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## Scope of Urban Mortgage Lending by Life Insurance Companies

**F**OR more than a century life insurance companies have been prominent in the urban real estate market. Through these companies the savings of increasing thousands of individuals have been channeled into the financing of home ownership and into the construction and ownership of commercial and industrial structures. The present study is devoted exclusively to the urban mortgage lending activities of life insurance companies, being one of a series dealing with the major financial institutions that lend on urban real estate security.<sup>1</sup> A general outline of the role of the insurance company as an investor in the real estate market is given in the first chapter, but before taking up the subject matter certain terms used repeatedly in the text are defined.

First, the term "urban real estate mortgages" is used throughout the study to include all mortgages except those classified as "farm mortgages" in the reports of life companies to their state supervisory authorities. The mortgages might correctly be described as "non-farm" or "city" mortgages but neither of these terms, while convenient, has wide usage. Second, the terms "life companies" or "insurance companies" are substituted, for the sake of brevity, for "legal reserve life insurance companies." And finally, life company holdings of owned real estate must be included in the analysis, since the acquisition of property through foreclosure or voluntary deed is an incident of mortgage financing. Wherever possible "owned real estate" will be used to signify all urban properties owned by life companies except those used for the company's own operations and those held for investment. Other terms used in a technical sense, but less frequently than the above are defined as they appear in the text.

<sup>1</sup> Other National Bureau studies will deal with the urban mortgage lending activities of commercial banks and savings and loan associations.

IMPORTANCE OF INSURANCE COMPANIES IN  
THE URBAN MORTGAGE MARKET

Although insurance companies have become increasingly important as investors in residential, commercial, and industrial properties, their principal function in the real estate market is that of mortgagee. It can be seen in Table 1 that they are a significant, if not a very large, factor in the mortgage market as a whole. Their urban and farm mortgage holdings stood at \$7.6 billion, which was 16.2 percent of all mortgage debt outstanding at the end of 1929 and at \$10.8 billion, which represented 18.6 percent of the amount outstanding at the

TABLE 1 — TOTAL MORTGAGE DEBT OUTSTANDING AND AMOUNT HELD  
BY INSURANCE COMPANIES, 1929 AND 1933-48 \*

(dollar figures in billions)

End of Year	Mortgage Debt Outstanding		Percent of Total Held by Insurance Companies
	Total	Insurance Company Holdings	
1929	\$47.0	\$7.6	16.2%
1933	39.5	6.7	16.9
1934	38.4	5.9	15.4
1935	37.3	5.4	14.5
1936	36.6	5.2	14.1
1937	36.4	5.2	14.3
1938	36.5	5.4	14.8
1939	36.9	5.7	15.3
1940	37.7	6.0	15.9
1941	38.8	6.4	16.6
1942	37.9	6.8	17.9
1943	36.4	6.7	18.5
1944	35.7	6.8	19.0
1945	36.4	6.5	17.9
1946	42.8	7.1	16.7
1947	50.1	8.5	17.0
1948	57.7	10.8	18.6

\* Estimates of total mortgage debt are those of the Department of Commerce, *Survey of Current Business*, October 1949; insurance company holdings are compiled by the Operating Analysis Division, Federal Home Loan Bank Board. Data on total mortgage debt include mortgages on both farm and nonfarm properties but exclude real estate mortgage bonds and mortgages held by nonfinancial corporations on corporate-owned multifamily and commercial properties.

end of 1948. However, their importance is greatest, as shown in Table 2, as lenders on commercial properties. Estimates indicate that they held about 40 percent of the total amount of such mortgages outstanding at the end of 1945. In contrast they held 14 percent of all urban residential mortgages and 16 percent of all farm mortgages.

The greater importance of life companies in the financing of large city properties is shown by the breakdown of all residential mortgage outstandings into those secured by one- to four-family dwellings and by multifamily properties. From 1938 to 1945, life companies held from 8 to 13 percent of all mortgages on one- to four-family properties and from 14 to 23 percent of the mortgage debt on larger residential structures. More detailed data are not available, but it is known that the financing of specialized commercial and industrial properties, such as hotels, office and loft buildings, etc., is done largely through life insurance companies. Savings banks and trust companies in the chief centers of population also finance properties of this type but these lenders are secondary to insurance companies.

#### IMPORTANCE OF URBAN MORTGAGE LOANS AS INSURANCE COMPANY ASSETS

Not only do insurance companies play an important part in urban real estate financing, but their participation is widespread; urban mortgage loans are found, without exception, among the assets of all insurance companies with resources of \$100 million and over (Table 3). Only among small companies are there cases where no mortgage investment exists, and the number of these is very small. A count of the 349 legal reserve life insurance companies listed in the *1946 Spectator Insurance Year Book* and in *Best's Life Insurance Reports* shows that all but twenty-five companies held some mortgages at the end of 1945. The few companies that reported no mortgage loans at all—most of them incorporated in the last ten years in the South and Middle West—had total assets of less than \$100 million each. In some cases the absence of mortgage holdings can be attributed to the type of insurance written, such as accident, health, or hospitalization insurance, or life insurance on borrowers from agencies making small instalment loans to individuals.

Since some companies report to *Spectator* and *Best's* without

TABLE 2 — TOTAL MORTGAGE DEBT OUTSTANDING AND PERCENT HELD BY INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY, 1938-48<sup>a</sup>  
(*dollar figures in billions*)

END OF YEAR	MORTGAGE DEBT OUTSTANDING				PERCENT HELD BY INSURANCE COMPANIES				
	NONFARM				NONFARM				
	1-4 Family Dwellings	Multifamily Residential and Commercial		FARM	1-4 Family Dwellings	Multifamily Residential and Commercial		FARM	
		Total	Multi-family			Commer-cial	Total		Multi-family
1938	\$17.1	\$6.3	\$5.8	\$6.8	7.7%	25.2%	14.4%	39.4%	18.1%
1939	17.6	6.4	5.7	6.6	8.5	25.9	16.7	39.0	13.4
1940	18.4	6.5	5.7	6.5	9.6	26.1	17.5	39.1	13.7
1941	19.4	6.5	5.8	6.4	10.2	27.2	19.3	39.3	14.2
1942	19.2	6.4	5.6	6.0	11.7	28.5	21.3	40.4	15.0
1943	18.8	6.2	5.2	5.4	12.8	28.6	22.9	39.6	15.6
1944	18.8	6.0	5.2	4.9	13.1	29.2	22.5	41.3	16.2
1945	19.2	6.0	5.2	4.7	11.8	28.0	22.9	40.9	16.4
1946	23.6	b	b	4.8	10.9	26.1	b	b	16.6
1947	28.6	b	b	4.9	12.1	25.2	b	b	17.7
1948	33.4	b	b	5.1	14.8	25.2	b	b	19.2

<sup>a</sup> Estimates of total mortgage debt are those of the Department of Commerce, *Survey of Current Business*, September 1946 and October 1949. The data on debt outstanding on one- to four-family dwellings and on total multifamily residential and commercial properties are revised figures shown in the *Survey* for October 1949, while the *breakdowns* of debt outstanding on multifamily residences and on commercial properties are figures shown in the *Survey* for September 1946. Consequently, the sum of the components of multifamily residential debt and commercial debt does not equal the total shown. Figures exclude real estate mortgage bonds and mortgages held by nonfinancial corporations on corporate-owned multifamily and commercial properties. Percent held by insurance companies is based on amounts compiled by the Operating Analysis Division, Federal Home Loan Bank Board.

<sup>b</sup> Not available.

giving separate totals for their urban and farm mortgage holdings, Table 3 under-reports the number of companies that hold urban mortgage loans. However, there are not many such cases and the error is confined to companies with admitted assets of under \$100 million. The outstanding facts are that in 1945 over 80 percent of all companies held some urban mortgages, and that over 90 percent of all companies with admitted assets of \$1 million and over were urban mortgage lenders.

Comparable counts of the 342 and 313 life companies for which reports are available for the years 1931 and 1936, respectively, reveal that in the aforementioned years about 5 percent of all companies reported no urban mortgage investments at all and that all of these were companies with assets of under \$100 million. In these years, as well as in 1945, insurance companies participated much more widely in urban mortgage financing than in farm financing.

In compiling data for Table 3, companies were included among those making urban mortgage loans even though the amount of their holdings was very small. Therefore, in order to show differences in the relative importance of mortgage investments among companies of different sizes, the companies for which reports are available for 1931, 1936, and 1945 are classified according to the percentage of their total admitted assets invested in urban mortgage loans. It will be observed that the smaller companies include those in which urban mortgage loans are most, as well as those in which they are least, important. Of all companies reporting some urban mortgages in 1945, about 35 percent had less than 10 percent of their assets in this form, and another 46 percent had between 10 and 30 percent. Of those companies with 30 percent or more of their assets in this type of investment in 1945 not one, however, was in the class of large companies with total assets of \$500 million and over. The heaviest urban mortgage loan investments are found among the companies with assets of less than \$500 million, of which thirteen had between 50 and 70 percent of their assets in urban mortgages. This general pattern was characteristic also of the years 1931 and 1936.

When consideration is given to all companies, including those holding no urban mortgages as well as those holding a large proportion of their assets in urban mortgages, it appears that there is no consistent pattern of relationship between company size and the relative importance of mortgage investments. At the end of 1945, com-

TABLE 3 — NUMBER OF INSURANCE COMPANIES CLASSIFIED BY AMOUNT OF ADMITTED ASSETS AND BY PERCENTAGE OF ASSETS INVESTED IN URBAN MORTGAGE LOANS, 1931, 1936, AND 1945<sup>a</sup>

Total Admitted Assets (in millions)	Total Number of Companies <sup>b</sup>	Companies Reporting Urban Mortgage Loans <sup>c</sup>	Companies Reporting Specified Percentages of Total Assets Invested in Urban Mortgage Loans										Urban Mtgs. as % Total Assets for All Insurance Cos. <sup>c</sup>				
			0.1-10%		10-20%		20-30%		30-40%		40-50%			50-60%		60% & Over	
			7	3	7	3	7	3	7	3	7	3		7	3	7	3
			<i>December 31, 1945</i>														
Less than \$1.0	68	37	21	7	3	1	2	2	1	1	1	2	2	1	1	9.5%	
1.0 - 99.9	241	225	79	55	48	19	15	8	1	1	0	0	0	0	0	20.2	
100.0 - 499.9	23	23	2	9	6	4	1	1	0	0	0	0	0	0	0	22.9	
500.0 - 999.9	5	5	1	2	2	0	0	0	0	0	0	0	0	0	0	17.7	
1,000 and over	12	12	5	7	0	0	0	0	0	0	0	0	0	0	0	10.3	
Total	349	302	108	80	59	24	18	11	2	2	1	2	2	1	2	13.1%	
			<i>December 31, 1936</i>														
Less than \$1.0	92	39	16	11	7	3	1	0	1	0	1	0	0	1	0	13.1%	
1.0 - 99.9	192	154	42	42	40	24	6	0	0	0	0	0	0	0	0	18.4	
100.0 - 499.9	17	17	5	7	3	1	1	0	0	0	0	0	0	0	0	16.5	
500.0 - 999.9	6	6	2	3	1	0	0	0	0	0	0	0	0	0	0	10.9	
1,000 and over	6	6	1	4	1	0	0	0	0	0	0	0	0	0	0	18.0	
Total	313	222	66	67	52	28	8	0	1	0	1	0	0	1	0	16.7%	
			<i>December 31, 1931</i>														
Less than \$1.0	112	66	19	13	10	6	6	5	7	5	7	5	7	7	24.0%		
1.0 - 99.9	205	186	40	42	35	31	25	10	3	10	3	10	3	3	28.2		
100.0 - 499.9	16	16	3	4	2	3	3	0	1	0	1	0	1	1	28.7		
500.0 - 999.9	4	4	1	3	0	0	0	0	0	0	0	0	0	0	15.3		
1,000 and over	5	5	0	0	3	2	0	0	0	0	0	0	0	0	32.3		
Total	342	277	63	62	50	42	34	15	11	15	11	15	11	11	28.6%		

<sup>a</sup> Data are from *The Spectorator Insurance Year Book* (1932, 1937, and 1946) and from *Best's Life Insurance Reports* (1932, 1937, and 1946).

<sup>b</sup> Excludes a few small companies for which no data were available. <sup>c</sup> Excludes twelve companies in 1945, seventy-eight in 1936, and thirty-nine in 1931, all with assets of less than \$100 million, that reported some mortgage holdings but gave no breakdown as between urban and farm.

panies with assets of less than \$1 million and those with assets of \$1 billion and over invested about 10 percent of their assets in urban mortgages, while those falling between these extremes had roughly 20 percent of their assets invested in urban mortgages (Table 3). In earlier years the differences were less marked.

#### IMPORTANCE OF URBAN REAL ESTATE AS AN INSURANCE COMPANY ASSET

The relative importance of the urban real estate holdings of insurance companies is more difficult to measure than the relative importance of their holdings of mortgage loans. Only a few companies break down their reports to *Best's* and *Spectator* into the principal categories of property, namely: (1) property acquired through foreclosure, (2) property bought for investment purposes, and (3) owned property used for the conduct of company business. However, taking the over-all figure on owned real estate as a basis, it was found that of the 313 companies reported on in either *Spectator* or *Best's* as of December 31, 1936, 63 held no urban real estate, 98 reported holdings, but without any breakdown between farm and urban properties, and 152 reported separately on holdings of urban real estate (Table 4). Of the group of 152 companies, 82 percent had less than 10 percent, and nearly 50 percent had less than 5 percent, of their total admitted assets in this form. The companies having the heaviest relative commitments in owned real estate as of 1936 were in the smallest asset-size classes.

Considering all companies for which a breakdown of data is available, it appears that the average proportion of total assets invested in urban real estate is about the same for all sizes of companies, except that those in the \$1.0 to \$99.9 million asset-size class had a somewhat higher average investment in real estate than those of larger size (Table 4).

Two marked changes in the real estate holdings of insurance companies occurred after 1936. First, properties acquired through foreclosure were considerably reduced through sale and, second, many companies initiated programs of purchasing properties for investment purposes. Data not previously available on the amount of property held for investment purposes were assembled through a schedule mailed to all life insurance companies by the National Bureau of Economic Research in the summer of 1946.

TABLE 4 — NUMBER OF INSURANCE COMPANIES CLASSIFIED BY AMOUNT OF ADMITTED ASSETS AND BY PERCENTAGE OF ASSETS INVESTED IN URBAN REAL ESTATE, DECEMBER 31, 1936<sup>a</sup>

Total Admitted Assets (in millions)	Total Number of Companies <sup>b</sup>	Companies Reporting Owned Urban Real Estate <sup>c</sup>	Companies Reporting Specified Percentages of Total Assets Invested in Urban Real Estate				Urban Real Estate as % of Total Assets for All Insurance Cos. <sup>c</sup>		
			0-1-5%	5-10%	10-20%	20-30%		30-40%	
			Less than \$1.0	92	13	6		4	2
1.0 - 99.9	192	111	51	38	15	7	0	0	6.1
100.0 - 499.9	17	16	9	5	2	0	0	0	4.7
500.0 - 999.9	6	6	4	2	0	0	0	0	3.6
1,000 and over	6	6	4	2	0	0	0	0	4.7
Total	313	152	74	51	19	7	1	1	4.6%

<sup>a</sup> Data are from *The Spectator Insurance Year Book, 1937* and from *Best's Life Insurance Reports, 1937*.

<sup>b</sup> Excludes a few small companies for which no data were available.

<sup>c</sup> Excludes thirty-seven companies in the less than \$1.0 million, sixty in the \$1.0-99.9 million, and one in the \$100.0-499.9 million size classes that reported real estate owned, but gave no breakdown as between urban and farm properties.

The schedule called for the amount of urban real estate held for investment purposes, whether acquired through foreclosure or purchase, as of December 31, 1945, excluding home office and other property used for the accommodation of the business, and property acquired through foreclosure, exchange, etc., and being held for sale rather than for investment income. Admittedly, the distinction between real estate acquired through foreclosure and held for investment, and that similarly acquired but currently held for sale, is not easy to make, existing, perhaps, only in the partly-formulated intentions of investment officers. Nonetheless, the findings of the schedule are interesting as general measures with which future compilations can be compared.

Usable reports were received from fifty-nine companies, of which forty-five reported holding no urban property for investment purposes. Of the fourteen companies reporting such holdings, most showed amounts of less than 1 percent of their total admitted assets, and one reported such properties equal to 2.38 percent of all admitted assets. In general, most property held for investment was acquired through purchase.

CHANGES IN THE RELATIVE POSITION  
OF URBAN MORTGAGE LOANS AND OWNED REAL ESTATE  
AMONG INSURANCE COMPANY ASSETS, 1860-1946

While mortgage loans are currently an important investment asset of insurance companies, they are far less important today than they were in the nineteenth century. As shown in Table 5, mortgages (both urban and farm) accounted for nearly 60 percent of insurance company assets in 1860 and, along with premium notes, composed virtually the entire investment portfolio. As early as 1851 two of the largest companies, Connecticut Mutual and Mutual Benefit, held 56 percent of their assets in premium notes and one-half to two-thirds of the remainder in mortgage loans.<sup>2</sup> In a sense, however, these figures underestimate the importance of mortgages as investments; since the premium notes were acquired directly from policyholders in payment of premiums and the mortgages were foremost among those assets actually chosen for the investment of funds.

Little change occurred in this general pattern until 1880, by

<sup>2</sup> Lester W. Zartman, *The Investments of Life Insurance Companies* (New York, 1906) pp. 10-11.

TABLE 5 — PERCENTAGE DISTRIBUTION OF TOTAL ASSETS OF THE 29 LARGEST INSURANCE COMPANIES, 1860-1946 <sup>a</sup>

Assets	1860	1870	1880	1890	1900	1910	1920	1930	1940	1946
Cash	2.4%	4.3%	4.5%	4.2%	4.3%	1.4%	1.2%	.6%	3.2%	1.3%
Premium notes <sup>e</sup>	20.5	21.5	5.2	1.2	} 5.0	.7	.5	.5	.4	.1
Policy loans	..	.1	.1	1.6		13.4	11.6	13.8	9.2	3.6
Mortgage loans	59.2	44.4	38.6	41.0	28.7	30.7	31.2	40.2	18.4	13.2
Real estate	2.7	3.5	12.4	10.4	9.0	3.9	2.0	2.2	6.3	1.4
U. S. bonds	3.1	9.1	8.7	.9	.4	b	11.4	1.8	19.6	46.3
Municipal bonds <sup>c</sup>	2.8	7.0	14.6	7.1	5.1	4.5	5.7	4.9	7.1	1.6
Foreign public bonds	..	..	..	1.2	3.1	2.4	2.6	.8	1.0	2.2
Private corporate bonds	.9	1.4	4.7	22.2	32.3	36.6	29.2	27.7	29.6	25.9
Stocks <sup>d</sup>	2.3	1.5	1.5	4.0	5.6	3.6	1.0	2.5	1.8	2.4
Collateral loans	1.6	1.2	5.7	4.6	3.7	.4	.4	.1	b	b
Miscellaneous <sup>e</sup>	4.5	6.5	2.5	2.6	2.8	2.3	3.2	5.0	3.4	2.0
Total Assets	100.0%	100.5%	98.5%	101.0%	100.0%	99.9%	100.0%	100.1%	100.0%	100.0%

<sup>a</sup> Data are for year ends. Companies included from 1900 to 1946 are the twenty-nine companies that were the largest as of the given year; only sixteen companies could be carried back to 1860. Data for 1900 to 1946 are from *The Spectator Insurance Year Book* and for earlier years from Lester W. Zartman, *The Investments of Life Insurance Companies* (New York, 1906) p. 14. The failure of columns to add to 100 percent is due to rounding, except for 1870, 1880 and 1890 when some other source of error must be responsible. However, it is impossible now to retrace Zartman's process of compilation, and in any case the error is small.

<sup>b</sup> Less than .05 percent.

<sup>c</sup> Includes state, county, and municipal bonds.

<sup>d</sup> Includes equity securities of insurance companies, banks, trust companies, railroads, other public utilities, and miscellaneous enterprises.

<sup>e</sup> Includes deferred and outstanding premiums, accrued interest, and assets not otherwise classified.

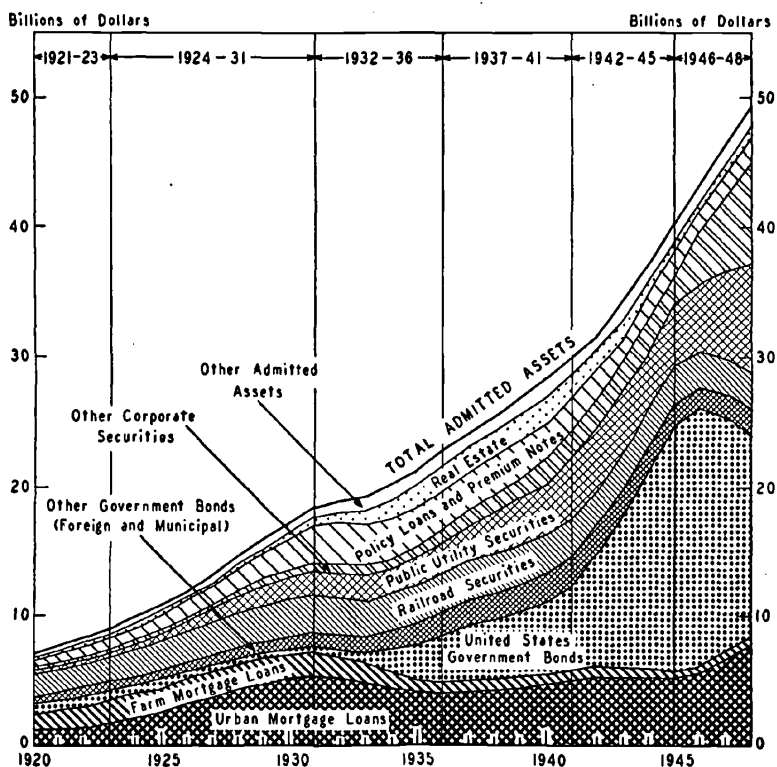
which time state, county, and municipal bonds, and owned real estate had grown in importance and premium notes had declined to about one-fourth of their earlier relative magnitude. Data showing the situation at decennial intervals clearly reveal a broadened investment policy from 1890 to 1920. Premium notes ceased by 1890 to be important; by 1910 policy loans had become a relatively significant item; mortgage loans continued to occupy a prominent place among insurance company assets, but had declined by 1900 to a much lower relative position than they had occupied in 1860; by 1900 private corporate bonds—primarily railroad bonds—more than matched mortgage loans in relative importance; obligations of the United States government, which had been negligible except in the two decades following the Civil War, were 11.4 percent of all admitted assets in 1920. In general, by that date life insurance companies had changed from agencies engaged primarily in local investment activities to national investment institutions, with portfolios of assets reflecting the enormous changes that had taken place in the demand for capital by the various sectors of the American economy.

Broad changes in insurance company investment holdings after 1920 are also shown in Table 5, which reveals the gradual recedence of mortgage loans, in relation to total assets, and the rapid rise, after 1930, of government bonds to the leading position among all assets. Shifts after 1920 in the relative importance of the several principal components of insurance company investments can be traced in greater detail in Charts 1 and 2, which are based on data published by the Life Insurance Association of America covering forty-nine life companies that hold 90 percent of all assets of the industry. In order to facilitate the interpretation of these charts of insurance company investment history since 1920 the whole period has been broken into a series of subperiods, on the basis of movements in the urban mortgage loan account (Chart 2).

In the first of these subperiods, 1921-23, there was very little change in the structure of insurance company assets. Almost all components, including urban and farm mortgages, increased at approximately the same rate.

The next broad investment subperiod, extending from 1924 through 1931, was, in general, a period of rapidly expanding private investment. During these years there were rapid increases in the amounts of urban mortgage debt and owned real estate held by life

CHART 1 — TOTAL ADMITTED ASSETS OF 49 INSURANCE COMPANIES CLASSIFIED BY TYPE OF ASSET, AT YEAR ENDS, 1920-48

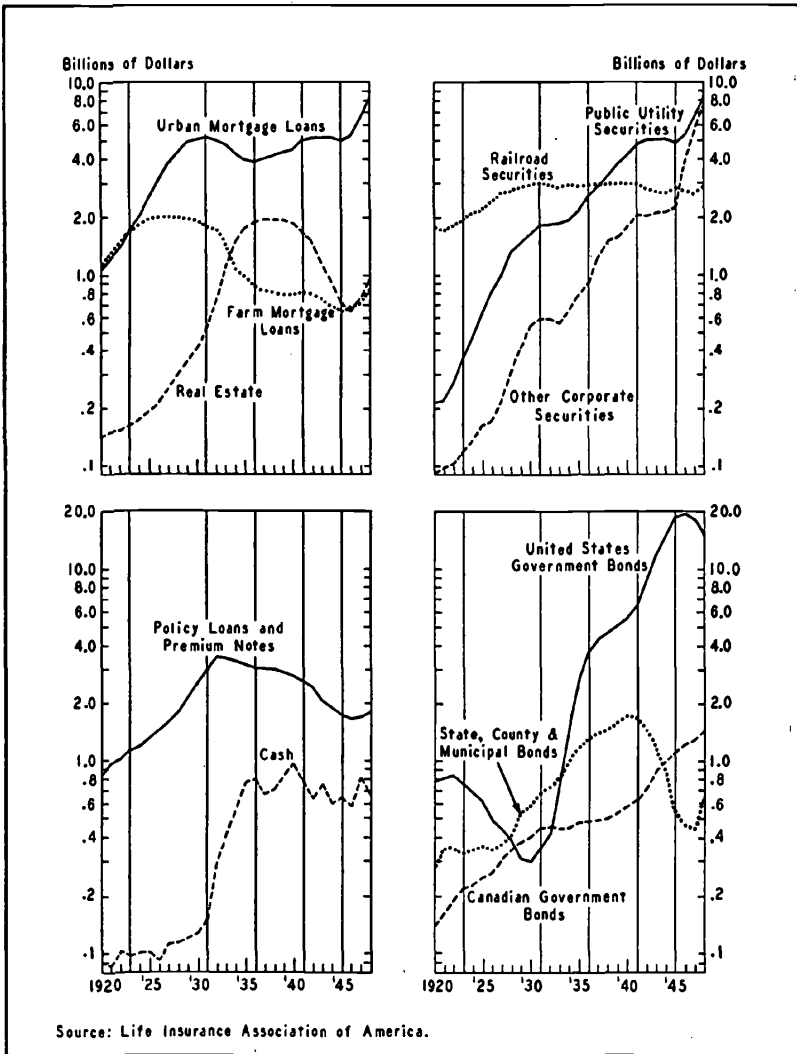


Source: Life Insurance Association of America.

Life insurance company assets increased more than sevenfold from 1920 to 1948, with mortgages on urban properties sharing more than proportionately to 1930, and less than proportionately thereafter.

companies. Farm mortgages increased only moderately and then fell off so that they were about the same at the end as at the beginning of the period. These were also years of regular increase in life insurance company holdings of other types of private debt, particularly public utility and other nonrailroad securities, and of state, county, and municipal bonds; holdings of federal government obligations, on the other hand, declined sharply.

CHART 2—SELECTED ASSETS OF 49 INSURANCE COMPANIES, AT YEAR ENDS, 1920-48



Using broad changes in urban mortgage holdings as a basis, the years 1920-48 may be divided into several periods during which the investment activities of life insurance companies followed markedly different patterns.

Again taking changes in urban mortgage holdings as the criterion, the years 1932 through 1936 are clearly set apart as a separate period of investment history. Urban mortgage loans fell in absolute amount and in relation to total assets; owned real estate increased rapidly as a result of foreclosures; the decline of farm mortgage loans, which had begun in 1927, continued until by 1938 they were only one-fifth as great, relative to total assets, as they had been in 1920. Policy loans reached a peak in the depression years 1932-33 and then began to fall off; holdings of private corporate securities held about stable in the first half of the period but nonrailroad securities began to increase in 1934 and continued to rise sharply to the end of the period; federal government obligations continued to rise in amount, their increase now a dominant factor in the entire investment picture for life companies; and state, county, and municipal bonds continued the increase which had begun in 1928.

The years 1937 through 1941 may be taken as the next distinct subperiod of life company investment history, once more indicated by the movement of urban mortgage loan outstandings. Over this period urban mortgage loans rose moderately and steadily while farm mortgage holdings held nearly constant and the owned real estate account tended to fall, particularly after 1938. The increase in holdings of private corporate securities continued at about the same rate as in the preceding period, except for the amount of railroad bonds, which remained unchanged. Policy loans and premium notes fell, reflecting improved economic conditions, and the sharp rise in federal government obligations continued. The holdings by life companies of nonfederal public debt reached a peak in 1940 and fell thereafter.

In the last complete subperiod, 1942 through 1945, urban mortgage portfolios held about stable, while farm mortgages and owned real estate continued to decline. Other types of assets followed different courses that reflected broad developments in the securities markets during the war period. Holdings of private corporate securities remained about constant, federal government securities rose sharply, and holdings of state, county, and municipal bonds fell.

Beginning in 1946, changes took place in insurance company holdings of selected assets that reflected broad postwar financial developments, namely, the expansion of almost all types of private debt

and the reduction of federal obligations. This period of rapidly expanding private investment was still in progress in 1948, the last year for which data on the composition of insurance company assets are available.

This record of investment activity should be borne in mind when the mortgage loan experience of life insurance companies is reviewed in Chapter 6. It is significant that mortgage holdings increased most rapidly during the real estate expansion of the twenties and that a comparable rate of increase was not achieved again until after World War II, when the real estate market once more became intensely active. It is not strange, of course, that insurance company holdings of mortgages have increased the most during periods of high construction activity; the important point, as will be shown in Chapter 6, is that these are precisely the periods during which loans are originated which, on the historical record, have had the highest frequency of default and foreclosure.

#### URBAN MORTGAGE LOANS AS A SOURCE OF INVESTMENT INCOME FOR INSURANCE COMPANIES

While the decline that took place in the thirties and forties in the relative importance of farm and city mortgages is an important factor in understanding the changing investment policies of life companies, a complete account requires that these urban mortgages be analyzed from the standpoint of shifts since 1900 in the importance of mortgage income relative to other investment income. Because mortgage interest rates have declined less rapidly than the rates on most other classes of insurance company investments, the mortgage loan account has fallen less in relative importance when measured in terms of its contribution to total investment income than when measured as a percentage of total assets. A comparative analysis of the relative importance of urban mortgages as measured by these two methods can be made on the basis of the annual reports of the New York State Insurance Department; these reports cover all companies doing business in that state and give gross mortgage income and total investment income for individual companies.<sup>3</sup>

<sup>3</sup> In these reports, mortgage income includes all interest and other income received during the year on farm and urban loans, and excludes interest due and accrued. Total investment income includes interest and dividend income on bonds, stocks, premium notes, collateral loans, policy loans and other liens, and gross income from company-owned property as well as all mortgage loan income.

The much greater importance of mortgage income in 1900 than in more recent years is clearly evident in Table 6, which shows that companies received 37 percent of their investment income from mortgage loans in 1900 as compared with only 19 percent from this source in 1944. In 1900, fourteen of the thirty-nine companies doing business in New York State earned 50 percent or more of their investment income from their mortgage loan accounts, while in 1944 only three of the fifty-seven companies then reporting were in this category.

TABLE 6 — NUMBER OF INSURANCE COMPANIES DOING BUSINESS IN NEW YORK STATE, CLASSIFIED BY PERCENT OF INVESTMENT INCOME DERIVED FROM MORTGAGE LOANS AND BY PERCENT OF ASSETS INVESTED IN MORTGAGE LOANS, 1900, 1920, AND 1944 \*

	<i>Number of Companies</i>		
	1900	1920	1944
<i>Percent of investment income derived from mortgage loans</i>			
No income from mortgages	1	3	5
0.1 - 10%	1	1	5
10 - 20	5	5	22
20 - 30	4	6	9
30 - 40	8	5	9
40 - 50	6	9	4
50 and over	14	8	3
Total	39	37	57
<i>Percent of assets invested in mortgage loans</i>			
No investment in mortgages	1	3	5
0.1 - 10%	3	1	12
10 - 20	7	8	20
20 - 30	8	3	10
30 - 40	7	9	6
40 - 50	5	7	3
50 and over	8	6	1
Total	39	37	57
<i>Mortgage loan income as percent of investment income</i>	37.1%	33.7%	19.3%
<i>Mortgage investment as percent of total assets</i>	28.2%	31.1%	14.3%

\* Investment income includes rent and interest and dividend income on mortgage loans, bonds, stocks, and premium notes. Figures are from *New York Insurance Reports*.

More important, however, is the fact that the relatively high rates of gross income earned on mortgage loans means that their importance as generators of income was far greater than is suggested by their relative position among all assets. Thus, in 1900, only twenty of the thirty-nine New York State companies had 30 percent or more of their assets in mortgages while twenty-eight of them were receiving this proportion or more of their investment income from mortgages. In 1944, only ten of the fifty-seven companies doing business in New York State had 30 percent or more of their assets in mortgages but sixteen of them earned this proportion or more of their total investment income from the mortgage loan account.

#### FLUCTUATION IN URBAN MORTGAGE LENDING ACTIVITY OF LIFE INSURANCE COMPANIES

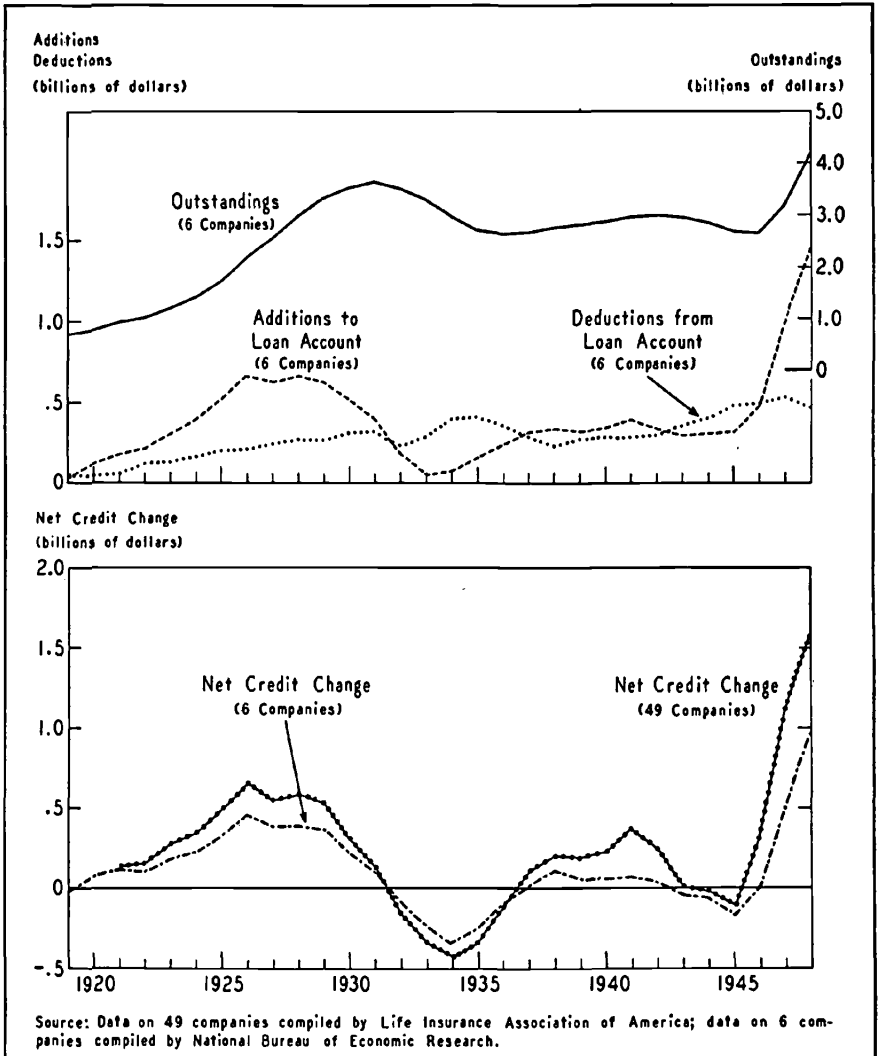
There are several measures of lending activity that are pertinent to the description of insurance company mortgage financing. These are: (1) outstanding loan balances, (2) net changes from one date to another in outstanding balances, which may be called "net credit change," and (3) separate amounts of new credits extended and of loan repayments received.<sup>4</sup> However, not all of these data are available over an extended period, even for the larger companies. Such materials as are available are presented below.

Chart 3 gives nonfarm mortgage loans outstanding, additions to loan account, deductions from loan account, and net credit change for six large companies for 1919-48, and net credit change in the nonfarm mortgage account of forty-nine large life companies for the same period. As will be seen, net credit change for the forty-nine large companies rose to a peak in 1926, held at a somewhat lower level from 1927 to 1929, and then fell off sharply, reaching a low in

<sup>4</sup> See Gottfried Haberler, *Consumer Instalment Credit and Economic Fluctuations* (National Bureau of Economic Research, Financial Research Program, 1942) Chapter 3, for measures of credit activity and their significance for studies of the cyclical impact of lending. In analyses of mortgage lending it is customary to combine all changes that add to outstandings into "additions to loan account" and all changes that reduce outstandings into "deductions from loan account." The former are usually subdivided into "new loans made" and "additional advances on existing loans" and the latter into "payments on existing balances" and "transfers to real estate."

Certain additional materials would be required for a complete account of mortgage investment activity, namely, (1) a record of loan balances refinanced (which would enter into additions to, as well as deductions from, loan account), (2) a division of repayments into partial and full repayments, and (3) data showing the changes in loan balances traceable to write-downs of book value.

CHART 3 — NET CREDIT CHANGE FOR 49 INSURANCE COMPANIES AND NET CREDIT CHANGE IN, ADDITIONS TO, AND DEDUCTIONS FROM, URBAN MORTGAGE LOAN ACCOUNT FOR 6 LARGE INSURANCE COMPANIES, ANNUALLY, 1919-48



Urban mortgage lending activity by life insurance companies has fluctuated widely since 1920, reaching a peak level in 1926-29 and rising rapidly in 1946-48 to the highest levels of the period.

1934 and rising to another peak in 1941. The same general behavior is reflected in the experience of the six large companies. However, the data on "additions to loan account" permit a closer examination of the tempo of lending activity during these years. Chart 3 shows that credit extensions remained at a high level from 1926 through 1929 and then fell rapidly to 1933. In 1935 a fairly rapid increase in lending activity began, and the 1924 level had been reattained by 1938. From 1938 to 1945 the amount of urban mortgage credit granted by these companies changed little, but a sharp increase followed in 1946-48.

The high level of insurance company mortgage lending activity that extended from 1926 through 1929 and from 1946 to 1948 coincided with high levels of construction activity. However, the interesting feature of the insurance company series is that credit extensions continued through 1929, even though the construction of single family dwellings declined after 1925.<sup>5</sup> This was partly due to the continuance of apartment construction to a peak in 1927<sup>6</sup> and to the rise of private nonresidential building to unusually high levels in 1928 and 1929.<sup>7</sup> Since insurance companies are heavy lenders in both of these fields, they did not experience a slackening in their rate of new lending activity until 1930.

While lending on single family dwellings was reduced after 1926, continuation of a demand for funds in this type of financing helped considerably to maintain the new loan volume of insurance companies after the construction boom had ended. A 1 percent sample of all loans made by twenty-four leading life insurance companies, taken in connection with the present study, shows that the decline in new loan volume after 1928 was due mainly to a slowing down of credit extensions on large apartment houses and nonresidential buildings. Loans on single family structures continued to be made until 1931, with only a slight downward drift from the peak level of 1926. The wide swings after 1920 in insurance company mortgage lending activity were due, in other words, mainly to economic conditions outside the market for single family homes.

<sup>5</sup> David L. Wickens, *Residential Real Estate* (National Bureau of Economic Research, 1941) Table E1, p. 296.

<sup>6</sup> *Ibid.*

<sup>7</sup> Department of Commerce estimates of construction activity; see *Economic Almanac, 1946-47* (National Industrial Conference Board, 1946) p. 235.