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Rise of  
Mortgage Companies

SAUL B. KLAMAN

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*(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 Klamán'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.<sup>1</sup> 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. Klamán 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. Klamán 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

<sup>1</sup>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? Klamon 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*

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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.

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ful 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.

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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

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