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Volume Author/Editor: Carl F. Behrens

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Chapter Author: Carl F. Behrens

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CHAPTER 3

Characteristics of Urban Mortgage Loans Made by Commercial Banks, 1920-47

THE purpose of this chapter is to attempt a description of the salient characteristics of the urban mortgage loans held by commercial banks as of June 1947, and to suggest some of the changes that have occurred in the types of such loans made by banks since 1920. In view of the fact that this type of information has not hitherto been available for the commercial banking system as a whole nor, indeed, for any segment of it, it has been necessary to compile new information on a sample basis.[1] The description of lending that is given for this sample of loans runs primarily in terms of such loan characteristics as type of property, type of loan (e.g., whether amortized or not), loan-to-value ratio, contract length and interest rate.[2]

Description of Sample

The sample survey of bank-made urban mortgage loans was started in the first half of 1946. A total of 496 commercial banks, holding on June 30, 1945 nearly 50 percent of the urban mortgage loan investments of all insured commercial banks, was selected to give a cross section of commercial bank mortgage loans, with the object of using data on these banks as a basis for estimating the urban mortgage loan investment of all commercial banks. Although only 170 banks returned usable loan samples, these held about one-third of all urban mortgage loans of commercial banks; response was best from banks

[1] Two additional sets of data became available after the completion of the statistical portions of this study. A supplementary schedule was sent to insured banks with the June 1950 call report with a request for additional information regarding their urban real estate loans and the extent to which they finance residential construction and residential mortgage lending by nonbank lenders. Also, the Bureau of the Census, in conjunction with the 1950 Decennial Census, has conducted a sample survey of mortgage financing.

[2] See Appendix A for a copy of the loan experience card on which banks were requested to report information concerning individual loans and of the instructions to banks for drawing their samples and completing the report forms.

with large urban mortgage portfolios and poorest from those with small portfolios. As will be seen in Table 5, loan samples were submitted by 25 out of the 34 sampled banks with urban mortgage loan portfolios of $7,860,000 and over, but by only 77 out of the 332 banks with portfolios of less than $2,000,000. Furthermore, some of the

TABLE 5 — RESPONSE OF INSURED COMMERCIAL BANKS TO THE URBAN MORTGAGE LOAN EXPERIENCE SURVEY, CLASSIFIED BY SIZE OF URBAN MORTGAGE LOAN PORTFOLIO [a]

	Portfolio Size (000)				
	Under $2,000	$2,000–4,000	$4,000–7,860	$7,860 & Over	*All Sizes*
Number of banks in U. S.	13,020	156	69	34	13,279
Number of banks sampled	332	68	62	34	496
Number of banks responding	77	33	35	25	170
Response ratio [b]	23%	49%	56%	74%	34%
Portfolio coverage [c]	4%	23%	52%	81%	34%
Number of loans reported	1,822	661	719	5,369	8,571

[a] Data are for holdings as of June 30, 1945.

[b] Represents the number of responding banks as a percentage of the number of banks sampled.

[c] Represents the outstanding balance of urban mortgage loans held by responding banks as a percentage of the total urban mortgage debt outstanding in all banks in the United States.

reporting banks failed to submit data on as many loans as were called for under the sampling procedure, and only 116 banks sampled their files of both active and inactive loans.[3] Therefore, the sample data are not used as a basis for national estimates of the characteristics of bank-held urban mortgage loans, but they are presented as a basis for indicating broadly the nature of urban mortgage loans made by banks since 1920 and of those held as of June 1947.[4]

[3] Banks with urban mortgage loan portfolios of $7,860,000 and over were asked to sample every 100th loan. In the case of banks with smaller portfolios different sampling intervals, depending on the size of their loan portfolios, were assigned so as to keep the "over-all" subsampling ratio constant—that is, equal to one out of 200 mortgages. In a few cases where the reporting bank did not submit as many loans as requested, its loan sample was inflated to correct for under-reporting. A full account of the sampling methods followed in this and other parallel institutional studies will be given in J. E. Morton's *Comparative Markets and Risk Experience of Mortgage Lenders*, one of the studies projected under the National Bureau's Urban Real Estate Finance Project.

[4] The sample is regarded as giving a picture of bank holdings of urban mortgage loans as of mid-1947 though not all banks reported as of that time. Sample returns were received from 170 banks between January 1, 1947 and April 30, 1948 as follows: 92 banks returned 4,104 schedules in the first half of 1947, 57 banks returned 1,956 schedules in the second half of 1947, and 21 banks returned 2,511 in the first four months of 1948.

Further light on how the responding banks differ from all banks may be gained from Table 6 in which the urban mortgage loan holdings of the 170 responding banks and of all insured commercial banks are distributed according to the location of the banks making

TABLE 6 – PERCENTAGE DISTRIBUTION BY LOCATION OF BANK OF AMOUNT OF URBAN MORTGAGE LOANS HELD BY ALL INSURED COMMERCIAL BANKS, JUNE 30, 1946 AND OF AMOUNT OUTSTANDING ON 4,617 LOANS HELD BY 170 COMMERCIAL BANKS, JUNE 1947, CLASSIFIED BY SIZE OF URBAN MORTGAGE LOAN PORTFOLIO [a]
(dollar figures in millions)

Census Region [b]	*Portfolio Size* [c]					
	LARGE		MEDIUM		SMALL	
	Responding Banks	All Banks	Responding Banks	All Banks	Responding Banks	All Banks
North	*24.9%*	*31.0%*	*68.2%*	*61.1%*	*50.5%*	*60.0%*
New England	3.3	3.6	3.1	9.9	2.2	7.2
Middle Atlantic	8.1	8.4	58.0	29.5	32.6	27.9
East North Central	13.5	19.0	7.1	21.7	15.7	24.9
South	*.9*	*.7*	*14.1*	*15.1*	*11.4*	*17.2*
South Atlantic	.9	.7	13.5	12.5	9.3	12.3
East South Central	..	..	.6	2.6	2.1	4.9
West	*74.3*	*68.3*	*17.6*	*23.8*	*38.1*	*22.8*
West North Central	4.3	2.9	3.4	8.4	23.2	10.9
West South Central	..	.7	.5	2.8	5.3	5.3
Mountain	..	1.1	4.4	4.3	..	3.0
Pacific	70.0	63.6	9.3	8.3	9.6	3.6
United States	*$17*	*$1,520*	*$8*	*$1,150*	*$5*	*$2,450*
Percentage of Total Amt. Outstanding	57.2%	29.7%	27.0%	22.5%	15.8%	47.8%

[a] Data on insured commercial banks made available by the Federal Deposit Insurance Corporation.

[b] The distribution of states within each of the census regions is as follows: *New England*—Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut; *Middle Atlantic*—New York, New Jersey, and Pennsylvania; *East North Central*—Ohio, Indiana, Illinois, Michigan, and Wisconsin; *South Atlantic*—Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, and Florida; *East South Central*—Kentucky, Tennessee, Alabama, and Mississippi; *West North Central*—Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, and Kansas; *West South Central*—Arkansas, Louisiana, Oklahoma, and Texas; *Mountain*—Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, and Nevada; *Pacific*—Washington, Oregon, and California.

[c] Large portfolios are those of $7,860,000 and over; medium-sized portfolios, those of $2,000,000 to $7,860,000; small-sized portfolios are those of less than $2,000,000.

the loans.[5] It will be observed that, in terms of loan investment, the regional distribution of the responding banks with large portfolios was closely similar to the regional distribution of all such banks, which was to be expected from the good coverage of this size-group of banks. However, among the banks with smaller portfolios, where the response was poorer, the differences in the regional distribution of responding banks and of all banks were considerably greater. Nevertheless, on a broad sectional basis the sample results, even for banks with small holdings, seem not to be seriously out of line with the actual distribution.

COMMERCIAL BANK HOLDINGS OF URBAN MORTGAGE LOANS, JUNE 1947

TYPE OF PROPERTY

As indicated by the distribution of those sample loans on which there was an unpaid balance when the survey was made (Table 7), one- to four-family dwellings—consisting mainly of single family homes—accounted for about 90 percent of the number and 67 percent of the

TABLE 7 — SAMPLE OF URBAN MORTGAGE LOANS HELD BY 170 COMMERCIAL BANKS, JUNE 1947, CLASSIFIED BY TYPE OF PROPERTY
(dollar figures in thousands)

Type of Property	*Number of Loans*	*Amount Outstanding*	*Percentage Distribution*		*Average Amount Outstanding*
			No.	Amt.	
1- to 4-Family Dwellings	*4,218*	*$19,422*	*91.4%*	*66.5%*	*$4.6*
1-family	3,812	17,147	82.6	58.7	4.5
2- to 4-family	325	1,582	7.0	5.4	4.9
1- to 4-family with business use	81	693	1.8	2.4	8.6
All Other Property	*399*	*9,771*	*8.6*	*33.5*	*24.5*
Apartments	98	1,567	2.1	5.4	16.0
Stores	94	1,576	2.0	5.4	16.8
All other income property	207	6,628	4.5	22.7	32.0
Total	*4,617*	*$29,193*	*100.0%*	*100.0%*	*$6.3*

5 Data on all insured commercial banks were not available according to the regional location of the properties securing the loans; however, for the 170 sample banks, the distribution according to location of properties securing the loans was approximately the same as the distribution according to the location of the banks.

amount of all loan balances.[6] Properties outside this class accounted for a much larger percentage of the amount than of the number of loan balances, since loans on them are ordinarily made for a larger original face amount. These consist mainly of loans secured by apartments, stores, and miscellaneous properties such as vacant lots, churches, garages, factories, etc.

PERIOD OF ORIGINATION

Most sample loans outstanding in June 1947—whether secured by one- to four-family dwellings or by larger residential and other income-producing properties—were originally made some time after 1939 (Table 8). In fact, about 65 percent of the number and 75 per-

TABLE 8 – SAMPLE OF URBAN MORTGAGE LOANS HELD BY 170 COMMERCIAL BANKS, JUNE 1947, CLASSIFIED BY TYPE OF PROPERTY AND PERIOD MADE

(dollar figures in thousands)

Period Made	*Number of Loans*	*Amount Outstanding*	*Percentage Distribution*		*Amt. Outst. as % of Orig. Amt.*
			No.	Amt.	
			1- to 4-Family Dwellings		
1920-24	34	$105	.8%	.5%	54.7%
1925-29	83	205	2.0	1.1	46.4
1930-34	42	176	1.0	.9	42.1
1935-39	401	986	9.5	5.1	56.2
1940-44	884	2,667	20.9	13.7	68.9
1945-47 [a]	2,774	15,284	65.8	78.7	92.1
Total [b]	*4,218*	*$19,422*	*100.0%*	*100.0%*	*83.4%*
			All Other Property		
1920-24	2	$49	.5%	.5%	56.3%
1925-29	20	240	5.0	2.5	54.2
1930-34	6	174	1.5	1.8	25.3
1935-39	24	442	6.0	4.5	59.5
1940-44	84	1,734	21.1	17.7	70.1
1945-47 [c]	263	7,132	65.9	73.0	88.3
Total	*399*	*$9,771*	*100.0%*	*100.0%*	*78.1%*

[a] Includes seventy-five loans made in 1948.
[b] Dollar amount does not add to total shown due to rounding.
[c] Includes three loans made in 1948.

[6] The term sample as used in this sentence, and henceforth, refers to the loans returned by responding banks. Also, sample banks will mean banks actually responding to requests for samples of their loans.

cent of the amount of loans outstanding in June 1947 were made after 1944. Regardless of the size of the portfolio under consideration the sample data show that as of mid-1947 there had been, on the average, less than a 20 percent repayment of the original face amount.

SIZE AND TYPE OF LOAN

At mid-1947, the loans made by commercial banks on one- to four-family properties were usually for original amounts of less than $10,000 (Table 9). Loans made by banks with large portfolios of urban mortgage loans were somewhat larger than those made by banks with small portfolios, doubtless indicating that the large-portfolio banks are mainly in metropolitan areas where residences of higher unit value are concentrated. Outstanding balances on one- to four-family dwellings averaged $5,000 in 1947 for banks with large portfolios, $4,900 for banks with medium-sized portfolios, and $3,400 for those with small portfolios. Loans on other than one- to four-family properties, being designed for the financing of different types of buildings, varied more in average size. Thus, 70 percent of the number of such loans outstanding in June 1947 had been made for an original amount of less than $20,000 while more than 80 percent of the amount then outstanding consisted of loans that had had an original face amount of $20,000 or more (Appendix Table B1).

Table 9 also shows some interesting facts concerning the types of urban mortgage loans held by sample commercial banks in 1947. It will be seen that regardless of the size of a bank's holdings of such loans, most of those made on one- to four-family dwellings were fully amortized, and provided for a monthly schedule of repayment.[7] Almost 70 percent of the outstanding amount of these loans held by the large portfolio banks were insured; banks with medium-sized and small portfolios had about 50 percent and 43 percent, respectively, of their mortgage investment in insured loans. Responding banks with large portfolios concentrated particularly on Veterans' Administration loans, having nearly half of their outstandings in the one- to four-family category invested in this type of insured loan; banks with medium-sized and small portfolios had only about one-quarter of their total urban mortgage investment in this type of

[7] See Appendix Table B2 for data on repayment schedules.

TABLE 9 — PERCENTAGE DISTRIBUTION OF A SAMPLE OF URBAN MORTGAGE LOANS HELD BY 170 COMMERCIAL BANKS, JUNE 1947, BY ORIGINAL LOAN AMOUNT AND TYPE OF LOAN, CLASSIFIED BY TYPE OF PROPERTY AND SIZE OF URBAN MORTGAGE LOAN PORTFOLIO

(dollar figures in thousands)

Loan Characteristics	Portfolio Size [a]					
	LARGE		MEDIUM		SMALL	
	No. of Loans	Amt. Outst.	No. of Loans	Amt. Outst.	No. of Loans	Amt. Outst.
	1- to 4-Family Dwellings					
ORIGINAL LOAN AMOUNT						
Less than $5,000	44.6%	23.1%	51.5%	25.9%	69.4%	43.3%
5,000 – 9,999	47.0	58.8	39.2	42.8	26.5	42.8
10,000 – 19,999	7.9	15.9	8.2	16.8	3.8	11.4
20,000 and over	.5	2.2	1.1	14.5	.3	2.5
TYPE OF LOAN [b]						
Insured	*59.4*	*68.5*	*51.3*	*49.4*	*35.9*	*43.3*
VA	31.6	47.9	16.8	21.7	18.1	27.0
FHA	27.8	20.6	34.5	27.7	17.8	16.3
Noninsured	*40.5*	*31.4*	*48.6*	*50.5*	*64.1*	*56.7*
Fully amortized	23.8	19.2	24.7	18.8	40.7	33.2
Partially amortized	13.2	10.4	11.8	20.9	17.9	19.9
Nonamortized	3.5	1.8	12.1	10.8	5.4	3.5
Total	*2,669*	*$13,285*	*612*	*$2,973*	*937*	*$3,163*
	All Other Property					
ORIGINAL LOAN AMOUNT						
Less than $5,000	30.9%	3.9%	12.5%	.6%	31.3%	6.7%
5,000 – 9,999	28.0	7.4	15.6	2.2	14.8	8.0
10,000 – 19,999	19.4	8.8	25.0	5.0	26.6	25.1
20,000 and over	21.7	79.8	46.9	92.3	27.3	60.2
TYPE OF LOAN [b]						
Insured	*13.7*	*3.4*	*6.2*	*1.5*	*7.8*	*2.9*
VA	8.0	2.4	5.2	1.3	7.8	2.9
FHA	5.7	1.0	1.0	.2	..	..
Noninsured	*85.6*	*96.3*	*93.8*	*98.5*	*92.2*	*97.1*
Fully amortized	43.4	20.2	44.8	22.1	50.0	45.5
Partially amortized	37.1	50.2	34.4	70.0	26.6	31.0
Nonamortized	5.1	25.9	14.6	6.4	15.6	20.6
Total	*175*	*$3,406*	*96*	*$4,910*	*128*	*$1,455*

[a] For the definition of portfolio size, see Table 6, footnote c. For data on all portfolio sizes combined, see Appendix Table B1.

[b] Excludes a few loans for which data on type of loan were not available.

loan.[8] Finally, it will be seen that about 45 percent of the number and about a fifth of the amount of outstanding loans on all other properties in banks with large and medium-sized portfolios were of the conventional, fully amortized type (Table 9). In banks with small portfolios loans of this type accounted for about half the number and slightly less than half the amount of loans on properties other than one- to four-family dwellings.

CONTRACT TERMS

Such characteristics of commercial bank urban mortgage loans as length of contract, loan-to-value ratio, and contract interest rate are, of course, influenced, in the case of VA-guaranteed and FHA-insured loans, by the maximum terms provided by the federal statutes under which they are insured. As will be seen in Table 10, which shows the contract terms of these loans separately from the terms of the so-called noninsured conventional loans, most insured loans on one- to four-family dwellings of responding banks had contract lengths of twenty years or more, loan-to-value ratios of 80 percent and over, and interest rates of 4.0 to 4.9 percent. Insured loans that did not fit into this pattern of contract terms had original maturities of from fifteen to nineteen years, loan-to-value ratios of from 70 to 79 percent and interest rates of from 5.0 to 5.9 percent (Table 10). The contract terms on noninsured sample loans secured by one- to four-family properties were distinctly less liberal than those on insured sample loans. Maturities were mainly for periods of less than fifteen years and loan-to-value ratios were usually between 40 and 69 percent. On contract interest rates the degree of concentration was less pronounced, with rates ranging from 4.0 percent to over 6.0 percent.

Only 10 percent of the number of sample loans secured by other than one- to four-family properties were insured (Table 10). Contract terms on these mortgages followed about the same general pattern as those for noninsured conventional one- to four-family dwelling loans, though they were made at somewhat lower interest rates.

[8] Percentages of VA-guaranteed loans secured by one- to four-family dwellings are somewhat greater when expressed in terms of amount instead of number of loans, since the average amount outstanding on them was from $5,000 to $7,500 while for fully amortized loans this ranged from $2,800 to $4,000, and for FHA-insured loans from $3,100 to $3,900.

TABLE 10 – PERCENTAGE DISTRIBUTION OF A SAMPLE OF URBAN MORTGAGE LOANS HELD BY 170 COMMERCIAL BANKS, JUNE 1947, BY TYPE OF LOAN AND CONTRACT TERMS, CLASSIFIED BY TYPE OF PROPERTY [a]

(dollar figures in thousands)

Contract Terms	*1- to 4-Family Dwellings*		*All Other Property*	
	Number of Loans	Amount Outstanding	Number of Loans	Amount Outstanding
CONTRACT LENGTH				
Insured Loans [b]				
0 – 14 years	3.9%	2.9%	5.3%	1.3%
15 – 19	7.6	6.8	.8	.1
20 and over	41.6	51.8	4.0	.9
Noninsured Loans				
0 – 4 years	10.2	6.2	19.8	17.2
5 – 9	18.0	12.0	40.4	27.5
10 – 14	16.5	17.9	27.6	52.1
15 and over	2.2	2.4	2.0	.8
LOAN-TO-VALUE RATIO [c]				
Insured Loans [b]				
Under 60%	1.7	1.3	1.0	.4
60 – 69	2.4	2.1	.5	.2
70 – 79	8.2	7.4	2.0	.4
80 and over	40.2	50.2	5.0	1.1
Noninsured Loans				
Under 40%	6.0	3.0	18.2	8.3
40 – 59	25.7	19.4	46.4	30.9
60 – 69	12.7	12.4	14.5	18.5
70 and over	2.3	3.4	9.8	36.2
CONTRACT INTEREST RATE				
Insured Loans [b]				
Under 4.0%	.1	.1	.8	[d]
4.0 – 4.9	47.0	58.1	8.3	2.2
5.0 – 5.9	5.9	3.2	1.0	.1
Noninsured Loans				
Under 4.0%	.4	.4	4.5	14.1
4.0 – 4.9	12.3	14.1	36.3	66.2
5.0 – 5.9	19.4	17.2	32.1	12.3
6.0 and over	14.8	6.8	16.8	5.0
Total	*4,218*	*$19,422*	*399*	*$9,771*

[a] Excludes loans for which data on type of loan and contract terms were not available.

[b] Includes FHA-insured and VA-guaranteed loans.

[c] Represents original loan amount as a percentage of appraised value of property.

[d] Less than .05 percent.

CURRENT INTEREST RATES

Because such a large percentage of the sample loans that were still outstanding when the samples were drawn had been on the books for only a short time, most of them having been made in 1940 or later, little difference was found between their original contract rates of interest and the rates which they carried when the samples were drawn, i.e., the current (or last) rates.[9] As shown in Table 11, the average of the current interest rates on noninsured loans was 4.8 percent for loans secured by one- to four-family dwellings and 4.1 percent for loans secured by all other properties. The interest rates on insured loans secured by these two types of property are fixed, of course, by the terms of the insurance or guaranty arrangements; FHA-insured sample loans bore a 4.5 percent rate and VA-guaranteed loans a 4.0 percent rate.[10]

TABLE 11 — Average Current Interest Rates for a Sample of Urban Mortgage Loans Held by 170 Commercial Banks, June 1947, Classified by Type of Property and Type of Loan[a]

Type of Loan	1- to 4-Family Dwellings		All Other Property	
	Number of Loans	Interest Rate[b]	Number of Loans	Interest Rate[b]
Insured	*2,237*	*4.2%*	*40*	*4.1%*
VA	1,116	4.0	29	4.0
FHA	1,121	4.5	11	4.5
Noninsured	*1,978*	*4.8*	*358*	*4.1*
Fully amortized	1,167	4.9	183	4.3
Partially amortized	592	4.6	132	4.0
Nonamortized	219	4.7	43	4.1
Total	*4,218*	*4.4%*	*399*	*4.1%*

a Excludes a few loans for which data on type of loan were not available.
b Weighted in each case by the outstanding balance of each loan.

The effect of government loan insurance and guaranty arrangements has been to standardize interest rates in all areas of the coun-

9 See Appendix Table B3 for a distribution of loans by current interest rates.

10 The indicated pattern of interest rates on bank-held urban mortgage loans is roughly similar to that characteristic of the urban mortgage loans of life insurance companies. Compare R. J. Saulnier, *Urban Mortgage Lending by Life Insurance Companies* (National Bureau of Economic Research, Financial Research Program, 1950) Chapter 4.

try and on all types of loans eligible for insurance or guaranty; consequently, in seeking to discover significant bases of differentials in interest rates, the analysis is limited to the noninsured or conventional loans. An examination of current interest rates suggests certain regional differences in the costs of mortgage funds. On noninsured loans secured by one- to four-family dwellings, current interest rates were substantially the same—about 4.5 percent—in seven of the nine census regions (Table 12). In the Mountain and Pacific regions, however, the average current interest rates were higher—5.7 and 5.1 percent, respectively. In interpreting these regional differentials it should be recalled that the loans still on the books when the bank samples were drawn were originated at different times and that the observed differences in regional averages may be due to differences in the age distributions of the loans. This would be an important factor in explaining the relatively high rates on loans secured by one- to four-family properties in the Pacific region, for example, since, as will be seen in Table 15, their rates were relatively high as compared with other regions in the earlier years, though this difference has been largely eliminated in loans made after 1939.

Current interest rates were less standardized regionally on loans secured by other than one- to four-family dwellings, doubtless because of the comparatively heterogeneous nature of these properties. For the sample group of conventional income-producing property loans, the average interest rate was relatively high on those reported in the Mountain and Pacific regions. Loans secured by properties located in the South Atlantic and West North Central regions bore interest rates which, on the average, were relatively low but this result is probably due mainly to the influence of a few large-sized loans carrying low interest rates.

Turning to the relationship between interest rates and other terms of the mortgage contract, it will be noted in Table 12 that the average current interest rate on noninsured loans secured by one- to four-family dwellings was lowest (4.5 percent) on loans with contract lengths of fifteen years or more and loan-to-value ratios of 70 percent and over; loans on which these credit terms were more stringent had an average current interest rate of 4.8 percent. Again, this differential may be due to a difference in the number of years the loans of different descriptions had been on the books, though

TABLE 12 – AVERAGE CURRENT INTEREST RATES FOR A SAMPLE OF NON-INSURED URBAN MORTGAGE LOANS HELD BY 170 COMMERCIAL BANKS, JUNE 1947, CLASSIFIED BY TYPE OF PROPERTY, PROPERTY LOCATION AND LOAN CONTRACT TERMS [a]

Loan Characteristics	*1- to 4-Family Dwellings*		*All Other Property*	
	Number of Loans	Interest Rate [b]	Number of Loans	Interest Rate [b]
CENSUS REGION [c]				
North	*823*	*4.5%*	*169*	*4.1%*
New England	48	4.5	17	4.0
Middle Atlantic	271	4.5	81	4.1
East North Central	504	4.6	71	4.2
South	*149*	*4.6*	*32*	*3.6*
South Atlantic	121	4.7	30	3.6
East South Central	28	4.5	2	d
West	*1,006*	*5.0*	*157*	*4.2*
West North Central	176	4.3	39	3.5
West South Central	12	4.7	10	4.2
Mountain	20	5.7	4	4.7
Pacific	798	5.1	104	
CONTRACT LENGTH				
0 – 4 years	429	4.7	79	4.2
5 – 9	758	4.9	162	4.2
10 – 14	698	4.8	110	4.0
15 – 19	72	4.5	5	4.4
20 and over	21	4.4	2	
LOAN-TO-VALUE RATIO [e]				
Under 40%	251	4.9	73	4.0
40 – 59	1,084	4.9	185	4.3
60 – 69	537	4.8	58	4.2
70 – 79	37	4.4	16	3.4
80 and over	61	4.3	23	4.1
ORIGINAL LOAN AMOUNT				
Less than $5,000	1,274	5.1	85	5.2
5,000 – 9,999	563	4.8	68	4.7
10,000 – 19,999	119	4.6	89	4.5
20,000 – 49,999	20	4.5	77	4.7
50,000 – 99,999	..	..	23	4.2
100,000 and over	2	d	16	3.7
Total	*1,978*	*4.8%*	*358*	*4.1%*

[a] Excludes loans for which data on type of loan and loan-to-value ratio were not available.

[b] Weighted in each case by the outstanding balance of each loan.

[c] For the states included in each census region, see Table 6, footnote b.

[d] Interest rate not given, since data were available for only two loans.

[e] For a definition of loan-to-value ratio, see Table 10, footnote c.

there is some basis for expecting that the interest rate differential represents a real difference in the risk quality of the loans. Interest rates on noninsured loans secured by other than one- to four-family properties showed no definite relationship to contract lengths or loan-to-value ratios. For sample loans secured by each of the two property types, there was, however, a definite tendency for the interest rate to decline as the size of the loan increased.

Changes in Mortgage Loan Contract Terms, 1920–47

Some of the changes that have occurred since 1920 in mortgage loan contract terms are suggested by the loan sample data submitted by 116 commercial banks, each of which drew loans from its active and inactive files. Reporting banks returned data on 6,370 loans representing $45.7 million. Nearly 60 percent of the number and amount of these loans were made in the period 1935 to 1947. In terms of number of loans, these were made mainly on one- to four-family dwellings located in the Middle Atlantic, East North Central, and Pacific regions (Table 13).

The sample suggests, first, that there has been a decided shift since 1920 from the nonamortized to the amortized loan: in the 1920–34 period, from 40 to 45 percent of all sample loans on one- to four-family dwellings were nonamortized, while only about 5 percent of those made in the period 1940–47 were of this type (Table 14). However, even before the introduction of insured loans in 1934 about 40 percent of the number of sample loans made were on a partially amortized basis and about 15 percent were fully amortized. Partial amortization has remained a comparatively common characteristic of loans secured by other than one- to four-family properties, accounting for about 40 percent of the number of sample loans made from 1920 through 1944 and 26 percent of those made in the 1945–47 period. Full amortization was less common in the early years of the period studied: only about 9 percent of the number of those loans made in the 1920–34 period were fully amortized as compared with about 50 percent of those made in 1940–47.

Second, the sample data show that, with the exception of the years 1927–29 and 1933, the average contract interest rate declined over the period, falling rather gradually from 6.1 percent on straight mortgage loans made in 1921 on one- to four-family dwellings to 5.8

TABLE 13 — PERCENTAGE DISTRIBUTION OF A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 116 COMMERCIAL BANKS BY PERIOD MADE AND PROPERTY LOCATION, CLASSIFIED BY TYPE OF PROPERTY, 1920–47 [a]

(dollar figures in thousands)

Period Made and Census Region	*1- to 4-Family Dwellings*		*All Other Property*		*All Property*	
	No. of Loans	Orig. Amt.	No. of Loans	Orig. Amt.	No. of Loans	Orig. Amt.
PERIOD MADE						
1920-24	12.7%	11.5%	11.5%	13.5%	12.6%	12.4%
1925-29	19.5	20.9	21.5	15.2	19.7	18.2
1930-34	7.2	7.2	9.3	12.3	7.5	9.6
1935-39	18.0	15.7	16.7	12.9	17.8	14.4
1940-44	24.4	22.6	19.8	14.1	23.8	18.6
1945-47	18.1	22.0	21.1	31.9	18.4	26.7
CENSUS REGION [b]						
North	*64.0*	*67.6*	*58.7*	*73.2*	*63.4*	*70.2*
New England	2.6	3.7	5.0	4.9	2.8	4.2
Middle Atlantic	16.2	20.8	20.0	52.1	16.7	35.5
East North Central	45.2	43.1	33.7	16.2	43.9	30.5
South	*6.3*	*6.7*	*6.1*	*7.4*	*6.2*	*7.0*
South Atlantic	5.4	5.7	5.8	7.4	5.4	6.5
East South Central	.9	1.0	.3	c	.8	.5
West	*29.7*	*25.7*	*34.9*	*19.2*	*30.3*	*22.6*
West North Central	7.2	6.0	6.0	5.2	7.0	5.6
West South Central	2.0	1.8	2.7	1.4	2.1	1.6
Mountain	1.3	1.2	.4	.1	1.2	.7
Pacific	19.2	16.7	25.8	12.5	20.0	14.7
Total	*5,626*	*$24,213*	*744*	*$21,502*	*6,370*	*$45,715*

[a] Excludes a few loans for which data on period made or census region were not available.

[b] For the states included in each census region, see Table 6, footnote b.

[c] Less than .05 percent.

percent on those made in 1934, and thereafter more rapidly to 4.4 percent for loans made in 1946 (Chart 2).[11] The contract interest

[11] Contract terms on real estate sales contracts and purchase money mortgages were also examined according to period made and compared with the terms on straight mortgages for the same period. From the available sample data on loans made on one- to four-family dwellings and other property, there would seem to be no significant difference in interest rates when the two types of contracts were compared by period; however, contract lengths and loan-to-value ratios were slightly more liberal on real estate sales contracts and purchase money mortgages. See Appendix Table B4 for a comparison of terms on straight mortgages and purchase money mortgages.

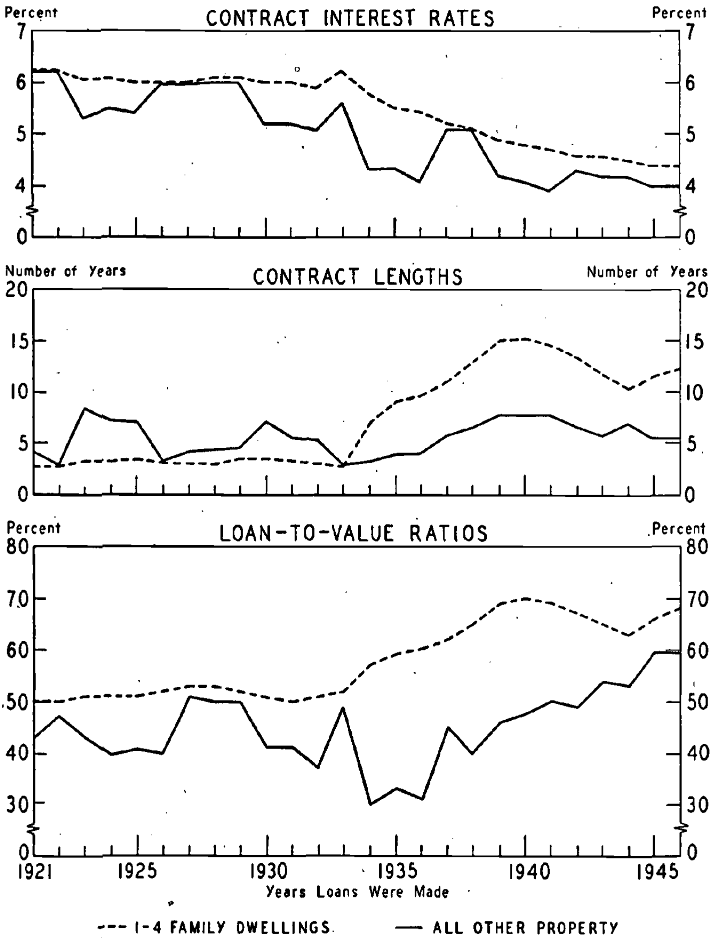
TABLE 14 — Percentage Distribution of a Sample of Urban Mortgage Loans Made by 116 Commercial Banks by Type of Loan, Classified by Period Made, 1920–47 [a]

(*dollar figures in thousands*)

Type of Loan	1920–24		1925–29		1930–34		1935–39		1940–44		1945–47	
	No. of Loans	Orig. Amt.	No. of Loans	Orig. Amt.	No. of Loans	Orig. Amt.	No. of Loans	Orig. Amt.	No. of Loans	Orig. Amt.	No. of Loans	Orig. Amt.
					1- to 4-Family Dwellings							
Insured	..	..	..	..	*.2%*	*.1%*	*41.8%*	*48.6%*	*44.5%*	*50.6%*	*38.3%*	*41.2%*
VA	..	..	..	..	..	..	..	..	..	..	25.5	28.4
FHA	..	..	..	..	.2	.1	41.8	48.6	44.5	50.6	12.8	12.8
Noninsured	*99.1%*	*98.7%*	*99.2%*	*98.9%*	*99.0*	*98.9*	*58.0*	*51.3*	*55.4*	*49.3*	*61.4*	*58.1*
Fully amortized	15.4	14.7	16.0	10.2	16.9	13.4	24.7	20.3	26.0	22.3	31.4	27.3
Partially amortized	42.0	43.5	37.6	38.3	37.7	35.3	20.7	20.7	24.0	23.3	23.9	27.1
Nonamortized	41.7	40.5	45.6	50.4	44.4	50.2	12.6	10.3	5.4	3.7	6.1	3.7
Not Available	*.9*	*1.3*	*.8*	*1.2*	*.7*	*1.0*	*.2*	*.2*	*.1*	*.1*	*.4*	*.7*
Total	*714*	*$2,781*	*1,097*	*$5,060*	*408*	*$1,749*	*1,012*	*$3,794*	*1,371*	*$5,464*	*1,017*	*$5,336*
					All Other Property							
Insured	..	..	..	..	..	..	*4.0%*	*.8%*	*1.4%*	*2.8%*	*7.0%*	*1.1%*
VA	..	..	..	..	..	..	..	..	..	..	5.7	1.0
FHA	..	..	..	..	..	..	4.0	.8	1.4	2.8	1.3	.1
Noninsured	*100.0%*	*100.0%*	*99.3%*	*99.8%*	*98.5%*	*97.6%*	*93.6*	*96.9*	*96.6*	*96.6*	*92.4*	*98.7*
Fully amortized	5.8	2.4	10.6	7.5	10.1	4.8	35.5	13.8	41.5	19.6	56.1	27.8
Partially amortized	40.7	9.2	43.1	38.8	39.1	45.1	36.3	31.4	44.9	74.3	26.1	52.3
Nonamortized	53.5	88.4	45.6	53.5	49.3	47.7	21.8	51.7	10.2	2.7	10.2	18.6
Not Available	..	..	*.6*	*.2*	*1.4*	*2.4*	*2.4*	*2.3*	*2.0*	*.5*	*.6*	*.1*
Total	*86*	*$2,896*	*160*	*$3,264*	*69*	*$2,643*	*124*	*$2,766*	*147*	*$3,027*	*157*	*$6,871*

[a] Excludes a few loans for which data on period made were not available.

CHART 2 – CONTRACT INTEREST RATES, CONTRACT LENGTHS, AND LOAN-TO-VALUE RATIOS FOR A SAMPLE OF STRAIGHT URBAN MORTGAGE LOANS MADE BY 116 COMMERCIAL BANKS, 1921–46 [a]



[a] Three-year moving averages of interest rates, contract lengths, and loan-to-value ratios, each weighted by three-year moving averages of original loan amounts. Data in Appendix Table B5.

After 1933, interest rates on commercial bank real estate loans declined steadily, maturities more than doubled in length, and loan-to-value ratios increased by almost twenty percentage points.

rate on sample loans secured by all other types of property, as shown in Chart 2, varied considerably more from year to year than the rate on small dwelling loans, doubtless due to the small number of such loans included in the loan sample and to changes from year to year in the average size of the loans included; but the general movement of rates was downward, the average dropping from 6.2 percent in 1921 to 4.0 percent in 1946.

This general downward movement from 1920 to 1947 in contract interest rates on straight mortgages secured by both one- to four-family and all other types of property was characteristic of loans made in each of the three broad sections of the United States—namely, the northern, southern, and western states (Table 15). Limiting attention to loans of the conventional noninsured type, it will be observed that interest rates on sample one- to four-family dwelling loans made from 1920 to 1939 were generally higher for properties located in the West than for those located in the North and South. In the period 1940–47, however, this differential had largely been eliminated and interest rates on noninsured loans secured by one- to four-family dwellings were about the same for the West as for the other two sections, with a consequently greater decline in rates in the West. This growing regional uniformity of interest rates probably reflects some shifting of mortgage funds as well as the influence on the market of government facilities for loan insurance or guarantee. The relatively rapid expansion of mortgage loans in the West was apparent in Chart 1.

Interest rates on noninsured sample loans secured by income-producing properties were generally lowest in the North and highest in the West for the four periods analyzed from 1920 to 1939. However, during the period 1940–47 current interest rates on sample loans were lowest in the South and highest in the North, though this result may be due to the inclusion of a number of unusually large loans in the small number of sample loans secured by properties located in the South. The data are not shown here, but a more detailed breakdown of sample loans by census regions indicates that interest rates on income-property loans made in the 1940–47 period were probably more uniform among regions than were the rates on loans made in the earlier periods.

The average contract length on the straight mortgage loans in the sample that were made prior to 1934 on one- to four-family

TABLE 15 — Average Contract Interest Rates for a Sample of Straight Urban Mortgage Loans Made by 116 Commercial Banks, Classified by Property Location, Type of Loan and Period Made, 1920–47

Type of Loan and Period Made	North		South		West		United States	
	No. of Loans	Interest Rate [a]	No. of Loans	Interest Rate [a]	No. of Loans	Interest Rate [a]	No. of Loans	Interest Rate [a]
				1- to 4-Family Dwellings				
Insured								
1935-39	128	4.9%	4	[b]	148	4.9%	280	4.9%
1940-47	360	4.3	13	4.3%	213	4.4	587	4.3 [c]
Noninsured								
1920-24	376	6.1	18	6.0	175	6.5	569	6.2
1925-29	579	5.9	85	6.0	225	6.5	889	6.0
1930-34	177	5.8	2	[b]	152	6.4	333	6.0 [c]
1935-39	219	5.3	9	4.9	159	5.7	397	5.5
1940-47	672	4.7	17	4.8	223	4.6	912	4.7
				All Other Property [d]				
Noninsured								
1920-24	42	5.2	1	[b]	22	6.5	66	5.3 [c]
1925-29	95	5.8	10	6.0	37	6.4	143	5.9 [c]
1930-34	28	5.1	2	[b]	31	6.1	61	5.3
1935-39	31	4.1	2	[b]	35	5.4	68	4.4
1940-47	108	4.1	8	3.2	64	3.9	180	4.0

[a] Weighted in each case by the original amount of each loan.
[b] The interest rates have been omitted since the sample includes fewer than five loans.
[c] Includes a few loans for which data on property location were not available.
[d] Since there were only nine insured sample loans in the *All Other Property* category, these loans have been omitted.

dwellings was roughly three years, and the loan-to-value ratio about 50 percent. In 1934, however, the introduction of loan insurance increased the average contract length to seven years, and the average loan-to-value ratio to 57 percent. As indicated by Chart 2, these two contract terms continued to ease through 1940, but after that year there appears to have been a temporary tightening of terms, followed by a renewed relaxation in 1945. By 1946, the average contract length on loans made on one- to four-family dwellings was twelve years and the average loan-to-value ratio 68 percent.

The loan sample suggests that long-term changes in contract terms have been less marked for loans on income-producing properties than for those on small residential structures. The former have been made by banks mainly for an average maturity of from three to eight years: loan-to-value ratios have ranged between 37 and 51 percent on loans made from 1921 to 1940 (except for such depressed years as 1934–36), but since 1940 this ratio has shown some tendency to increase.