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: Age, Growth, and Geographic Distribution

Chapter Author: Saul B. Klaman

Chapter URL: http://www.nber.org/chapters/c2556

Chapter pages in book: (p. 16 - 28)

3. AGE, GROWTH, AND GEOGRAPHIC DISTRIBUTION

Modern mortgage banking in this country, as it operates today, is a relatively young industry. It has had a spectacular growth in the postwar decade, far greater than that of other types of financial institutions active in the expanding real estate and mortgage markets. Growth in number and assets of mortgage companies has been greatest in those areas that have experienced a particularly sharp expansion in residential building and sales and are generally removed from financial centers. The greater growth of companies located in areas where other financing institutions are not numerous reflects the importance of one basic economic function the companies perform, that of channeling funds from capital surplus to capital deficit areas.

Age and Growth

There is, unfortunately, no direct evidence on the age of mortgage companies in the United States. The known facts, noted previously, are that several of today's companies developed out of earlier real estate organizations in the 1920's and 1930's, that others have been in continuous operation for many more years, that still others resulted from the reorganization of depression casualties, and that a large number have been organized only since the end of World War II. Some tangible though indirect evidence on the age of mortgage companies has been developed from FHA records on dates of incorporation of FHA-approved mortgage companies, summarized in Table 1. The year of a company's incorporation is, of course, not necessarily the year of its actual beginning as a mortgage company and the date obscures other facts about predecessor companies, reorganizations, or mergers. Discussion with several mortgage company executives and with FHA officials, however, suggested that few companies currently in operation were active in the mortgage market prior to incorporation in their present form. Data in Table 1, therefore, may be interpreted as broadly, though not strictly, representative of the age distribution of mortgage companies in the United States.

TABLE 1

Period of Incorporation of Mortgage Companies Which Were FHA-approved Mortgagees as of December 31, 1954, by Asset Size

PERIOD OF INCORPORATION	All Companies	*1954 Asset Size (in millions of dollars)* Under 1	1-2	2-5	5-10	Over 10
		Number of Companies				
1950-1954	194	156	22	13	2	1
1945-1949	251	175	44	20	9	3
1940-1944	78	49	11	11	6	1
1935-1939	129	78	21	16	10	4
1930-1934	45	10	14	13	6	2
1925-1929	69	39	14	14	1	1
1920-1924	33	20	6	4	3	0
1910-1919	12	0	4	7	1	0
1900-1909	37	29	2	6	0	0
Prior to 1900	6	0	3	2	1	0
Total companies	854	556	141	106	39	12
Median year of incorporation	1945	1946	1942	1937	1938	1938
		Percentage Distribution				
ALL YEARS	100	100	100	100	100	100
1950-1954	23	28	16	12	5	8
1945-1949	29	32	31	19	23	25
1940-1944	9	9	8	10	15	8
1935-1939	15	14	15	15	26	33
1930-1934	5	2	10	12	15	17
1925-1929	8	7	10	13	3	8
1920-1924	4	4	4	4	8	0
1910-1919	1	0	3	7	3	0
1900-1909	4	5	1	6	0	0
Prior to 1900	1	0	2	2	3	0

Source: Records of the Federal Housing Administration. Data for companies having under $1 million in assets are based on a 10 per cent sample.

The youth of the industry is affirmed by the fact that of 854 companies operating as FHA-approved mortgagees in 1954, 445 or more than one-half were incorporated in the postwar decade. Nearly one-fourth of these, moreover, were incorporated in the five years beginning in 1950. The stimulus given to the mortgage banking industry by the FHA is indicated in part by the number of companies incorporated in the five-year period following that agency's organization in 1934, a larger percentage – 15 per cent – than in any other five-year period prior to 1945; more of those now in the larger asset-size groups were incorporated from 1935 to 1939 than in any other period. The median age of FHA-approved mortgage companies in 1954 was less than 9 years, and less than one in five could trace their lineage from before the Great Depression.

Logically enough, there is a close relationship between asset size of company and year of incorporation, proportionately more of the smaller than larger companies having been incorporated in recent years. Of the 194 companies incorporated in the last half of the postwar decade, 156 or four-fifths still had assets of less than $1 million at the end of 1954. Further, three-fifths of these and about one-half of the 1 to 2 million dollar asset-size companies were incorporated in the postwar decade, whereas less than one-third of the larger companies are of such recent origin. Above the $2 million assets line, the relationship between size and age is less direct, suggesting that, at this point, factors more important than age – management, area of operation, and policies of principal associated investors – influence growth.

For financial enterprises, as for other industries, increases in the number of institutions, in amount of assets, and in volume of business, are common measures of growth. By any of these criteria, mortgage banking has had an extraordinarily rapid growth in the postwar decade. This period, in which federally underwritten mortgage lending expanded rapidly and large-scale institutional investors widened their mortgage horizons to areas not previously explored, was especially propitious for the establishment of many new mortgage companies, the number nearly doubling in ten years, as can be seen from Table 2.[16] During this same period the number of commercial banks, savings banks, and savings and loan associations, each far greater than mortgage companies, was declining slightly. Although life insurance companies also doubled in number and were about as numerous as mortgage companies at the end of 1955, the newcomers in the postwar decade were much smaller in size compared with the old established companies than were the new crop of mortgage companies compared with the old.

Far more spectacular than the doubling in number of mortgage companies was the tenfold increase in assets between 1945 and 1955, from an estimated $160 million to $1.8 billion. The much faster rate of growth in assets than in number of companies was reflected in the sharp rise in the average amount of asset holdings per company, from less than $350,000 to over $2 million. The rate of growth was much faster in the

[16]The number of mortgage companies in earlier postwar years is probably understated slightly so that the rate of growth may be slightly overstated. Since the number is based on companies operating as FHA-approved mortgagees in 1954 or 1955, companies that existed in earlier years and subsequently went out of business are not included. Also excluded, of course, for all years are those mortgage companies not FHA-approved by 1954 or 1955. Both groups are undoubtedly small parts of the total, however, and their omission should have little effect on the analysis.

TABLE 2

Number and Assets of Mortgage Companies in the United States, 1945-1955

END OF YEAR	*Number*	*Aggregate assets (millions of dollars)*	*Average assets (thousands of dollars)*
1945	461	160	347
1946	527	286	543
1947	580	355	612
1948	605	347	574
1949	660	472	715
1950	713	731	1,025
1951	742	693	934
1952	785	861	1,097
1953	830	956	1,152
1954	854	1,202	1,407
1955	865	1,822	2,106

Includes mortgage companies that were FHA-approved mortgagees in 1954 or 1955 and in operation (whether or not approved) in preceding postwar years. Source: Same as Table 1.

first half of the postwar decade, primarily because of the low starting point; the absolute increase in both total and average assets, however, was much greater after 1950 than before. Particularly interesting, in Table 2, are the much sharper year-to-year increases in assets between 1949 and 1950 and between 1954 and 1955 than between other years back to 1946, reflecting the marked expansion of residential building and mortgage activity in these years and the development of new market techniques discussed in the preceding section.

There have been substantial differences in the growth rate of mortgage companies in various asset-size classes, as suggested by Table 3 and Chart 1. The few companies having over $10 million in assets as of 1954 showed by far the greatest expansion in total assets during the postwar decade. The class ranking next in rate of growth was at the other extreme, the large number of companies with less than $1 million in assets, showing a slightly higher rate than companies in the 5 to 10 million class. For all sizes, the first half-decade's expansion rate was substantially greater than the second half-decade's, but the rates of growth were much more even among size classes in the second half of the decade than in the first. The sharp increase in total assets held by the smallest companies was, in part, the result of their more than doubling in number; but for the largest companies the great increase in total assets was due more to growth of individual companies than to the increase in their number.

Another and perhaps more instructive way of looking at asset growth of mortgage companies in the postwar decade is by the extent of upward shift in asset holdings of individual companies. The sharp shift which occurred between 1946 and 1954 is shown graphically in Table 4. In the very small companies this upward shift in assets is much less pronounced than in the others. Of the 435 companies with less than $1 million in assets in 1946, over two-thirds were still in the same group in 1954 – though, of course, the relative rate of asset growth of some must have been very high. By contrast only 23 or one-fourth of the 92 companies having assets of more than $1 million in 1946 were still in the same size class in 1954, and about half of them had at least doubled their assets.

Only a handful of companies moved counter to the trend, being in higher asset-size classes in 1946 than in 1954. For example, of the 141 companies holding between 1 and 2 million dollars in 1954, 121, or 86 per cent either had held less than 1 million or were not in operation during 1946. Of 22 companies having between 4 and 5 million in 1954, half had less than 1 million or were not operating, and another two-fifths held between 1 and 3 million in 1946. In the top of the asset-size range, only one of the 12 companies holding more than 10 million dollars in

TABLE 3

Number and Assets of Mortgage Companies by 1954 Asset Size, Selected Years, 1945-1955

(assets in millions of dollars)

1954	1945		1950		1955	
ASSET SIZE	Number	Assets	Number	Assets	Number[a]	Assets
All classes	461	160	713	731	854	1,822
Under 1 million	263	26	439	161	556	377
1-2	83	46	127	134	141	298
2-5	77	53	98	198	106	475
5-10	30	24	38	144	39	320
Over 10	8	11	11	95	12	352

Percentage Increase

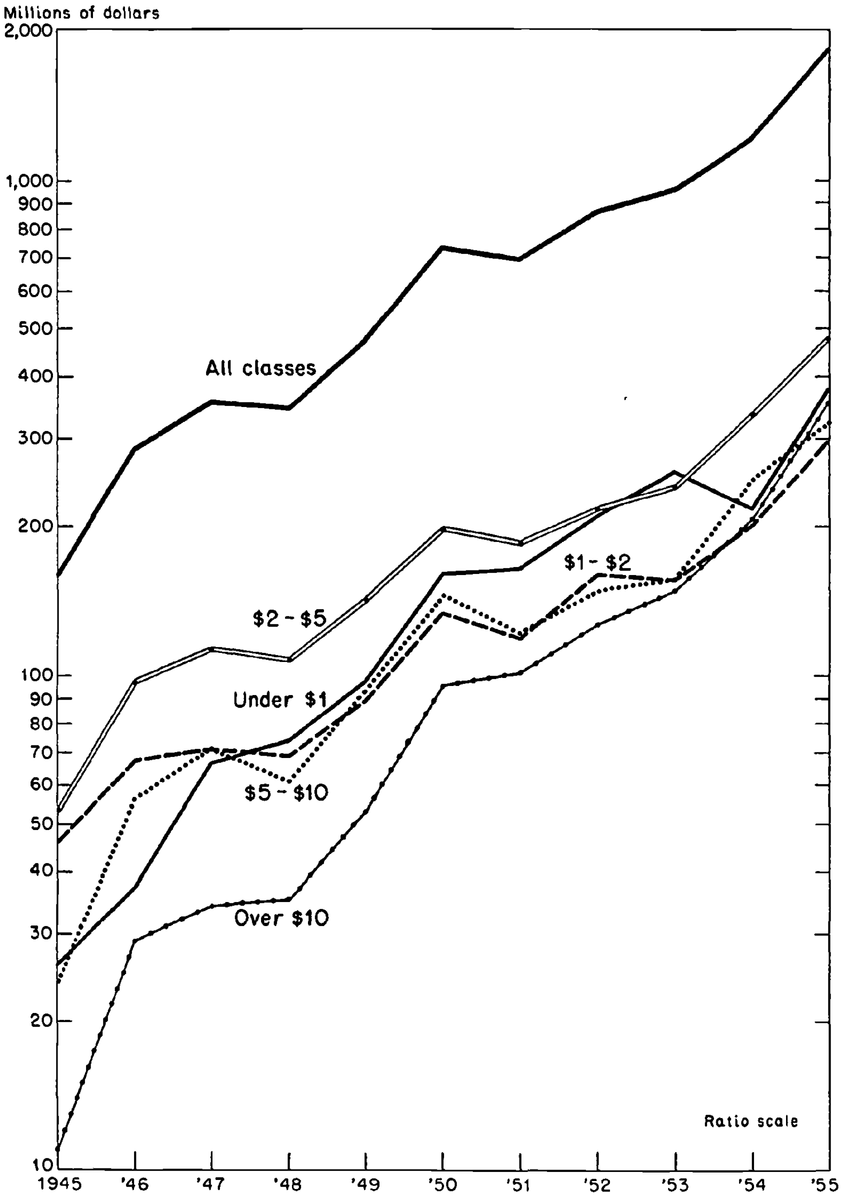
	1945-1950		1950-1955		1945-1955	
	Number	Assets	Number	Assets	Number	Assets
All classes	55	357	20	149	85	1,039
Under 1 million	67	519	27	134	111	1,350
1-2	53	191	11	122	70	548
2-5	27	274	8	140	38	796
5-10	27	500	3	122	30	1,233
Over 10	38	764	9	271	50	3,100

[a]Represents number in 1954. Data for 1955 by asset-size class were not available but were probably close to the 1954 total.

Source: Same as Table 1.

CHART 1

Asset Growth of Mortgage Companies by 1954 Asset-size Class, 1945-1955



Source: Tables 19 and A-1 through A-5.

TABLE 4

Mortgage Companies Classified by Asset Size in 1946 and 1954

1946 ASSET SIZE	1954 Asset Size (in millions of dollars) Under 1	1-2	2-3	3-4	4-5	5-6	6-7	7-8	8-10	10-15	Over 15	Total companies
Under 1 million	302	80	24	13	7	5	2	1	1	..	..	435
1-2	..	13	8	11	3	5	4	3	..	2	..	49
2-3	..	4	5	..	6	2	4	1	1	2	1	26
3-4	..	3	..	4	1	1	..	..	1	..	3	13
4-5	..	..	..	..	1	..	1	..	1	..	..	3
5-9	..	..	..	..	..	..	..	..	..	..	1	1
COMPANIES NOT IN OPERATION IN 1946	254	41	15	4	4	4	..	2	..	2	1	327
Total companies	556	141	52	32	22	17	11	7	4	6	6	854

Source: Same as Table 1.

1954 had approached this amount in 1946, while the remaining 11 companies had less than 4 million or were not in operation during 1946.

The postwar growth of mortgage companies is not adequately measured by their increasing number and assets alone. Consideration must especially be given to the volume of business done, which in the mortgage banking industry is generally measured by the amount of mortgage loans serviced for investors. Data on mortgage servicing, unfortunately, are available only for a few recent postwar years and are based chiefly on estimates developed in this study. These estimates, shown in Table 5, rely on the special survey of mortgage companies made for this study and on data obtained earlier in registration statements under Regulation X when this selective real estate credit regulation was in effect. The discussion of these data, to follow, is expanded by further discussion of mortgage servicing and its relationship to mortgage loan closings and holdings, to be found in section 4.[17]

[17]The information obtained on mortgage servicing in this study was checked against that obtained in Regulation X registration statements as of May 31, 1951. On the registration date mortgage companies reported a servicing volume of $6,054 million and mortgage holdings of $492 million, a ratio of 12.3 to 1, compared with a ratio of 14.3 to 1 on the basis of data obtained in this study's special survey. The closeness of these ratios following similar periods of great mortgage activity (1950 and 1955) tends to lend credence to survey results, including the considerably higher ratio of 19.7 to 1 for 1953, a year of reduced mortgage activity, compared to 1950 and 1955. (See section 4, relationship between mortgage loans closed, held, and serviced, for a more complete discussion of the derivation of these ratios.) If these ratios are reasonable then the technique used here of applying them to estimated mortgage debt held by mortgage companies, as shown in Table 5, should yield reasonable estimates of the volume of mortgage servicing.

TABLE 5

Estimated Dollar Volume of Mortgage Loans Serviced by Mortgage Companies Compared with Outstanding Home Mortgage Debt, Selected Dates, 1951-1955

(in billions of dollars)

	Mortgage debt, 1- to 4-family		*Mortgage loans serviced by mortgage companies*		*Ratio of mortgage servicing to outstanding mortgage debt*	
	Total (1)	Federally under-written (2)	Total (3)	Federally under-written (4)	Total loans (5)	Federally under-written (6)
May 31, 1951	48.1	20.7	6.1	5.4	12.7	26.1
Dec. 31, 1953	66.1	28.1	12.3	10.8	18.6	38.4
Dec. 31, 1955	88.4	38.9	19.6	17.3	22.2	44.5

NOTES BY COLUMN

1. Figure for May 31, 1951 represents interpolation between quarterly estimates by Federal Reserve. For other years, figures are from *Federal Reserve Bulletin*, September 1956, p. 973.
2. Same sources as for col. 1, except *Bulletin* reference is to p. 975.
3. For May 31, 1951, *Federal Reserve Bulletin*, June 1952, Table 3, p. 623. Other figures are estimated by applying ratios of mortgage loan servicing to holdings, as indicated by special survey of mortgage companies, to total mortgage company holdings, estimated from FHA records and shown in the combined balance sheet of mortgage companies — Table 9.
4. Estimated by assuming that the ratios of federally underwritten loans held to total loans held, as indicated by survey of mortgage companies, were representative of mortgage servicing as well. For 1953 and 1955, the ratios were 87 and 88 per cent respectively; and the 1955 ratio was applied to the 1951 servicing total.
5. Col. 3, divided by col. 1.
6. Col. 4, divided by col. 2.

The estimated volume of mortgages being serviced by mortgage companies rose to nearly $20 billion by the end of 1955, more than half again the estimated 1953 volume of about $12 billion, and more than three times the mid-1951 volume of $6 billion. This growth in servicing was considerably faster than in total home mortgage debt, so that by the end of 1955, as shown in column 5 of Table 5, mortgage companies were servicing between one-fifth and one-fourth of the one- to four-family mortgage debt compared with about one-eighth in 1951.[18] The marked

[18]Comparison is made with one- to four-family mortgage debt rather than with total mortgage debt, because the bulk of all mortgage company activity is in the home mortgage market. Compared to total mortgage debt outstanding, the ratio of mortgage loans serviced by mortgage companies is, of course, smaller, but the relative growth is equally impressive, from less than 8 per cent in mid-1951 to 15 per cent by the end of 1955.

and increasing significance of mortgage companies in the home mortgage market reflects mainly their activity in federally underwritten mortgages. The estimated volume of FHA and VA loans being serviced by them was approaching one-half of the total outstanding by the end of 1955, compared with one-fourth in mid-1951 (column 6 of Table 5). Finally, comparison of this volume with the home mortgage holdings of investors that are their chief servicing clients – life insurance companies, mutual savings banks, and the Federal National Mortgage Association – indicates that these institutions were having almost two-thirds of their total home mortgages and about four-fifths of those federally underwritten serviced by mortgage companies, compared with one-third and two-fifths respectively in 1951.

The profitability of mortgage banking, reflected in the increasing volume of business, was undoubtedly a basic factor contributing to the attraction of new firms to the industry and the expansion of older firms, and hence to continued growth. Data on actual mortgage company earnings, either gross or net, are unfortunately not available. Some rough approximations may be suggested, however, from related information on volume of mortgage servicing and servicing fees, and on income composition.

Gross income from mortgage servicing apparently increased from about $27 million in 1951 to $88 million in 1955, if we assume a weighted average servicing rate for the industry of about 0.45 per cent and apply this to estimates of servicing volume previously discussed. With the further assumption, on the basis of evidence from a few companies cited earlier, that servicing income contributed between one-third and two-fifths of total gross income of the mortgage banking business, it appears that gross income increased from between $68 and $83 million in 1951 to between $200 and $265 million in 1955, or more than threefold. During this same period the number of companies increased by only about 11 per cent so that gross income per company increased by more than two and a half times.

Because ratios of gross expense to gross income vary widely throughout the industry, it is possible to make only the roughest sort of guess about net income. A few companies in Washington, D.C., in special reports for this study, indicated ratios of gross expense to gross income between just under 80 to just over 90 per cent. If these ratios were representative, average net income after taxes for the mortgage banking industry in 1955 would have been around $35 million, with a range of 25 to 50 million, compared to a 1951 average slightly over $10 million, with a range of 8 to 17 million in 1951. When related to average reported net worth in 1955 of about $226 million, the 1955 net income suggests a rate of return for the industry in that year of around 15 per cent with a range between 11 and 22 per cent. At the lower boundary, this return is a little smaller than the 13.5 and 14.1 per cent returns reported in 1955 for sales finance and consumer finance companies, respectively. At the upper boundary, it is substantially greater than in these financial enterprises or in commercial banking with an 8.1 per cent return.[19] In either case, the mortgage banking industry appears to rank among the more profitable groups of financial enterprise.

Geographic Distribution

Mortgage companies may be found in most states of the Union, but in number and amount of assets held there is a high degree of concentration in a few states and regions. Variations in geographic distribution and growth of mortgage companies in the postwar decade are summarized in Tables 6 and 7. A detailed listing of number of companies and assets by state, ranked in order of asset holdings as of 1954, is given in the appendix, Table A-13, and a comparison with the geographic distribution of federally underwritten mortgage loans and nonfarm mortgage recordings is shown in Table A-14. The totals of companies and assets shown in these tables differ slightly from totals shown in this section because the form in which geographic data were readily available from the FHA did not permit minor adjustments to insure complete comparability.

In 1954, the last year for which comprehensive geographic data were available, well over one-half of mortgage company assets and two-fifths of the number of mortgage companies were located in the Pacific, East North Central, and West South Central states. Concentration was even more marked in 1945, but in different regions. Only the East North Central region maintained its leading ranking in 1954, but the proportion of mortgage companies and assets in this region was well under that of 1945. Partly, this reflected the great growth in mortgage companies in the Pacific and West South Central regions between 1945 and 1954, paralleling the marked expansion in population, residential building, and economic activity generally in these areas. Equally important, perhaps, are the twin facts that these areas are far from the capital market centers of the East and that the local mortgage originating institutions, primarily commercial banks and savings and loan associations, were unable to supply all the funds needed. In this situation many new mortgage companies gained a foothold and rapidly expanded, together with older companies, as they placed and serviced an increasing volume of mortgage loans for

[19] *Consumer Instalment Credit,* Board of Governors of the Federal Reserve System, Part I, Vol. 2, *Growth and Import,* Chapter 1, "Financial Characteristics of Principal Consumer Lenders," 1957, Table 16, p. 31.

TABLE 6

Regional Distribution of Mortgage Companies and Their Assets, 1945 and 1954

(total assets in millions, average assets in thousands of dollars)

	1945			1954		
CENSUS REGION[a]	Number of companies	Total assets	Average assets[b]	Number of companies	Total assets	Average assets[b]
New England	10	c	19	11	4	346
Middle Atlantic	65	24	365	84	132	1,572
E. North Central	97	51	528	155	249	1,604
W. North Central	102	24	236	137	109	794
South Atlantic	58	13	229	151	149	984
E. South Central	35	11	306	73	95	1,302
W. South Central	32	12	383	102	174	1,701
Mountain	19	7	377	47	53	1,129
Pacific	46	18	393	96	218	2,272
United States	464	161	346	856	1,182	1,380
		Percentage Distribution				
New England	2	c		1	c	
Middle Atlantic	14	15		10	11	
E. North Central	21	32		18	21	
W. North Central	22	15		16	9	
South Atlantic	13	8		18	13	
E. South Central	7	7		9	8	
W. South Central	7	8		12	15	
Mountain	4	4		5	4	
Pacific	10	11		11	19	
United States	100	100		100	100	

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

[b]Calculated on the basis of thousands of dollars of assets.

[c]Less than $500,000 or 0.5 per cent.

large-scale eastern institutional investors entering these growing and profitable markets. In sharp contrast, the older industrialized New England region, which experienced little increase in population and relatively modest gains in residential building and general economic activity, and is noted for its concentration of local thrift institutions having ample funds for local mortgages, offered no advantages for mortgage company loca-

TABLE 7

Leading Mortgage Company States Measured by Companies' Total Assets in 1954

(assets in millions of dollars)

STATE	1945 Number of companies	1945 Total assets	1954 Number of companies	1954 Total assets
Texas	22	10	65	138
California	20	6	54	127
Michigan	16	23	36	97
Pennsylvania	23	10	24	79
Illinois	34	15	36	69
Washington	..	10	35	68
The six leading states	135	74	250	578
All other states	329	87	606	603
United States	464	161	856	1,181

Percentage Distribution

STATE	1945 Number of companies	1945 Total assets	1954 Number of companies	1954 Total assets
Texas	5	6	8	12
California	4	4	6	11
Michigan	3	14	4	8
Pennsylvania	5	6	3	7
Illinois	7	9	4	6
Washington	4	6	4	6
The six leading states	29	46	29	49
All other states	71	54	71	51
United States	100	100	100	100

Source: Same as Table 1.

tion. As Table 6 shows, the smallest fraction of all mortgage companies were located in New England – in Connecticut and Massachusetts only– and they held less than one per cent of all assets in both 1945 and 1954.

The great growth in mortgage companies in the Pacific and West South Central regions reflects principally developments in two leading states, California and Texas, where growth of assets in the postwar decade exceeded that of other important states by a wide margin. By 1954, as shown in Table 7, one-seventh of all mortgage companies having nearly one-fourth of all industry assets were located in these two states alone. (As shown in the appendix, Table A-13, neither California nor Texas was among the six leading mortgage company states in 1945.) For each of the six leading states in 1954, the share in the national total was much greater for assets than for number of mortgage companies; hence, average assets of companies located in these states was much greater than for most other states.

Many states and regions that lead in mortgage company location are also among the most important in federally underwritten and total home mortgage lending. As shown in Table A-14, three of the leading mortgage company regions — the East North Central, Pacific, and South Atlantic — have similar proportions of mortgage company assets and of federally underwritten and total home mortgage activity. In the West South Central region, Texas, the leading mortgage company state, is also among the most important in FHA and VA lending, but its proportion of such loans is much smaller than its percentage of mortgage company assets. The widest geographic divergence between distribution of mortgage companies and mortgage lending activity occurs in the Middle Atlantic and New England states. The former region is the most important in federally underwritten lending but is pulled down to fifth in mortgage company assets by New York state where few mortgage companies are located because of the concentration there of local lending institutions. Partly for the same reason, only a few mortgage companies are located in New England, although this region is more important than several others in VA and conventional mortgage lending, especially.

Among the six leading mortgage company states, shown in Table 7, four — California, Pennsylvania, Texas, and Michigan (in that order) — rank among the first six in federally underwritten mortgage activity, and three — California, Illinois and Pennsylvania — rank among the first six in total home mortgage lending activity.[20] For both federally underwritten and total home mortgage lending activity New York ranks second and third, respectively, but ranks nineteenth in total mortgage company assets.

[20]It is likely that Texas would also be a leading state in nonfarm mortgage recordings, but data are not available for this state.