

**THE LAWS OF THE STATE  
OF NEW YORK  
RELATING TO  
BUILDING ASSOCIATIONS**

Published @ 2017 Trieste Publishing Pty Ltd

ISBN 9780649534692

The Laws of the State of New York Relating to Building Associations by Willis S. Paine

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Cover @ 2017

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**WILLIS S. PAINE**

**THE LAWS OF THE STATE  
OF NEW YORK  
RELATING TO  
BUILDING ASSOCIATIONS**



*New York (State) Statutes*

THE LAWS

OF THE

STATE OF NEW YORK

RELATING TO

**BUILDING ASSOCIATIONS:**

BRING THE

STATUTES

GOVERNING THE CORPORATIONS  
VARIOUSLY KNOWN AS BUILDING, MUTUAL LOAN,  
ACCUMULATING FUND, COÖPERATIVE  
SAVINGS, AND HOMESTEAD  
ASSOCIATIONS,

WITH

ANNOTATIONS APPLICABLE TO THESE CORPORATIONS GENERALLY.

BY

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NEW YORK:

L. K. STROUSE & CO., LAW PUBLISHERS,

95 NASSAU STREET.

1889.

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Eighty-nine,

By WILLIS S. PAINE,

In the Office of the Librarian of Congress, at Washington.

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## INTRODUCTION.

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A building association is an organization of interests in which each member acts for himself and for others. It is an organization not charitable or philanthropic, but of self-reliance, and when conducted under proper restrictions may become one of the most practical applications of co-operation.

In these days of colossal trusts when wealthy members of the community can make gigantic financial alliances and form exclusive unions and close corporations, it is interesting to note the simple and intelligent method by which the less fortunate, the artisans and wage earners, have found that from the elements of frugality and thrift may come productive capital, and are becoming their own bankers. In the combination of interests they have discovered the wonderful resources of combined savings, whereby an opportunity arises to establish a home. It is not surprising, therefore, that these associations have won great popularity in a brief period. This popularity may be beneficial to all, even to those who are attached to other methods of financial betterment. In them the workman who holds a share becomes a lender of money, which, when properly invested, may earn a large income for him when compared with his modest capital, and may ultimately enable him to become a freeholder. They are valuable agencies, therefore, when carefully conducted and may be well adapted to aid in preserving the social equilibrium so vitally necessary in a republic. Men cannot honestly deny the benefits of capital when properly employed, while they are themselves reaping the rewards

of productive money and are well acquainted with its permanent and lawful powers. These associations serve as a barrier against the dangerous paternalism urged on the State by men of questionable statesmanship, and they become likewise, the foes of communism, creating habits of accumulation and assuming the privacy of homes.

Such organizations become indirectly valuable moral agencies as a partial solution of the tenement-house problem, and hence are worthy of careful attention. The independent home secures removal from immoral tendencies, the adornment of domestic life and full sway for the influence of wise training and good example. Whatever helps to remove the youth of the nation from the terrible and ever-present temptations of many of the crowded tenement dens, from the accustomed debaucheries of drunken wretches in neighboring rooms, and from the shamelessness of those who oftentimes exist in them, works blessings for the peace and prosperity of the State.

They are not a cure-all, however, but may, if loosely managed, prove a serious injury to the frugal and industrious wage earners who invest in them.

The experience of the past teaches that the law now regulating them could bear several very material amendments.

In my report to the Legislature relative to banks of deposit and discount dated at the beginning of the year 1889, I have stated as follows:—The remarkable rapidity with which building associations have multiplied in this State during the last few years makes it clearly evident that something more than ordinary inducements must have been offered to subscribing members, and as the fund accumulated from the subscriptions of the members and the premiums obtained from competing borrowers is the only source from the investment of which any returns can be derived, the necessity of placing an absolute safeguard around that fund, by means of legislative action, can not be too earnestly urged upon the Legislature.

The building association system was originally no more intended for the accumulation of wealth by means of large



profits or the realization of extraordinary dividends, than the system on which were founded the magnificent institutions which may justly be called the pride of the Empire State, and which, to-day, are the custodians of more than six hundred millions of dollars of the savings of our industrious poor.

A building association, although an accumulator of small savings, was not originally intended, nor should it now be represented as a permanent custodian of accumulated wealth; but, being of a purely local character, its chief object should be the mutual advantage of its members through the medium of small advances in the nature of loans for building purposes only, to be refunded by the borrower on the instalment plan, in such amounts and at times best suited to his convenience. For example, if A. B. become a member of a building association, and after having accumulated sufficient means to purchase a vacant lot in the vicinity of his residence, and after obtaining ownership, he applies to the association for a loan with which to found a little home for his family, offering as security a first mortgage on his premises, it can not be too strongly asserted that the association should take a mutual interest in aiding A. B. to procure a homestead, and under no circumstances should he be deprived of the right to refund in such installments, no matter how small, as he may be able to offer. But it should not be forgotten that too much liberality is equally as dangerous as none at all, and the loan should not only be amply protected by the mortgage, but the ability of the borrower to save from his earnings sufficient to refund the loan should be reasonably well established. When an association, however, with a few thousand dollars at its disposal, becomes actuated by a desire for excessive and immediate profit, calls a meeting of its members, puts up its funds at auction and offers loans to the highest bidder for the purpose of obtaining enormous premiums, it immediately abandons its original purpose and can not be called mutual in anything but name. And while it must also be admitted that the large profits of which some of these associations so proudly boast, are nothing more than

exactions from their own members, by way of fines and premiums, it is yet to be demonstrated how such a method, which is simply taking money out of one pocket, with a bare chance of putting it into another, can ever result in permanent advantage to a majority of the members of any association.

When such an association is formed in any locality its first motive generally is to impress upon the residents of its neighborhood, particularly the working classes, the belief that its sole purpose is the procurement of permanent homes for its members, through the medium of mutual co-operation. But when a premium of twenty or thirty per cent. is exacted from a borrowing member, by means of competition or auction sale, it must certainly be admitted that the benefit is more imaginary than real; as no prudent investment can be expected to realize, within a reasonable time, such an immense profit, in addition to the ordinary rate of interest. Statements have been made in connection with several of these institutions during the last year, to the effect that a bonus as high as forty-five per cent. has been charged to a borrowing member. Such a condition of things, while showing an immediate gain in favor of the loaner, can not be regarded without serious apprehensions of ultimate disaster, and no man of ordinary intelligence could be induced to offer such an enormous premium, without some extraordinary inducement in addition to the privilege of re-paying in weekly installments, because there are numerous other sources from which money can be obtained on equally advantageous terms without any premium whatever.

It may be urged that such a premium redounds to the benefit of the borrower as well as to the lender by going into the treasury to be loaned again for the benefit of all the shareholders. While such may be the case in theory, it can hardly be claimed to have ever resulted in any permanent advantage to either borrower or lender. Take, for instance, a workingman earning two dollars per day, who if relieved from the burden of paying rent, could manage to save \$200 per year. After having saved \$500, he conceives the idea of building a home for his family at a

cost of \$2,000. He joins a building association, subscribing for fifteen shares of \$100 each, for which he agrees to pay seven dollars and fifty cents per month, or fifty cents per month on each share, and applies for a loan of \$1,500, or (to use the phrase common in such associations) "he borrows fifteen shares," for which he agrees to pay seven dollars and fifty cents per month, and offers as security a first mortgage on the premises he intends to purchase. The amount is freely offered, but he finds that he is not the only member wishing to borrow, and the highest bidder must get the preference. The auction begins, the bidding becomes spirited and finally reaches forty per cent., and the loan goes to the workman at said figure. He goes to the desk to receive the prize, but he finds that in order to secure it he must not only deposit a first mortgage on the premises he intends to buy, but he must also pay a premium of \$600, which, if deducted from the face of the loan, would leave the amount actually paid to him only \$900, or \$600 less than he needs as purchase-money. See text, Jan'y 1, 1889. It would then become necessary for him to procure an additional loan of \$600, offering as security a second mortgage on the same premises; but admitting that such a loan may be obtained, it is certainly not unreasonable to suppose that the party risking his money on a second mortgage would demand at least as large a premium in proportion to the amount loaned as the association which holds the first mortgage, and having no means of paying a premium in advance for the second loan, he will be obliged to execute a second mortgage for \$1,000 in order to secure the amount required.

If in this manner he should succeed in procuring the amount necessary for the purchase of his new home, he would take possession under a debt of \$2,500, the interest of which, at five per cent. per annum, would amount to ten dollars and forty-one cents per month, which, when added to his stock subscription, would increase his monthly dues to seventeen dollars and ninety-one cents, or one dollar and twenty-five cents in excess of his monthly savings.

On discovering his inability to pay his weekly or monthly dues, without any means at his disposal for the payment of