to book value, and yet this quote describes them as gaining competitive advantage by selling for very low prices. This apparent contradiction is resolved by the fact that the nominal prices were not necessarily low, it was only the effective prices that were low, once the cheapness of shares was taken into account.

[34] As a side note, the discussion highlights the difficulty of defining a singularly meaningful market price of real estate in a depressed market. Given two offers with the same nominal prices, B&Ls valued the offer with shares differently than the offer without shares. Likewise, given the same two offers, the actual cost to the purchaser changed when shares were involved.

[35] Field Report titled "Survey of Economic, Real Estate, and Mortgage Finance Conditions in Five Counties in Northern New Jersey," p. 15, September 30, 1939; Box 48, City Survey File; Records of the Home Owners' Loan Corporation, Record Group 195.3; National Archives II, College Park, MD.

After all, if a majority or more of a B&L's shareholders were very interested in liquidating the association's real estate, no special share market was really necessary. A simple vote could have been held and the B&L would have entered liquidation. If we can assume that a majority of shareholders did not think near-term liquidation was the best option—driving the minority to sell their shares on the secondary share market—the B&L still didn't have to sell its real estate in exchange for shares. The incentive to participate was based on the higher nominal prices available to it via share sales, and the incentive was apparently quite strong in practice.

In some sense, B&Ls' remaining shareholders gained at the expense of the shareholders that sold their shares. While the second-hand share sales were voluntary and presumably Pareto improving, by selling the shares, the shareholders were realizing losses that their B&Ls refused to realize. B&Ls therefore used the share market to push an extra portion of their real estate losses onto the set of shareholders who had sold their shares, rather than distributing those losses equally across all shareholders. This could be interpreted as compensating the rest of the association for the cost of early withdrawals, but this is less compelling considering that withdrawal restrictions were often still in place in 1939 or 1940. In that interpretation, though, the share market would be establishing a price of liquidity, which many years of history have shown can be mispriced during financial crises. Alternatively, B&L managers may have just preferred that their paper losses be realized not by the association but by shareholders on the open market.

As a final note, there is some further evidence that the secondary market was, to a degree, a substitute for more formal resolution. After associations exited, trading in their shares reportedly fell, but was not eliminated. Trading was noted as sometimes occurring in the shares both of associations in liquidation and of the various "bad bank" entities that held defaulted mortgages and real estate loans spun off during reorganizations.[36] For example, in this data set spanning prices in 1939 and 1940, there were 95 associations that exited during those years and that had quotes available before their exits. After their exits, prices were only quoted for 50, a bit more than half. In contrast, of the associations with share prices available and that survived to the end of 1940, about 85 percent continued to have prices

[36] See a discussion in the *Sunday Call*, 4 January 1942, part IV, p. 9.

quoted up until the end of 1940.

3.4 Basic characteristics of share prices

As of this draft, the data are available from January 1939 to December 1940. Prices may be available in 1938 but as of this draft I have not been able to obtain those editions. This period from 1938 to 1940 is roughly the period when historical sources indicate trading volume was at its most active. The quotes were published weekly, but the short term changes are muted since the prices for most shares do not change more than a few cents over the two year period. Of the 384 associations still active at the beginning of 1939, 60 percent have quotes available. Figure 2 contains a reproduction of one of the share price listings.

I am aware of two other secondary share markets in this period which help benchmark the Newark experience. Kendall (1962) briefly notes that some cities developed markets for B&L shares, and specifically mentions Milwaukee, Wisconsin, reproducing an offering sheet from a brokerage in that city containing approximate market prices for the shares of 96 associations. The average bid quote among those associations was about 67 cents on the dollar—a substantial loss to the shareholder, but materially smaller than the average loss to a Newark shareholder. As another example, Rockoff (1993) mentions that a secondary market for B&L shares existed in Youngstown, Ohio, as well. A short search uncovers share price quotes in a Youngstown newspaper from 1933 to 1936; the median bid for 7 institutions was 49 cents on the dollar, closer to but still above the median Newark price.

The short term ability of B&Ls to pay maturities and withdrawals appears to be quite important for share prices. Ideally, this ability would be measured by the size of a B&L's withdrawal list or the expected duration of a withdrawal request, but no such data are extant on a comprehensive basis. The best proxy is the extent of apportioned profits, measured as apportioned profits per share. By 1938, higher levels of apportioned profits characterized associations that were more able to return profits to shareholders and honor maturities and withdrawals, rather than continue building more loss reserves.[37] Figure 4 plots share prices in early 1939 against apportioned profits per share at the end of 1938, showing a very clear correlation.

[37] Recall that apportioned profits are dividends applied to installment shares but not distributed until those shares reach maturity value. Such apportionment was constrained during the mid 1930s as associations were forced to build loss reserves, and some apportionments were also rescinded.

Other variables demonstrate pairwise correlation with the share prices, but the predictive ability of apportioned profits tends to dominate that of most other variables. To demonstrate this a bit more formally, Table 3 reports the results of a simple OLS regression of the share price on several characteristics of each B&L. These variables essentially exhaust all available balance sheet information. Liability side characteristics include apportioned profits for share, a dummy indicating if apportioned profits were zero, the extent reliance on pre-paid income shares (a "hot" funding source), the extent of borrowed money, and the extent of reserves. Asset side characteristics include the portions of assets held in each of real estate, arrears, and liquid assets, the log of total assets, and the share of mortgages that are unpledged, a measure of transition away from the old B&L mortgage with pledged shares. Lagged values of some of these liability and asset characteristics, from 1930, are also included. Finally, the year of establishment is included, as are dummy variables for whether the B&L received an RFC loan before 1935, whether it was a member of the FHLB, and whether it operated on the optional or non-serial plans (with the serial plan associations as the excluded group).[38] Summary statistics for these variables are given in Table 2.

The apportioned profits variables dominate the results, as noted above. The magnitude is about a 3 cent change in the share price for a once standard deviation changed in apportioned profits, along with an additional 3 cent drop in the presence of zero apportioned profits. The simple regression of share prices on the two apportioned profits variables itself has an R-squared of 33 percent. When all of the characteristics are included, few beyond the apportioned profits variables have much predictive power. In particular, asset liquidity shows little predictive power in Table 3, even though this would seem naturally related to the ability to pay withdrawals. However, when the quadratic of the asset liquidity term is included (not shown), a pattern does emerge, in which B&Ls with near zero liquid assets had lower share prices on the order of about 1 to 2 cents, while the relationship fades for moderate and higher levels of liquidity.

In terms of asset quality, it is worth noting that large amounts of arrears were associated

[38] Serial plan associations were the most traditional form, with new share contracts only opening up at specified points in time, such as once a quarter. Non-serial plans also used share contracts but allowed them to be opened at any time. Optional plan associations did not use share contracts in the sense of requiring a monthly deposit, rather the payments were optional.

with lower share prices, although the magnitude is a moderate 1.5 cent change in the share price for a one standard deviation change in arrears over assets. The importance of arrears likely relates to its forecasting ability over future deterioration of the association. B&Ls with large arrears would be required to continue building reserves as the delinquent loans are converted into foreclosed real estate, representing continued strains on an association's balance sheet.

The fact that current real estate holdings (as opposed to future holdings as represented by arrears) do not have any conditional statistical relationship with share prices is notable. Foreclosed real estate was fundamentally at the root of B&L problems, and could be correlated with the probability of insolvency which could conceivably affect share prices, but in practice the apportioned profits variables tend to wipe out any independent predictive power of the real estate variable. The result is not dependent on the linearity imposed in Table 3, as more flexible quadratic and cubic specifications also have little predictive power (not shown). To understand this, consider three B&Ls that experimented with real estate segregation in 1933 (discussed more in the next section regarding reorganization). Each had zero real estate in 1938 and very small amounts of arrears since those assets had been placed in a separate trust account with shareholder receiving certificates of participation in that trust. The real estate segregation by itself did little to solve liquidity issues, as the share prices of these associations were still trading between 37 and 53 cents on the dollar in 1939. This anticipates one of the key features of most of the successful reorganizations, cash loans secured by real estate which were then used to pay withdrawals that had been restricted since 1933.

4. Formal resolution in the late 1930s and early 1940s

At the end of 1930, 499 associations were operating in Newark. By the end of 1944, 55 associations were still active in the city; 37 associations avoided any major structural action, and the other 18 associations were all that were left of the 462 that had undergone some major structural event, including liquidation, state action, reorganization, and merger. Table 4 tabulates the exit process by year and type of exit.

This section examines these events, grouping them into two large waves. Relatively few structural events occurred in the early and mid 1930s, especially on a per-year basis. Rather, the first large wave of resolution actions started in 1937 or 1938, and consisted mainly of closures of the most heavily burdened institutions. The second wave, particularly in 1942 and 1943, was dominated more heavily by reorganizations, made possible by a large-scale federal intervention.

4.1 First wave of exit: liquidations and other closures

In the first wave of exits, primarily during 1938, 1939, and 1940, exits were dominated by liquidations and appear to have been driven by severe balance sheet distress, and pressure from depositors for withdrawals as measured by share prices in the secondary market. Of 428 B&Ls that existed at the end of 1937, 155 voluntarily liquidated or were taken over by the state, while only 31 engaged in some form of reorganization.

Voluntary liquidation closed a B&L to new capital and asset investments, but liquidation itself often took years as real estate was gradually sold off. A bulk transfer involved an association selling all of its sounds assets to one of the reorganized and insured associations, shareholders receiving an immediate cash dividend, and then the remaining bad assets being gradually liquidated. Both voluntary liquidations and bulk transfers were exercised by B&Ls whose shareholders did not wish to have any interest in ongoing associations, or did not have enough good assets for reorganization to be a viable option, or that exited before reorganization became practical as will be discussed below. Discussions among B&L leaders in the late 1930s makes clear that a bulk transfer was considered a close substitute to voluntary liquidation. Voluntary liquidation was more common, particularly before 1940, partly since at that point there were only a few reorganized associations capable of purchasing assets in a bulk transfer (and willing to do so).

Actions by the state regulator, the Department of Banking and Insurance, were less common than liquidations. Once withdrawal restrictions were put in place in 1933, illiquidity was ruled out for years as grounds for the Department to seize an association. Otherwise, officials in the Department appear to have been more willing to seize associations if the managers were incompetent than if the associations were insolvent. In a remarkable statement, Deputy Commissioner (in charge of B&Ls) J. McNish declared in 1932:

> [T]his question is asked, “How many building and loan associations in the State

> of New Jersey have failed during these last twelve months?" We say, "Zero!" (Applause) Our policy at the present moment points to one and one goal only, and that is this: That there shall be no fatalities among the building and loan associations of this State...[39]

Instead, B&Ls were left to build capital by slowly retaining earnings and taking back apportioned profits.

The Department had only 74 total B&L examiners on staff in 1930 to cover the 1,500 associations in the state. A revolving door was in operation among the top officials, as, for example, McNish's successor left to become president of the West End B&L (Newark's largest) in 1939. Furthermore, the Department of Banking and Insurance opposed actions by others, particularly shareholders, to force B&Ls into receivership or other closure. Shareholders of the Warranty B&L tried (and failed) to force it into federal receivership, and the state Department argued against the move in court. Similarly, the Department helped defend the authority to restrict withdrawals.

After 20 B&Ls were closed by the state in the early 1930s, 1 more was seized in 1938, and then 20 more in one day in April, 1940. The last batch was a long overdue effort to spur deeply frozen associations into formal liquidation. The Commissioner of Banking and Insurance stated the rationale: "The problem associations, for the most part, remained apathetic... As time went on, it became increasingly evident that in the absence of any voluntary correction or dissolution by a substantial number of these associations, the department would be obliged to take action."[40] These moves may help explain the increase in voluntary liquidations later that year. Even these small number of actions at the late date of 1940 met with criticism from the state legislature, which opened an investigation into the Department.

To understand which characteristics were associated with the closures from 1938 to 1940, I use a probit framework in which the dependent variable is a dummy for closure, defined as voluntary liquidation, bulk transfer, or state seizure. The set of characteristics is the same set as used in section 3.4, with the addition of each association's share price.

The marginal effects and standard errors are reported in Table 5. I first report results

[39] *Building and Loan Guide and Bulletin*, January 1932, p. 32.
[40] *Building and Loan Guide and Bulletin*, July 1940, p. 25.

using data from 1937, predicting closure from 1938 to 1940 in the 1st column, and then using data from 1939 predicting closure in 1940 in the 2nd column. The 1939 data are helpful because, among other reasons, the data on share prices are first available in 1939. Since share prices are not available for every association and selection may be an issue, the 3rd and 4th columns report results using the subset of associations with share prices, first including share prices as an explanatory variable, and second not including it.

The results are generally unsurprising insofar as they indicate that important measures of balance sheet distress predict closures in this period. These results will contrast, though, with those in the next subsection in which reorganizations in 1942 and 1943 are studied instead of these closures.

In terms of credit quality, associations with relatively large amounts of real estate or arrears were strongly more likely to close in these years. A 10 percentage point increase in real estate over assets in 1939 increases the probability of closure in 1940 by 8 percentage points, and the magnitude of the effect of arrears is slightly larger. At the extreme, at the end of 1939 there were 17 associations that had more than 75 percent of their assets in real estate, and 14 of those closed the following year.

Share prices have strong predictive power over closures as well, and when included the magnitude of the coefficient on arrears declines moderately. Associations with lower share prices were strongly more likely to close in 1940. The magnitude is roughly that every 2 cent reduction in share price is associated with a 1 percentage point increase in the probability of closure. Interpreting this relationship is not necessarily straightforward. Associations with very low share prices could have had shareholders clamoring for serious action such as liquidation. However, share prices are still observed for some institutions after their closures in this period, and the prices rarely changed afterward. This indicates that the incentives of shareholders to seek liquidation to satisfy their withdrawal requests were limited, as liquidation was still protracted. Another possibility is that share prices capture a range of other unobserved characteristics that are related to viability

As a check that the regulatory seizures are not completely driving the results, the fifth column replicates the analysis of the third column but excludes associations that were seized by the state regulators. The only noticeable differences are that magnitude of the coefficient on real estate decreases moderately, and the coefficient on arrears drops to nearly zero. Otherwise the results are fairly similar, particularly with respect to the share prices and the dummy for zero apportioned profits. A look at the data confirms that the associations seized by regulators were those at the very upper end of the distribution of real estate burdens. This indicates that the voluntary liquidations and bulk transfers were less a direct function of real estate burdens and more a proximate function of viability in the sense of the ability to return profits to shareholders and to allow them to sell their shares at less sacrificial prices.

Finally, the sixth column examines closures in 1941. It is striking how different the characteristics are that predict the 1941 closures, and this anticipates some of the results in the next section. Credit quality, share prices, and profitability all have little predictive power. Instead, the liquidations are generally more difficult to predict. Liquidity of assets is important, reflecting the ability to make a short-term payout during liquidation, and to some extent associations with more old style mortgages were more likely to liquidate, suggesting they weren't embracing the new world of mortgage lending.

Two developments may help explain the 1941 closures. First, the build-up to World War II changed the return to liquidation, making it more attractive to all associations. A special report written by HOLC officials in August 1941 noted the remarkable changes in conditions:

> In the four month period, since the rendering of the original report covering Newark, conditions have changed materially... The combination of [defense orders and war contracts] has greatly stimulated employment and brought many new residents to Newark. This has had a noticeable effect upon occupancy, rents, and the sales market.

These sentiments were echoed at around the same time in all of the key primary sources, including the *Sunday Call* and the *Building and Loan Guide and Bulletin.* The second development is the impending reorganization program. Many of the associations that reorganized in 1942 began preparations in 1941, for example by applying for loans from the RFC. Had economic conditions not changed and had the reorganization program not developed, the fate of those associations would surely have been different.

4.2 Second wave of exit: reorganizations

In the second wave of structural events at Newark B&Ls, primarily during 1942 and 1943, reorganizations became a much more dominant trend. Of the 201 associations still active at the beginning of 1941, 145 either closed or reorganized during the subsequent two years. As a result, generally speaking, the choice for these associations was not whether to have a major structural event, but whether that event would be a complete exit or some form of reorganization.

By about 1940, the strategy for reorganization coalesced into a set of procedures with three main features:

1. An association's assets were split in two, with the good assets placed in a new association and the bad assets placed into an association whose only purpose was liquidation, i.e. a "bad bank" in modern vernacular. This usually involved some form of consolidation of multiple associations in order to ensure the new association was large enough to be viable. Shareholders would be issued participation certificates in the liquidating corporation and shares in the new association which together would have face value equal to the old shares.[41]

2. Most of the new associations required infusions of liquidity in order to meet pent-up demand for payments on withdrawals or matured shares. This liquidity came in the form of a loan from the Reconstruction Finance Corporation (RFC), or possibly an investment in shares by the Home Owners' Loan Corporation (HOLC). The RFC loan was secured first by the real estate held in the liquidating association and second by a general lien on all of [both] associations assets; the RFC cash would be placed in the new association.

3. The new association qualifies for insurance from the Federal Savings and Loan Insurance Corporation.

Altogether, 103 associations went through reorganization, though not all using the above set of procedures. Those procedures were not fully formulated until 1939, and they were implemented most heavily in 1942 and 1943, with 68 associations reorganizing in those

[41] Associations also had the option of writing down shareholder's capital during the reorganization. It is unclear how many or if any associations in Newark exercised the option

years. The hiatus during 1940 and 1941 was largely due to demands by the federal agencies involved that any further reorganizations be part of a comprehensive program for the closure or rehabilitation of *all* troubled B&Ls in Newark, a large task which required careful planning and some legislative accommodation.[42] Newark was joined by several other cities in requiring this "community program." Similar community programs were conducted in Philadelphia, New Orleans, Milwaukee, Baltimore, Chicago, and Altoona, PA.[43] Uniquely dysfunctional was the state of New Jersey, though, with 20 separate community programs of its own.[44]

According to data on RFC activities available at the National Archives, the large majority of loans were approved in 1941 and 1942 and dispensed in the subsequent year. The records indicate 59 loans were approved by the RFC to Newark B&Ls between 1938 and 1943, totaling $13.7 million. In comparison, all Newark B&Ls had $51 million in assets at the end of 1943.

The core of the post-war savings and loan industry in Newark belonged to 14 consolidated associations that emerged from this reorganization process. All but 2 were formed by associations that were approved for loans by the RFC. After resisting this outcome for nearly a decade, the core of Newark's thrift industry now offered accounts that were insured by the Federal Savings and Loan Insurance Corporation, were free of the burden of foreclosed real estate, and were relatively large, professionally managed, with permanent offices. In 1950, when the troubles of the 1930s were finally just memories, the 14 reorganized associations held 92 percent of Newark B&L assets. In comparison, the 103 associations that, through reorganizations and asset transfers, were consolidated into these 14 had controlled only 42 percent of Newark B&L assets in 1930.

Asset segregation and liquidity infusions were both critical. Table 7 helps to elucidate this, by showing the reorganization plan of the Enterprise B&L. According to RFC loan files,

[42] The FSLIC also insisted on having the ability to be a joint receiver with the state regulator in case of an insured association's failure, and the FHLB insisted on having a law allowing for easier conversion into federal charters. Both of these required legislative fixes, and those actions are actually somewhat remarkable given the extreme resistance to the federal program demonstrated in New Jersey during the 1930s.

[43] These programs were partly done for the sake of the industry itself. Federal officials, however, emphasized their necessity so that the reorganized and insured institutions would not be put at risk by the continued presence of frozen institutions. See the annual reports of the Federal Home Loan Bank Board in 1938-9 (p. 107), 1939-40 (also p. 107), and 1940-41 (p. 120).

[44] See *Federal Home Loan Bank Review*, November 1943, p. 33.

Enterprise sent 80 percent of its assets to the liquidating association. Altogether, Enterprise did not have a very large core business worth preserving, which is why 10 other Newark associations simultaneously reorganized with Enterprise in the same manner, forming the Penn Savings and Loan Association.

With a large RFC loan to fund Enterprise's liquidating association, 70 percent of the share liabilities were put in the new association (a bit more than typical). B&L managers learned to expect withdrawals of about 30 percent of new associations' share liabilities in the first few months, which would be met with the RFC cash.[45] Indeed, the RFC loan file notes that Enterprise's withdrawals were still restricted, and outstanding withdrawal requests totalled about 12 percent of share capital in 1941. In addition, while Enterprise's reserves were quite large relative to real estate, 40 percent of those reserves had been created in 1933 by recapture of profits, and so were specially earmarked for return to shareholders if managers could avoid tapping them.

Without the RFC loan, Enterprise would not have been well positioned to solve its withdrawal problem. As an illustration, there were 15 Newark associations that experimented with asset segregation in 1933, but the 3 consolidated associations that resulted had difficulty gaining traction because their liquidity positions were essentially unchanged.[46] Their balance sheets indicate they were chronically short on liquid assets post reorganization; two of three never had more than 2.5 percent of their assets in cash or securities. Two eventually voluntarily liquidated, and the third liquidated via bulk transfer of assets to one of the new federally insured associations. As noted in the previous section, their shares were still traded in the secondary market in 1939, at around 50 cents on the dollar. With this experience in mind, after the first version of the new reorganization strategy was presented at the state B&L convention in 1937, the most important question involved liquidity:

> "What of these liabilities which are our real headaches, our unpaid maturity list?

[45] *Building and Loan Guide and Bulletin*, Februrary 1940, p. 15.

[46] Authority for asset segregation was always implicitly available, and was made explicit in two pieces of state legislation in the early 1930s, and then in a 1937 reorganization act, and again modified in 1939 and later. The method of segregation used in 1933 was slightly more cumbersome, as these associations were required to set up trust entities, which were liquidated by special trustees under the supervision of the state regulator. Nevertheless the mechanics were essentially identical and it is difficult to believe that the distinction between trust accounts and liquidating corporations can alone explain the long delay in asset segregation.

> ... Where do we get the money to pay off the withdrawals and the maturities? How can we continue as a going concern, simply by the bookkeeping operation of transferring some bad assets from one association to another, or from one account to another in the same association?"[47]

Asset segregation was not a panacea, but it did accomplished at least two things. First, it clarified to existing shareholders the extent of their maximum potential exposure to losses on the bad assets. Second, and probably more importantly, it allowed new investors to have their capital invested wholly in good assets. It had been difficult to attract new capital into a B&L that had, say, 50 percent real estate on its books, since that capital's return would be lower than the return on the new mortgage investments it allowed.

To conclude this section, it is informative to repeat the type of analysis used in the previous section with a probit framework in which the dependent variable is a dummy for reorganization after 1941. The set of right hand side variables is the same. The results are reported in Table 6. The estimation reported in the first column includes all associations active at the end of 1941, while the second includes just those that closed or reorganized, setting aside those that survived.

Naturally, associations reorganizing had large amounts of real estate, but it is interesting that they had even larger amounts than associations that liquidated during the same time period. One way to think about this is that, by the end of 1941, the associations with large amounts of real estate that had not yet liquidated were clearly looking for some way to avoid that fate. After all, the large majority of associations either closed or reorganized after 1941, so the decision for most was not whether to take some major action but the form of that action.

Larger associations were more likely to reorganize. As troubled as some of the larger associations were, their size ensured that they still had enough "good" assets to form the core of a new association. Smaller associations that reorganized tended to do so while merging their good assets with many other associations. Reorganizing associations also had converted almost all of their mortgages away from pledge mortgages into direct reduction mortgages, a sign that they were taking steps to embrace the modern mortgage industry.

[47] *Building and Loan Guide and Bulletin*, August 1937, p. 15.

5. Lessons and Conclusions

Today, we are again learning over time that mortgage crises can have legacies that live with lenders and the housing market for years after the peak of the crisis. For example, the resolution of representation and warranty issues related to securitization transactions continue to weigh on mortgage lenders today. This is a very different type of unresolved pressure than the pressure affecting Newark B&Ls in the 1930s, but both problems arguably stem from contractual agreements made during boom times that proved difficult to work through during post-crisis macroeconomic environments. B&Ls effectively made representations during the 1920s that no institution would have made with perfect foresight: they promised that shareholders would be able to withdraw their funds virtually on demand, and suggested that mortgage borrowers would be able to repay their loans in 11-12 years with a share installment contract. Similarly, modern mortgage lenders made representations and warranties that, if the mortgages had not defaulted, there would have been less incentive for investors to later challenge those promises. The problem in each case is not necessarily the promise itself but rather the lack of clear provision for what to do when the promise breaks down. In other words, incomplete contracts generally left lawsuits as the only remediating mechanism for B&L shareholders in the 1930s and for mortgage backed security investors in the 2000s.

These incomplete contracts contributed to the frozen nature of Newark B&Ls in the 1930s and complicated their resolution. Consider, for example, the question of whether New Jersey B&L regulators should simply have seized the large majority of Newark B&Ls by 1935 on grounds of illiquidity, insolvency, or poor management. Modern accounting and regulatory standards likely would have required just that, short of a plan for large state-led recapitalization, which was a non-starter for the entire decade. Of course, closing Newark's B&Ls would have effectively annihilated a large part of Newark's mortgage lending industry. More to the point of the previous paragraph, in a world without federal share insurance, shareholders would still have not received any of their funds unless the state was prepared to cut a very large check (at a time when finances were quite strained and writing a check for recapitalization had already been rejected) or to immediately liquidate real estate and mortgages. If the latter, the state would have been responsible for dumping an enormous quantity of real estate on a deeply dysfunctional real estate market. If instead the state had slowly liquidated the real estate, while also only slowly paying shareholders, this would have mimicked several aspects of the actual course of history.

Resolution was postponed as B&Ls exploited the gray area between illiquidity and insolvency. After a large balance sheet shock, insolvency was given a temporal dimension, as the persistent reality of lower real estate prices was downplayed. The time horizon of a B&L as a whole did not always reflect the short-term needs of some shareholders to access their savings during the Depression. The secondary share market reflects this most starkly; illiquidity only protected the solvency of those with long time horizons, while those shareholders who sold their shares realized the steep losses others would not. From this perspective, the RFC intervention is notable by finally matching a patient funding source to the real estate assets and by creating a substantial amount of new liquidity for the first time in a decade.

The slow resolution of these institutions relates to a literature, traditionally in the context of commercial banks, regarding depositors' access to funds during downturns (Anari, Kolari, and Mason (2005), Rockoff (1993), Kaugman and Seelig (2002)). Of course, B&L liabilities have not historically been considered part of the core money aggregates, though the inability to access B&L investments would seem to have macroeconomic effects in the same direction. The exchange of real estate for second-hand shares may be difficult to replicate in the commercial banking world, as commercial banks must necessarily pay deposits at par, except when in receivership.

The federal government's role stands out as particularly helpful in resolving Newark B&Ls' issues. In fact, this paper adds a new dimension to the set of federal programs described by Snowden (2001) as transforming the thrift industry during the 1930s. Snowden shows that, nationally, the future of the thrift industry lay in the federally created paradigm, consisting of FHA-insured direct reduction mortgage loans made by federally-chartered associations (or at least FHLB member associations) with share insurance from the FSLIC—all innovations of the 1930s. New Jersey thrift leaders at first rejected each of these innovations. In 1945 there were still no federally chartered S&Ls in Newark. By that time, though, B&L managers and shareholders had capitulated to the comprehensive overhaul carefully designed in the late 1930s by federal authorities. The participation of the Reconstruction

Finance Corporation was particularly important, as the RFC was alone in its willingness to lend on collateral of foreclosed real estate for long periods.

Not all federal programs had equally lasting impacts. This paper has not discussed much the discount facilities of the Federal Home Loan Bank System or the troubled asset relief available through the Home Owner's Loan Corporation. Not many Newark associations were able to qualify for FHLB membership, and FHLB collateral requirements were stricter than those of the RFC program as those two institutions had very different structures. The Home Owners' Loan Corporation was likely more helpful with its purchases of distressed mortgage loans. However, the HOLC did not purchase the most distressed mortgages possible; rather, it purchased those that were creditworthy given restructuring.[48] In a previous study I have suggested that the HOLC was in many ways a lenders' program, purchasing mortgages from lenders at generous terms, and I have no reason not to believe that was the case in Newark. In fact, it is sobering that, even as ambitious, large, and generous as the HOLC was, it was still insufficient to deal with problems on the scale of those at Newark B&Ls.

[48] B&Ls in Essex county held about $325 million in mortgage loans as of the end of 1933, and the HOLC purchased $45 million in mortgages from all the mortgage lenders in the county from 1933 to 1936, but it is impossible to know how much of that came from B&Ls, and Newark is most of Essex county but not all of it. While there were sizable declines in mortgage loans outstanding at B&L's during the years in which the HOLC purchased mortgages, there were similarly sized declines before and after those years as well. As far as I know, there is no comprehensive data on the amount of loans the HOLC purchased from B&Ls specifically on a city, county or state basis.

Appendix: Data and textual sources

New Jersey B&L balance sheet data were published each year in the *Annual Report of the Commissioner of Banking and Insurance.* Until 1939, these data record the condition as of the fiscal-year end of each association. Starting in 1939, the reports recorded the condition of each B&L on December 31st of each year. The post-1938 vintage data are preferred whenever possible for the purposes of comparability, even though most balance sheets did not change much over the course of a year as many of these associations were quite frozen.

Prices for shares on the secondary share market were published in a weekly Newark newspaper, the *Sunday Call*, as early as January 1939, and continue to be published until December 1940. Quotes may have been published in 1937 or 1938 as well, but I have not yet been able to view the newspaper in those years.

Throughout the text I make references to loans from the Reconstruction Finance Corporation to Newark B&Ls. All of this information is from the Records of the Reconstruction Finance Corporation, Record Group 234, stored at the National Archives in College Park, Maryland. Basic information on the number and size of loans approved to Newark B&Ls was gathered from the "Index to Loans Made to Banks and Railroads," boxes 1-27, which is alphabetically ordered. I also make references to some loan files with more detailed information. The archives have many thousands of boxes of loan files to various types of entities, and so in practice, I have had time to view only a limited number of files. Loan files for the West End and Warranty B&L associations are stored in Box 42 of the "Records of Declined and Cancelled Loans, 1932-1946" as both loans were eventually cancelled; Warranty ultimately executed a bulk transfer, whereas the West End arranged for a liquidity infusion from a source other than the RFC. Altogether, these are two of the four RFC loans to Newark B&Ls that were cancelled, out of the 59 that were approved. The loan files for the Enterprise, Outlook, and Woodside B&L associations are stored, respectively, in boxes 57, 139, and 193 of the "Paid Loan Case Files, compiled 1932-1942." Note that those records are arranged in two groups, those paid before 1942 and those paid during 1942, and the box numbering restarts at 1 for loans paid during 1942. These three loans were paid during 1942.

Table 1: Aggregate balance sheet, 1930 and 1937, Newark B&Ls

Assets	1930	1937	Liabilities	1930	1937
Cash	1.1	1.3	Installment Shares	63.1	42.5
Liquid Investment Fund	0.3	0.9	Income Shares	14.6	19.3
Mortgage Loans - Pledged Shares	85.6	31.4	Other Shares	0.5	1.9
Mortgage Loans - Other	2.0	5.5	Balance Due Borrowers	0.3	0.0
Share Loans	2.5	0.8	Borrowed Money	5.7	2.4
Real Estate	6.7	54.0	Apportioned Profits	14.0	5.1
Arrears	1.2	3.9	Reserves and Unapportioned Profits	1.1	22.8
Other	0.7	2.2	Other	0.7	5.9
Total	100.0	100.0	Total	100.0	100.0

Notes: The total balance sheets are each normalized to 100. Total assets were $480 million in 1930 and $298 million in 1937.

Table 2: Summary Statistics

	1939		
	Median	Mean	Standard Deviation
Asset characteristics			
Real Estate / Assets	0.482	0.479	0.183
Arrears / Assets	0.013	0.040	0.069
Share of mortgages unpledged	0.430	0.441	0.275
Liquid Assets / Assets	0.026	0.042	0.048
Log(assets)	12.74	12.80	0.71
Liability Characteristics			
Apportioned profits / shares	6.20	6.40	4.60
1(Apportioned profits = 0)		0.15	
Value of income shares / value of all shares	0.33	0.32	0.15
Borrowed money / liabilities	0.000	0.014	0.029
Reserves / liabilities	0.27	0.28	0.09
Lagged characteristics from 1930			
Real Estate / Assets	0.033	0.047	0.052
log(assets1930)	13.39	13.41	0.73
Income shares / all shares	0.17	0.18	0.09
Borrowed Money / Liabilities	0.062	0.060	0.039
Reserves / liabilities	0.0056	0.0078	0.0073
Other characteristics			
Year established	1912	1911	12
1(Received RFC Loan before 1935)		0.14	
1(Member of FHLB by 1936)		0.07	
1(Optional plan)		0.28	
1(Non-serial plan)		0.20	

Notes:

Table 3: Predictors of share prices

Dependent variable: share price				
	Coeff.	SE	Coeff.	SE
Liability Characteristics				
Apportioned profits / shares	0.78***	(0.15)	0.62***	(0.19)
1(Apportioned profits = 0)	-6.34***	(1.62)	-3.26*	(1.77)
Value of income shares / value of all shares			-0.50	(5.61)
Borrowed money / liabilities			-29.7	(25.5)
Reserves / liabilities			0.58	(7.17)
Asset characteristics				
Real Estate / assets			-6.81	(4.24)
Arrears / assets			-30.0***	(9.20)
Share of mortgages unpledged			3.22	(2.18)
Liquid assets / assets			22.0	(16.8)
Log(assets)			-0.77	(1.84)
Lagged characteristics from 1930				
Real Estate / Assets			-3.48	(11.2)
Log(assets)			1.48	(1.83)
Income shares / all shares			-3.25	(9.52)
Borrowed Money / liabilities			-0.90	(13.6)
Reserves / liabilities			-36.7	(68.5)
Other characteristics				
1(Received RFC Loan before 1935)			-0.048	(0.058)
1(Member of FHLB by 1936)			-0.99	(1.46)
Year established			2.18	(2.20)
1(Optional plan)			-4.51***	(1.49)
1(Non-serial plan)			-5.01***	(1.49)
Constant	36.9***	(1.11)	125	(113)
Observations	202		202	
R-squared	0.35		.045	

Notes: The share price is scaled between 1 and 100, i.e. one unit is one cent on the dollar. Balance sheet data are from 1938. The share price is the median price quoted over 1939 and 1940 for each association. Two B&Ls are excluded that underwent reorganizations in late 1938, as their balance sheets were highly unusual immediately after the reorganizations, with large amounts of cash that were quickly drawn down in the following months. The symbols ***, **, and * indicate significance at the 10%, 5%, and 1%.

Table 4: Major structural events of Newark B&Ls

Type of action	1931-1936	1937	1938	1939	1940	1941	1942	1943	1944	Total
Liquidations and bulk transfers										
Voluntary liquidation	3	14	38	32	66	34	39	11	2	239
Bulk transfers	0	0	0	1	10	8	9	18	4	50
State actions										
Conservatorship	7	0	0	0	0	0	0	0	0	7
Liquidation	5	0	0	0	0	0	0	0	0	5
Possesssion	8	0	1	0	20	0	0	0	0	29
Reorganizations										
With new charter	4	0	0	7	1	2	34	34	1	83
Without new charter	12	1	6	1	0	0	0	0	0	20
New or retained charters	4	0	2	3	0	0	4	5	0	18
Other										
Merged	19	0	2	2	3	1	0	0	0	27
Moved out of Newark	2	0	0	0	0	0	0	0	0	2
Total (excluding new or retained charters)	58	15	47	43	100	45	82	63	7	

Associations at end of 1930	499
Total actions taken, above	462
New or retained charters	18
Associations at start of 1945	55

Notes: The table refers to the years in which the actions were initiated. Voluntary liquidation was known to take several years, as was the liquidation of real estate spun off into bad banks during reorganization. The reorganizations took different forms, as discussed in the text. Many reorganizations also involved mergers but I avoid double counting here; the 103 associations that reorganized consolidated into the 18 charters indicated, but 4 of those (all formed in the early 1930s) exited before 1945.

Table 5: Closures from 1938 to 1940

	Dependent variable:	Closure in 1938-1940	------Closure in 1940-------			Liquidate in 1940	Closure in 1941
	B&Ls included:	All	All	Subset with share prices	Subset with share prices	Subset without seizures (and with share prices)	Subset with share prices
	Vintage of Data:	1937	1939	1939	1939	1939	1940
		(1)	(2)	(3)	(4)	(5)	(6)
	Share price			-0.018***		-0.016***	0.0052
				(0.0066)		(0.0061)	(0.0044)
Asset side:	Real Estate / Assets	1.13***	0.76***	0.84**	0.87**	0.65*	0.34
		(0.24)	(0.23)	(0.39)	(0.37)	(0.38)	(0.26)
	Arrears / Assets	1.76***	1.53***	1.04	1.57*	0.19	-0.85
		(0.51)	(0.59)	(0.95)	(0.87)	(0.90)	(1.20)
	Share of mortgages unpledged	-0.064	-0.17	-0.21	-0.23	-0.064	-0.24*
		(0.16)	(0.11)	(0.19)	(0.20)	(0.18)	(0.14)
	Liquid Assets / Assets	-0.36	1.15*	0.65	0.56	1.10	0.82**
		(0.94)	(0.62)	(1.04)	(1.05)	(0.94)	(0.41)
	Log(assets)	-0.52***	-0.29***	-0.20	-0.16	-0.15	-0.13
		(0.14)	(0.11)	(0.17)	(0.16)	(0.16)	(0.11)
Liability side:	Apportioned profits / shares	0.012*	0.012	0.013	0.0031	0.018	-0.0078
		(0.0069)	(0.0079)	(0.014)	(0.014)	(0.013)	(0.010)
	1(Apportioned profits = 0)	0.40***	0.39***	0.40***	0.41***	0.51***	-0.061
		(0.082)	(0.12)	(0.15)	(0.15)	(0.16)	(0.11)
	Portion of shares in income shares	-0.12	0.062	-0.29	-0.33	-0.26	-0.53
		(0.31)	(0.25)	(0.39)	(0.38)	(0.41)	(0.33)
	Borrowed money / liabilities	1.34	1.38	2.91	3.46*	2.30	2.97*
		(1.12)	(1.06)	(2.07)	(1.86)	(1.78)	(1.62)
	Reserves / liabilities	0.61	0.86**	0.25	0.30	0.19	0.28
		(0.55)	(0.40)	(0.61)	(0.61)	(0.54)	(0.44)
Lagged from 1930	Real Estate / Assets	1.07*	1.06*	1.72*	1.50*	1.54	-0.0018
		(0.56)	(0.60)	(0.95)	(0.90)	(0.95)	(0.83)
	Log(assets)	0.37***	0.25**	0.19	0.13	0.11	0.0068
		(0.13)	(0.10)	(0.17)	(0.17)	(0.15)	(0.10)
	Income shares / all shares	0.60	0.71**	1.44**	1.55**	1.51**	0.36
		(0.46)	(0.36)	(0.66)	(0.64)	(0.61)	(0.47)
	Borrowed Money / liabilities	0.013	0.25	-0.25	-0.081	0.64	0.43
		(0.76)	(0.71)	(1.25)	(1.27)	(1.23)	(0.87)
	Reserves / liabilities	2.43	0.30	-15.0**	-12.3*	-12.9*	-5.14
		(4.06)	(5.09)	(6.72)	(6.30)	(7.22)	(5.65)
	Observations	427	338	169	169	154	131
	Number with LHS = 1	168	96	63	63	48	27
	Pseudo R-squared	0.24	0.30	0.34	0.31	0.35	0.23

Notes: Probit estimation with marginal effects displayed. The five "other characteristics" from Table 2 are also included but not displaed here to save space. Closure includes voluntary liquidation, bulk transfer, and regulatory seizure.

Table 6: Reorganizations in the 1940s

	Dependent variable: Reorganization after 1941				
	B&Ls included:	All	Subset that closed or reorganized	Subset with share prices	Subset with share prices
	Vintage of Data	1941	1941	1941	1941
		(1)	(2)	(3)	(4)
	Share price			-0.0036	
				(0.0092)	
Asset side:	Real Estate / Assets	1.47***	1.58***	2.13***	2.15***
		(0.34)	(0.40)	(0.70)	(0.68)
	Arrears / Assets	-3.56	-3.59	-5.31*	-5.22*
		(2.31)	(2.64)	(2.85)	(2.85)
	Share of mortgages unpledged	0.81***	0.92***	1.62***	1.60***
		(0.22)	(0.30)	(0.52)	(0.53)
	Liquid Assets / Assets	3.15***	3.69***	5.12***	5.08***
		(0.71)	(0.85)	(1.12)	(1.12)
	Log(assets)	0.38***	0.47***	0.81***	0.81***
		(0.084)	(0.12)	(0.19)	(0.19)
	Apportioned profits / shares	-0.015	-0.018	-0.016	-0.017
Liability side:		(0.012)	(0.016)	(0.021)	(0.021)
	1(Apportioned profits = 0)	-0.19**	-0.082	-0.15	-0.18
		(0.096)	(0.21)	(0.20)	(0.18)
	Portion of shares in income shares	-0.12	-0.14	-1.28	-1.30*
		(0.37)	(0.52)	(0.79)	(0.77)
	Borrowed money / liabilities	-2.51	-0.14	-3.93	-4.06
		(2.54)	(3.08)	(4.01)	(3.89)
	Reserves / liabilities	-1.03*	-1.17	-2.70***	-2.70***
		(0.55)	(0.72)	(1.00)	(1.00)
Lagged from 1930	Real Estate / Assets	-0.67	-1.29	-1.05	-1.14
		(1.18)	(1.47)	(1.78)	(1.74)
	Income shares / all shares	-0.31	-0.18	0.94	0.95
		(0.53)	(0.74)	(1.11)	(1.09)
	Borrowed Money / Liabilities	-0.36	-0.48	1.19	1.21
		(1.01)	(1.41)	(2.02)	(2.00)
	Reserves / liabilities	-7.24	-5.88	-1.36	-0.35
		(7.86)	(10.8)	(11.5)	(11.5)
Other characteristtics	1(Received RFC Loan before 1935)	0.24	0.17	0.20	0.21
		(0.23)	(0.22)	(0.22)	(0.22)
	1(Member of FHLB by 1936)	-0.068	-0.21	-0.39***	-0.38***
		(0.12)	(0.14)	(0.12)	(0.13)
	Year established	0.010***	0.016***	0.027***	0.027***
		(0.0040)	(0.0059)	(0.0096)	(0.0096)
	1(Optional plan)	-0.15	-0.19	-0.63***	-0.62***
		(0.099)	(0.14)	(0.15)	(0.14)
	1(Non-serial plan)	-0.059	-0.058	-0.41**	-0.40**
		(0.10)	(0.14)	(0.16)	(0.17)
	Observations	191	150	103	103
	Pseudo R-squared	0.49	0.47	0.57	0.57

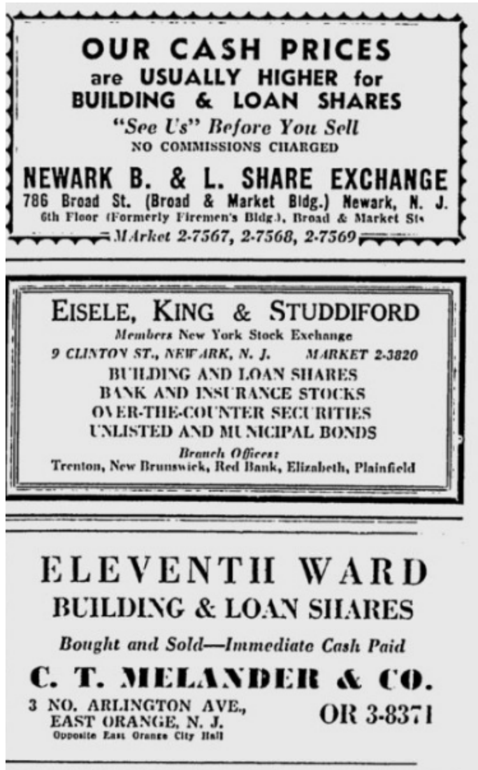
Notes: Probit estimation with marginal effects displayed.

Table 7: Example of asset segregation

	Old Assocation	New Association	Liquidating Association
Assets			
Mortgage loans	$96,181	$23,506	$72,676
Real Estate	179,007	0	179,007
HOLC bonds	4,525	4,525	0
Cash on hand and in banks	35,028	103,528	4,500
Total	$314,741	$131,559	$256,183
Capital and Liabilities			
Shares	$178,336	$124,835	$53,501
RFC Loan	0	0	73,000
Reserves - established prior to recapture of profits	25,341	0	25,341
Reserves - established by recapture of profits	54,761	0	54,761
Reserves - established after recapture of profits	55,957	6,693	49,263
Other	347	30	317
Total	$314,741	$131,559	$256,183

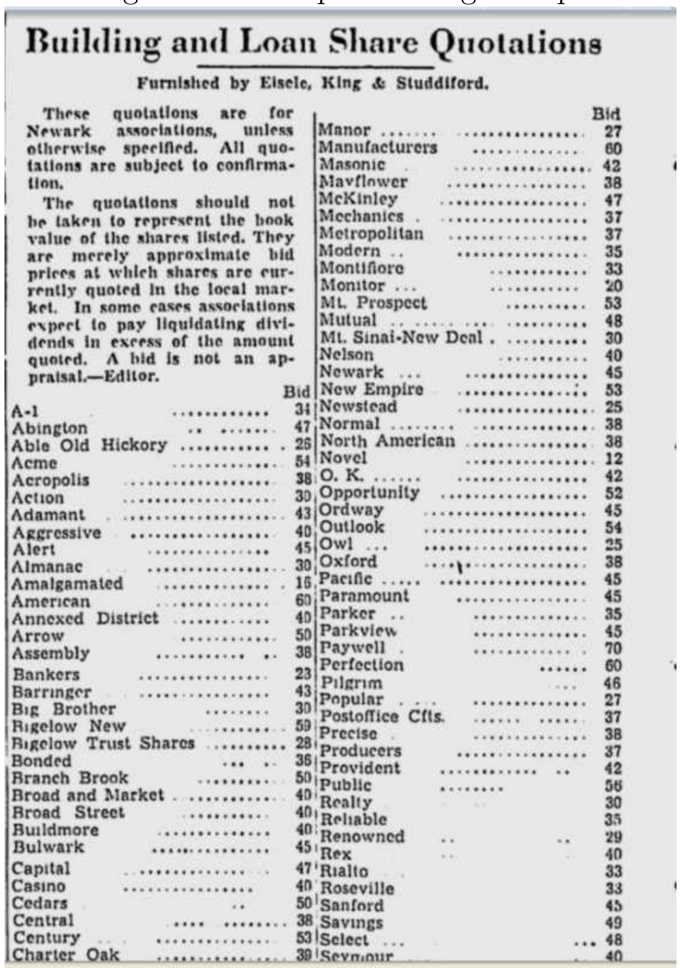
Notes: This is the asset segregation plan adopted by the Enterprise B&L of Newark, which received a $73,000 loan from the RFC for reorganization. The data reflect Enterprise's condition in April 1940 when it first approached the RFC. Reorganization was ultimately executed in early 1942.

Figure 1: Advertisements for broker services for B&L share sales



Notes: Source: *Newark Sunday Call*, 1 January 1939, part III p. 5.

Figure 2: Share price listing excerpt



Building and Loan Share Quotations

Furnished by Eisele, King & Studdiford.

These quotations are for Newark associations, unless otherwise specified. All quotations are subject to confirmation.

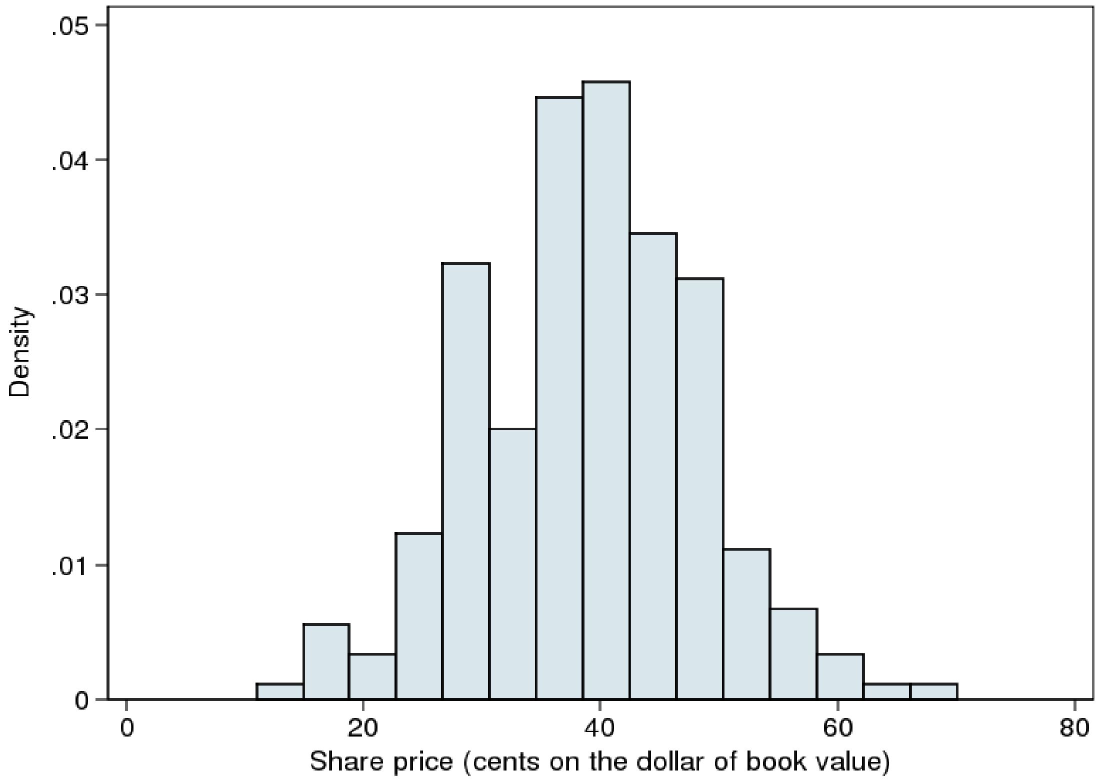
The quotations should not be taken to represent the book value of the shares listed. They are merely approximate bid prices at which shares are currently quoted in the local market. In some cases associations expect to pay liquidating dividends in excess of the amount quoted. A bid is not an appraisal.—Editor.

	Bid
A-1	34
Abington	47
Able Old Hickory	26
Acme	54
Acropolis	38
Action	30
Adamant	43
Aggressive	40
Alert	45
Almanac	30
Amalgamated	16
American	60
Annexed District	40
Arrow	50
Assembly	38
Bankers	23
Barringer	43
Big Brother	30
Bigelow New	59
Bigelow Trust Shares	28
Bonded	36
Branch Brook	50
Broad and Market	40
Broad Street	40
Buildmore	40
Bulwark	45
Capital	47
Casino	40
Cedars	50
Central	38
Century	53
Charter Oak	39

	Bid
Manor	27
Manufacturers	60
Masonic	42
Mayflower	38
McKinley	47
Mechanics	37
Metropolitan	37
Modern	35
Montifiore	33
Monitor	20
Mt. Prospect	53
Mutual	48
Mt. Sinai-New Deal	30
Nelson	40
Newark	45
New Empire	53
Newstead	25
Normal	38
North American	38
Novel	12
O. K.	42
Opportunity	52
Ordway	45
Outlook	54
Owl	25
Oxford	38
Pacific	45
Paramount	45
Parker	35
Parkview	45
Paywell	70
Perfection	60
Pilgrim	46
Popular	27
Postoffice Cfts.	37
Precise	38
Producers	37
Provident	42
Public	56
Realty	30
Reliable	35
Renowned	29
Rex	40
Rialto	33
Roseville	33
Sanford	45
Savings	49
Select	48
Seymour	40

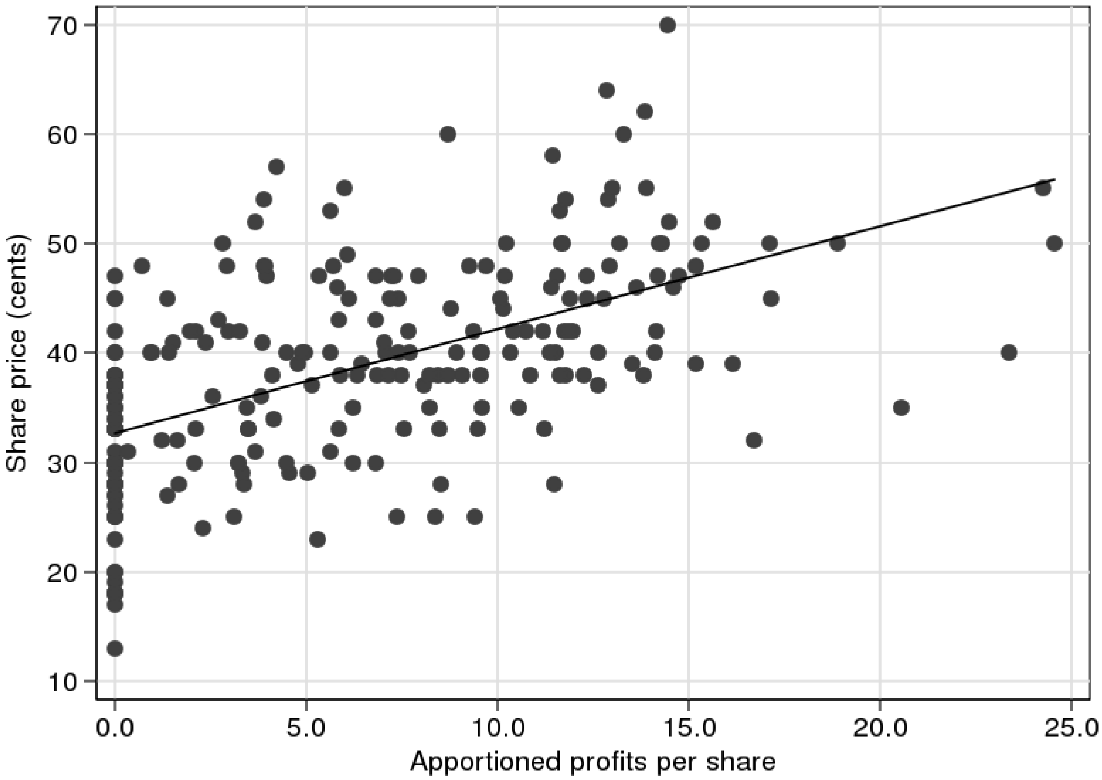
Notes: Source: *Newark Sunday Call*, 23 June 1940, part IV p. 6.

Figure 3: Distribution of share prices for B&Ls active at the beginning of 1939



Notes:

Figure 4: Share prices plotted against apportioned profits per share



Notes:

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