This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Urban Mortgage Lending by Life Insurance Companies

Volume Author/Editor: Raymond J. Saulnier

Volume Publisher: NBER

Volume ISBN: 0-870-14139-2

Volume URL: http://www.nber.org/books/saul50-1

Publication Date: 1950

Chapter Title: Preface

Chapter Author: R. J. Saulnier

Chapter URL: http://www.nber.org/chapters/c0767

Chapter pages in book: (p. -15 - -13)

Preface

This study of the urban mortgage lending activities of life insurance companies is one of a group of related investigations which make up the Urban Real Estate Finance Project of the Financial Research Program. Four of these studies are designed to cover certain aspects of the field of urban mortgage lending—"The Impact of Government on Real Estate Finance in the United States," by Miles L. Colean, "Urban Real Estate Markets and Their Financing Needs," by Ernest M. Fisher, "Comparative Markets and Risk Experience of Mortgage Lenders," by J. E. Morton, and "Economic Fluctuations and Urban Real Estate Finance," by Wolfgang Stolper. The others are descriptive of the three principal private mortgage lending agencies, insurance companies, commercial banks, and savings and loan associations, and of the principal public home financing agency, the Home Owners' Loan Corporation.

The data used in the present study were compiled in part from public sources but in the main they have come from special tabulations made available to the National Bureau by life companies. Special mention should also be made of the response to three schedules covering mortgage lending costs in 1945, 1946, and 1947 and detailed records on a 1 percent sample of all nonfarm mortgage loans made by insurance companies since January 1, 1920. The help of the cooperating companies in making these data available to us, involving as it did considerable work on the part of each one, is greatly appreciated and it is pleasant indeed to acknowledge our gratitude for this assistance.

The plan of the book may be stated briefly. It begins with an appraisal of the role of the life insurance company as an investor in the urban mortgage market, giving consideration both to the relative importance of the funds invested by life companies in that

market and to the relative importance of the urban mortgage among life company earning assets. A general discussion of the legal framework within which life companies lend on mortgage security is given in Chapter 2. The purpose of the chapter is not to provide a compendium of state laws affecting insurance company mortgage lending, but only to indicate the broad features of the legal framework within which this credit activity takes place, illustrated by references to state laws.

Chapter 3 describes in general terms how different companies are organized for the conduct of their mortgage lending. This description is based on numerous field interviews and on the responses of some seventy companies to schedules circulated to all companies in the United States in 1946 and 1947. Although much could be written on urban mortgage lending techniques, these are dealt with only to the extent necessary to provide a background for the consideration of certain more basic economic questions.

Utilizing data from the loan sample, Chapter 4 describes the types of loans made by life companies since 1920, and the types that made up their portfolios around the end of 1946. These materials are important in showing how mortgage lending terms—e.g., loan-to-value ratios, repayment requirements, and interest rates—have changed since 1920, reflecting changes in general economic conditions and in the real estate market, and in revealing how the availability of home mortgage loan insurance since 1934 has affected home mortgage lending policies.

In Chapter 5 attention is directed to one of the central problems of mortgage lending—the level of operating costs. Based on extensive compilations of primary data, the study indicates the general range of operating costs for individual companies, and considers the problem of the relation of average costs to the size of the loan portfolio being administered. Many questions of interest can be answered directly by information on lending costs, but the principal use which this study makes of the data is to suggest, in conjunction with estimates of mortgage lending losses (Chapter 6), the level of realized yields on urban mortgage loans after taking account of loan administration costs and potential losses.

In conclusion, Chapter 6 presents three measures of mortgage investment experience, all based on the mortgage loan sample. These measures are (*a*) foreclosure rates, which are ratios of the

number and amount of loans in a given group that went to foreclosure to the total number and amount of loans in that group, (*b*) gain or loss ratios, which are ratios of the amount gained or lost on the operation of foreclosed properties of different types to the amount originally invested in the loans and to the amount the lender had invested in the property at the time of foreclosure, and (*c*) loss rates, which are the differences, for various classes of loans and properties, between the yield that was *expected* when the loan was made (the original interest rate) and the yield actually *realized* (the expected rate corrected for changes in interest rate and for losses or gains on those loans in the group that eventually went to foreclosure). All three measures are interesting and important as indications of credit quality in mortgage lending.

The planning of the present study was a cooperative undertaking in which a large number of people, both from the National Bureau staff and from outside agencies, participated. The list is too long to permit individual acknowledgment, but I wish to express special appreciation to Ralph A. Young and Donald S. Thompson for their contributions to the solution of the many technical problems encountered in preparing for the initial compilations of data. Also, grateful acknowledgment is made to J. E. Morton for technical assistance in connection with the loan experience study, to Mrs. Doris P. Warner who has served as my research assistant throughout much of the study's preparation, to Miss Katherine E. Krenning, Miss Ruth Wenglinsky, and Miss Catherine P. Martin who have, respectively, edited the manuscript, prepared the charts, and supervised tabulations, and to others of my associates at the National Bureau for many helpful suggestions.

This study, and all others being conducted under the Urban Real Estate Finance Project, was completed under grants of funds from the Association of Reserve City Bankers, the Life Insurance Investment Research Committee, acting for the American Life Convention and the Life Insurance Association of America, and the Rockefeller Foundation. The National Bureau is deeply appreciative of the assistance of these groups.

R. J. Saulnier
Director, Financial Research Program

December 1949