Volume Title: The Postwar Rise of Mortgage Companies

Volume Author/Editor: Saul B. Klaman

Volume Publisher: NBER

Volume ISBN: 0-87014-374-3

Volume URL: http://www.nber.org/books/klam59-1

Publication Date: 1959

Chapter Title: Front matter, The Postwar Rise of Mortgage Companies

Chapter Author: Saul B. Klaman

Chapter URL: http://www.nber.org/chapters/c2553

Chapter pages in book: (p. -18 - 0)

The Postwar Rise of Mortgage Companies

SAUL B. KLAMAN

OCCASIONAL PAPER 60

NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.
1959

NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.
261 Madison Avenue, New York 16, N. Y.

Typography by Oscar Leventhal, Inc.
Printing and Binding by the Leebo Printing Company
Library of Congress catalog card number: 58-7483
Price: $1.50

Klaman, Saul B

The postwar rise of mortgage companies. [New York] National Bureau of Economic Research, 1959.

102 p. illus. 23 cm. (National Bureau of Economic Research. Occasional paper, 60)

1. Mortgage banks—U. S. I. Title.

HG2051.U5 ~~332.3~~ **58-7483 ‡**

Relation of the Directors to the Work and Publications of the National Bureau of Economic Research

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the National Bureau is carried on in strict conformity with this object.

2. To this end the Board of Directors shall appoint one or more Directors of Research.

3. The Director or Directors of Research shall submit to the members of the Board, or to its Executive Committee, for their formal adoption, all specific proposals concerning researches to be instituted.

4. No report shall be published until the Director or Directors of Research shall have submitted to the Board a summary drawing attention to the character of the data and their utilization in the report, the nature and treatment of the problems involved, the main conclusions, and such other information as in their opinion would serve to determine the suitability of the report for publication in accordance with the principles of the National Bureau.

5. A copy of any manuscript proposed for publication shall also be submitted to each member of the Board. For each manuscript to be so submitted a special committee shall be appointed by the President, or at his designation by the Executive Director, consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when the summary and report described in paragraph (4) are sent to him. It shall be the duty of each member of the committee to read the manuscript. If each member of the special committee signifies his approval within thirty days, the manuscript may be published. If each member of the special committee has not signified his approval within thirty days of the transmittal of the report and manuscript, the Director of Research shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty additional days shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board and a two-thirds majority of those members of the Board who shall have voted on the proposal within the time fixed for the receipt of votes on the publication proposed shall have approved.

6. No manuscript may be published, though approved by each member of the special committee, until forty-five days have elapsed from the transmittal of the summary and report. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general, or of the special committee, have passed upon its validity in every detail.

7. A copy of this resolution shall, unless otherwise determined by the Board, be printed in each copy of every National Bureau book.

(Resolution adopted October 25, 1926
and revised February 6, 1933 and February 24, 1941)

This report is one of a series emerging from an investigation of postwar capital market developments in the United States aided by a grant to the National Bureau from the Life Insurance Association of America.

FOREWORD

Three reasons impelled the National Bureau of Economic Research to publish separately one part of Saul Klaman's study of the mortgage market which deals with the rise of mortgage companies, the entire study in turn forming a part of a wider project on the American postwar capital market.[1] First, no organized and quantitative information on mortgage companies has been previously available although they have come to play an increasingly important part in home financing. Second, Mr. Klaman has managed to collect more relevant material on mortgage companies than could be accommodated in his forthcoming report without upsetting its balance, and we felt that these additional data should be made available to other students of the postwar capital market soon. Third, the rise of the mortgage company is a particularly instructive example of adaptation of our financial organization to new needs and to changes in government regulation, and therefore worthy of special attention.

Mortgage companies as we now know them — about one thousand with approximately two billion dollars of assets — are essentially a result, though not a planned one, of the federal government's underwriting of residential mortgages introduced first in the mid-1930's and greatly extended after World War II. Klaman shows this connection convincingly and in detail. The introduction of federally underwritten mortgages provided a capital market instrument closely matched in safety with Treasury securities, but quite unlike them in degree of marketability, need for servicing, and gradual repayment through amortization. It is an instrument — and this is essential — with a yield in most years considerably above that of direct Treasury obligations, not only on a gross but also on a net basis. It is not surprising, therefore, that some classes of large institutional investors not primarily interested in marketability, particularly life insurance companies, have shifted their holdings more and more from direct

[1]See the thirty-sixth and thirty-seventh annual reports of the National Bureau of Economic Research: *Basic Research and the Analysis of Current Business Conditions*, May 1956, pp. 54-57; and *Financial Research and the Problems of the Day*, May 1957, pp. 34-39.

Treasury obligations to insured and guaranteed mortgages. It is primarily as administrators of such mortgages for institutional investors that mortgage companies have found their place in the financial structure of the United States.

Will mortgage companies remain essentially an ancillary institution, an originating and service organization for institutional investors in government-insured and -guaranteed home mortgages, using short-term bank credit to carry a temporary inventory of mortgages already spoken for by institutional clients? Or will they, by adding operations characteristic of some companies prior to the days of mortgage insurance, broaden into a more diversified and independent type of institution — a sort of general mortgage dealer and underwriter — handling mortgages of all types, placing them with individual as well as institutional investors, and carrying a general inventory of uncommitted mortgages for sale? Are they likely, as well, by expansion or amalgamation, to increase their general real estate operations blurring further the distinction between mortgage companies and real estate investment, brokerage, and development companies? Finally, will they remain within their generally local spheres of operation, or will many of them develop, as a few have, into organizations working to a considerable extent through branch offices on a regional or even a nationwide scale? Klaman is too careful a student to propose answers to such speculative questions, but he does indicate that, in his opinion, the future of mortgage companies will depend on further developments in the field of government-underwritten mortgages and on the ability of companies to expand their conventional mortgage loan business.

It is, of course, on answers to the questions just raised that the position of mortgage companies in the financial structure of the United States in the next decades will depend. Whatever the answers may be, it is not likely that mortgage companies can continue for long to combine the two trends — reliance on guaranteed mortgage loans acquired by life insurance companies, and rapid growth — that have characterized their development since they began to acquire importance in the mid-1930's and particularly since World War II. (They already service nearly half of all underwritten mortgages and approximately four-fifths of such mortgages held by life insurance companies, mutual savings banks, and the Federal National Mortgage Association.) Either the operations of mortgage companies will continue about the same as they are now, and the companies will grow at a much more moderate rate, more or less in line with the expansion of the total volume of federally underwritten mortgages; or they will expand their field of activities and the circle of their clients.

There remains a suggestion which is not dependent on answers to these speculative questions. Mortgage companies already are important enough and sufficiently concerned with a public interest to create a demand for reliable and comprehensive information on their activities to be made continually available. This Occasional Paper represents a pioneering attempt to bring together basic data on the assets and liabilities of mortgage companies on an annual basis for the entire decade from 1946 to 1955 and quarterly for 1953 to 1955, and annual data on mortgage operations for the latter period. This material should not be permitted to become obsolete. One of the federal agencies interested in financial statistics ought to continue and improve the collection of annual and quarterly balance sheets of a representative sample of mortgage companies, and add information on the essential items of the profit and loss statements and on gross volume of business done. In addition, more detailed surveys of all companies should be made at longer intervals to establish reliable benchmarks. If this report should lead to such additions to our arsenal of financial statistics the study will have been rewarding.

RAYMOND W. GOLDSMITH
Director, Postwar Capital Market Study

ACKNOWLEDGMENT

This study could not have been carried out without the full cooperation and support of the Federal Housing Administration, upon whose records a large part of the data are based; the Mortgage Bankers Association of America, which actively endorsed and helped formulate the special survey of mortgage companies; and the many individual mortgage companies that responded to the survey questions or provided information in interviews. It is not possible to acknowledge separately my indebtedness to the many individuals, associated with these organizations, who contributed in some way to the successful completion of the study, but I am happy to be able to express my appreciation to a few who played key roles.

Those in the Federal Housing Administration to whom I am especially grateful are Norman P. Mason, Commissioner, for permitting extraction from FHA records of financial data on mortgage companies, not available elsewhere; to Allan F. Thornton, Director, and Fordyce A. Voss, Deputy Director, of the Division of Research and Statistics, for their aid in preliminary planning and for organizing and directing the basic task of transcribing data from original mortgage company records; to Mortimer Kaplan, financial economist in the Division of Research and Statistics, for his many helpful ideas about the use of FHA records for analysis of the financial structure of mortgage companies, and for his able and patient liaison activity from the beginning of negotiations for data through their compilation and ultimate transmission to the National Bureau; to Guy H. Brunstetter, mortgagee approval officer, for his ready and adroit solving of the many technical problems in connection with individual company balance sheets; and to Alan Truax of the Division of Research and Statistics for directly supervising data transcription and adjustment from original records, and for his efforts to provide additional related information from them.

Among officers of the Mortgage Bankers Association of America, I am indebted to Lindell Peterson, president during 1956, for his support of the special survey of mortgage companies; to Frank J. McCabe, assistant secretary-treasurer and now executive vice-president, and W. James Metz, formerly controller and director, servicing and accounting, for their helpful suggestions toward improving the survey questionnaire; and to Samuel E. Neel, general counsel, for his help and support at various points throughout the planning of the study.

A number of busy mortgage company executives gave freely of their time for my education in the early background and development of mortgage companies and the intricacies of present day operations. Among these I wish to acknowledge especially the assistance and many kindnesses of the following company presidents: W. A. Clarke, W. A. Clarke Mortgage Company; Frank J. Bell, B. F. Saul Company; Arthur G. Pulis, Jr., Franklin Capital Corporation; Robert J. Goldsby, Jersey Mortgage Company; Oliver M. Walker, Walker and Dunlop, Inc.; Edward K. Jones, Weaver Brothers, Inc.; and G. Calvert Bowie, G. Calvert Bowie, Inc. I also benefited greatly from discussions with Miles L. Colean, consulting economist, whose expertness in the fields of real estate finance and mortgage banking is widely recognized.

I am grateful to several members of the staff of the National Bureau of Economic Research who made important contributions to the study. Raymond W. Goldsmith, director of the Postwar Capital Market Study, of which this paper is a part, gave constant guidance and encouragement, and his advice is reflected at many points of technical analysis and organization of material. I am heavily indebted to the staff reading committee, Leo Grebler, Roland I. Robinson, and Lawrence H. Seltzer, whose review of the preliminary manuscript and suggestions concerning content and organization of material contributed to revision and improvement of the final draft; and to Morris Mendelson who read the early draft and offered valued suggestions. Acknowledgment is also made to the National Bureau's Advisory Committee on the Postwar Capital Market Study.

I am grateful to Milton Kelenson, my assistant throughout the study, for performing so capably the arduous statistical work. Elizabeth Patterson also assisted in the study for a time, ably performing numerous statistical chores. My thanks are due H. Irving Forman for the charts and exhibits, and to Margaret T. Edgar for such a workmanlike job of editing.

To the Board of Governors of the Federal Reserve System and to Ralph A. Young, director of its Division of Research and Statistics, I owe a deep debt of gratitude for permitting me a leave of absence during which this study was largely completed.

Notwithstanding the many individuals who contributed so importantly to the study, no one but myself is responsible for the inadequacies which remain.

SAUL B. KLAMAN

CONTENTS

TABLES

APPENDIX TABLES

CHARTS AND EXHIBITS