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THE NONFARM MORTGAGE DEBT

THE importance of urban mortgages for the debt structure of the United States can hardly be overrated. Considering size only, we find that more than one-half of the entire privately issued and privately held long-term debt of this country, corporate and noncorporate, is in the form of mortgages. In turn, about nine-tenths of the mortgage debt is secured by urban (nonfarm) real estate. It is not at all surprising, therefore, that the problems connected with urban mortgage financing should have commanded much attention, not only in connection with the real estate market, which depends heavily on mortgage financing, but also within the wider framework of the economy as a whole. The present chapter sketches the main lines of growth and change in nonfarm mortgage debt and its components since 1920.

Trends in Nonfarm Mortgage Debt

The flow of mortgage funds into the urban real estate market has undergone substantial changes since 1920, affecting both the absolute and the relative size of the urban mortgage debt. Not only the dollar amount of nonfarm mortgage debt, but also its ratio to the total private long-term debt, is considerably larger today than it was thirty some years ago.

After a spectacular rise during the early twenties the volume of outstanding urban mortgage debt reached a peak in 1930, declined somewhat during the depression, and found a level in 1936 well above its level after World War I (Table 1). A second wave of growth, which started in 1939 and was proceeding by 1941 at a fairly modest rate, was interrupted by World War II, only to be resumed after the war at a considerably more rapid rate of increase.

Thus the urban mortgage debt increased from 1920 through 1953 by nearly $80 billion, to an amount six times its earlier size, while total private long-term debt about tripled. Nonfarm mortgages, which represented less than three-tenths of the private long-term debt in 1920, constituted over one-half of the entire private long-term debt by 1953. Urban mortgages had become one of the most important components of the nation's credit structure, exceeding in size the net long-term debt of the entire corporate sector of the economy.

TABLE 1

Relation of Nonfarm Mortgage Debt to Total Long-Term Debt, 1920-53

(dollar figures in billions)

		NONFARM MORTGAGE DEBT			
END OF YEAR	PRIVATE LONG-TERM DEBT[a]	*Corporate and Non-corporate*[b]	*As Per-cent of Private Debt*	*Ratio to Farm Mortgage Debt*	FARM MORTGAGE DEBT[c]
1920	$54.5	$15.3	28.1%	1.5	$10.2
1921	57.3	16.5	28.8	1.5	10.7
1922	59.3	17.9	30.2	1.7	10.8
1923	63.2	20.3	32.1	1.9	10.7
1924	67.0	22.8	34.0	2.3	9.9
1925	70.7	25.7	36.4	2.6	9.7
1926	75.4	28.6	37.9	2.9	9.7
1927	81.1	31.8	39.2	3.2	9.8
1928	85.5	34.7	40.6	3.5	9.8
1929	88.1	36.9	41.9	3.8	9.6
1930	92.5	37.7	40.8	4.0	9.4
1931	90.3	36.5	40.4	4.0	9.1
1932	86.7	34.4	39.7	4.0	8.5
1933	81.9	30.5	37.2	4.0	7.7
1934	77.7	29.5	38.0	3.9	7.6
1935	75.7	28.4	37.5	3.8	7.4
1936	74.1	28.0	37.8	3.9	7.2
1937	74.8	28.0	37.4	4.0	7.0
1938	76.1	28.2	37.1	4.1	6.8
1939	76.0	28.9	38.0	4.4	6.6
1940	76.2	30.0	39.4	4.6	6.5
1941	77.2	31.3	40.5	4.9	6.4
1942	75.5	30.8	40.8	5.1	6.0
1943	72.6	29.9	41.2	5.5	5.4
1944	70.8	29.7	41.9	6.1	4.9
1945	70.1	30.8	43.9	6.4	4.8
1946	78.6	36.9	46.9	7.5	4.9
1947	89.9	43.9	48.8	8.6	5.1
1948	102.9	50.9	49.5	9.6	5.3
1949	112.7	57.1	50.7	10.2	5.6
1950	125.5	66.7	53.1	10.9	6.1
1951	140.3	75.6	53.9	11.5	6.6
1952	155.5	84.0	54.0	11.7	7.2
1953	170.7	93.4	54.7	12.1	7.7

From *Survey of Current Business* (Department of Commerce), September 1953, Tables 1 and 6, pp. 14 and 18, and October 1954, Tables 1 and 6, pp. 14 and 19. Ratios computed after rounding to nearest tenth of a billion.

[a] Includes net corporate long-term debt plus individual and noncorporate mortgage debt.

[b] The corporate nonfarm mortgage component for 1920-28, not available in the Department of Commerce series, was estimated by applying to the data on net corporate long-term debt the 1945-49 ratio of corporate nonfarm mortgage debt to corporate long-term debt. Excludes real estate mortgage bonds and mortgages held by nonfinancial corporations on corporate-owned multifamily and commercial properties.

[c] Includes individual and noncorporate mortgage debt.

During the same period farm mortgage debt declined by 25 percent. Whereas urban mortgage debt at the end of World War I was only about half again as large as the total of farm mortgages outstanding, by 1953 it had grown to about twelve times the size of the farm mortgage debt.

The decline in farm mortgage debt, though gradual, was persistent, reflecting, in the main, slow, long-range downward trends in the agricultural sector of the economy. Nonfarm mortgage debt, on the other hand, differed from the farm debt not only in the direction of its long-range trend; it also displayed less regular changes, suggesting that the more erratic pattern of urban economic growth exerted its effect on the corresponding debt component.

Composition of Urban Mortgage Debt

So far we have been looking at the order of magnitude of the urban real estate debt without considering the particular kind of real estate involved. In evaluating structural and short-term changes it is helpful to know the composition of the debt according to major categories of properties that serve as security. Available material does not permit a detailed description, but it is possible to outline major traits if we are satisfied with a rough breakdown.

Urban real estate has some characteristics of a durable consumer good and corresponds in other respects more nearly to a producer good. From the financing point of view an owner-occupied one-family residence differs markedly, of course, from, say, a loft building; this difference is likely to affect not only the demand for credit and the financial characteristics of the mortgage transaction but also its outcome. It stands to reason, for example, that borrower characteristics are much more important for the outcome of a credit transaction where a consumer good is involved than where the property being financed is of the income-producing type, and that other factors of a more general economic nature might influence the result of a loan contract pertaining to an industrial or commercial property.

A classification of properties into those that are income-producing in character and those of the consumer good type—useful also in studying the social implications of lending activities in the real estate market—is not available. In most cases it is possible to study only one- to four-family properties as against all others, combining residential structures having five or more dwelling units with commercial and industrial properties. In some instances a three-way classification is possible in which "all other" properties are divided into residential structures with five or more dwelling units and those income-producing structures that are nonresidential in character. As an approximation, therefore, properties falling in the category of one- to four-family homes will be considered as roughly corresponding to consumer goods, and the remainder to the income-producing or producer category of goods; but it will be understood that there are some small amounts of income-producing properties included in the one- to four-family group.

By far the greater part of all urban mortgage funds in 1953 were invested in one- to four-family homes (71 percent, as shown in Table 2). Of the remaining funds, two-fifths were invested in multifamily residences (structures with five or more dwelling units) and three-fifths in nonresidential properties. Over the preceding twenty years the one- to four-family group had increased in importance; the remainder, to which we shall refer somewhat loosely as income-producing property, underwent a relative decline, especially in its nonresidential part (Table 2). Between 1925 and 1953 both the outstanding debt secured by income-producing properties and that secured by one- to four-family homes have grown, but the latter much more markedly. Thus, as percentages of total mortgage debt the share secured by structures of the consumer goods type increased while the share secured by income-producing properties diminished.

Summarizing, it may be said that at virtually all times since 1925 the volume of outstanding mortgage debt on one- to four-family homes has exceeded that on income-producing property, and also that the excess increased throughout the period. This increase was particularly pronounced during the depression years and after World War II. By the end of 1953, loan funds secured by one- to four-family residences represented over two-thirds of the total nonfarm real estate debt, and as yet there is no observable tendency for the ratio to decrease.

Debt-to-Value Ratios in Real Estate Finance

There are many connections in which it would be useful to know the equity of owners in urban properties and to be able to trace trends in the ratio of debt outstanding against these properties to their values. A number of difficulties stand in the way of constructing such an index, chief of which is the problem of estimating, year by year, the values that should be attached to the properties. Two sets

TABLE 2

Distribution of Nonfarm Mortgage Debt by Type of Property, 1925-53

END OF YEAR	AMOUNT OUTSTANDING (*billions*)				PERCENTAGE DISTRIBUTION			
	1- to 4-Family	*Multi-family*	*Commer-cial*	*Multifamily and Commercial*	*1- to 4-Family*	*Multi-family*	*Commer-cial*	*Multifamily and Commercial*
1925	$13.0	a	a	$12.7	50.6%	a	a	49.4%
1926	14.8	a	a	13.8	51.7	a	a	48.3
1927	16.4	a	a	15.4	51.6	a	a	48.4
1928	17.9	a	a	16.8	51.6	a	a	48.4
1929	18.9	$6.0	$11.9	17.9	51.4	16.3%	32.3%	48.6
1930	18.9	6.5	12.3	18.8	50.1	17.3	32.6	49.9
1931	18.1	6.2	12.2	18.4	49.6	17.0	33.4	50.4
1932	16.7	6.0	11.7	17.7	48.5	17.5	34.0	51.5
1933	15.4	5.7	9.4	15.1	50.5	18.7	30.8	49.5
1934	15.6	5.1	8.8	13.9	52.9	17.3	29.8	47.1
1935	15.4	4.8	8.2	13.0	54.2	16.9	28.9	45.8
1936	15.4	4.6	8.1	12.7	54.8	16.4	28.8	45.2
1937	15.5	4.5	8.0	12.5	55.4	16.1	28.6	44.6
1938	15.8	4.4	8.1	12.5	55.8	15.6	28.6	44.2
1939	16.3	4.5	8.1	12.6	56.4	15.6	28.0	43.6
1940	17.3	4.6	8.0	12.6	58.0	15.3	26.7	42.0
1941	18.4	4.8	8.1	12.9	58.8	15.3	25.9	41.2
1942	18.2	4.7	7.8	12.5	59.1	15.3	25.6	40.9
1943	17.8	4.6	7.5	12.1	59.5	15.4	25.1	40.5
1944	17.9	4.5	7.3	11.8	60.3	15.1	24.6	39.7
1945	18.5	4.5	7.7	12.2	60.4	14.6	25.0	39.6
1946	23.1	4.9	8.9	13.8	62.6	13.3	24.1	37.4
1947	28.2	5.4	10.3	15.7	64.2	12.3	23.5	35.8
1948	33.3	6.2	11.4	17.6	65.4	12.2	22.4	34.6
1949	37.5	7.1	12.5	19.6	65.7	12.4	21.9	34.3
1950	45.1	8.7	12.9	21.6	67.6	13.1	19.3	32.4
1951	51.9	9.8	13.9	23.7	68.6	13.0	18.4	31.4
1952	58.7	10.6	14.7	25.3	69.9	12.6	17.5	30.1
1953	65.9	11.5	16.0	27.5	70.6	12.3	17.1	29.4

Data for one- to four-family homes are from *Housing Statistics* (Housing and Home Finance Agency), January 1954, p. 20, and *Survey of Current Business* (Department of Commerce), October 1954, Table 6, p. 19. Data for multifamily and commercial properties combined are from the *Survey of Current Business*, September 1953, Table 6, p. 18, and October 1954, Table 6, p. 18, with additional figures, for 1925-28, computed by subtraction of the debt secured by one- to four-family homes from total nonfarm mortgage debt (the latter as shown in Table 1).

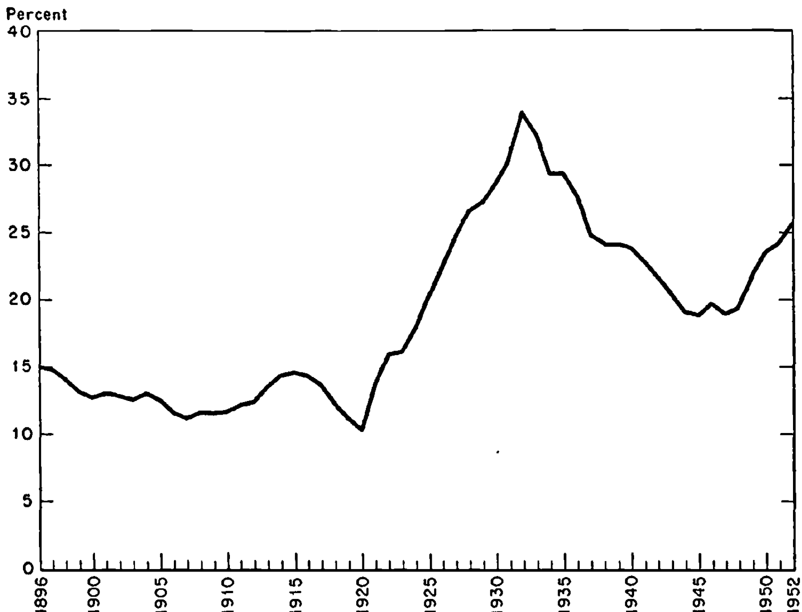
Breakdown for multifamily and for commercial properties for the period 1938-53 is from the Board of Governors of the Federal Reserve System, with minor adjustments to the data for 1943, 1944, 1951, and 1952; figures for 1929-37 were developed from earlier estimates published in the *Survey of Current Business*, September 1946, Table 9, p. 17, as follows. The 1938 relationship between the Federal Reserve and the Commerce series of the ratio of debt on multifamily properties to that on multifamily and commercial properties combined was used to adjust yearly percentage ratios—based on the Commerce series—of debt on multifamily residences to the estimated debt on both property types. The adjusted percentages were then applied to the revised estimates of the combined total from the sources noted above.

[a] Not available.

of data on this matter are at hand, different in coverage and involving critical differences in the manner in which valuations are placed on property. The first is a series showing the ratio of mortgage debt on nonfarm residences (inclusive of multifamily structures) to an estimate of the value of nonfarm residential wealth for the years 1896-1952.[1] These data are shown in Chart 1, where it will be seen

CHART 1

Average Ratios of Nonfarm Residential Mortgage Debt to Nonfarm Residential Wealth, 1896-1952



From *Capital Formation in Residential Real Estate: Trends and Prospects,* by Leo Grebler, David M. Blank, and Louis Winnick (Princeton University Press for the National Bureau of Economic Research, in press), Table L-6. The wealth estimates were derived by cumulating residential construction expenditures and include estimated land value.

that the ratio of debt to value is distinctly higher now than it was in the 1890's and in the first two decades of this century. It is important to observe, however, that the ratios of debt to value were substantially lower after World War II than they were in the early thirties.

[1] Leo Grebler, David M. Blank, and Louis Winnick, *Capital Formation in Residential Real Estate: Trends and Prospects* (Princeton University Press for the National Bureau of Economic Research, in press), Appendixes D and L.

The sharp increase of the ratios in the late twenties and early thirties was due at first to an increase in urban residential mortgage debt in the last half of the twenties much more rapid than the increase in the value of urban residential wealth, and then, in the early thirties, to a much sharper decline in the value of the properties than in the amount of the debt. The decline in the ratio thereafter, which continued through much of the forties, was due in the main to a much more rapid increase in the value of properties than in the amount of debt outstanding. The result of these changes was to place the ratio of debt to value at the end of World War II (1945-48) at a level only moderately above what had prevailed in the early twenties. The debt-to-value ratio as calculated in this series began to rise again after 1948, but even in 1952 it was still below the levels of the late twenties and well below the levels reached in the early thirties.

The data cited above compare the amount of mortgage debt outstanding against urban residential properties with the estimated value of all such real estate, whether burdened by mortgage debt or not. Materials obtained from the decennial censuses give ratios of debt to value for mortgaged owner-occupied nonfarm homes (exclusive of multifamily properties), and are perhaps more relevant to most discussions of trends in debt burden. Census data are presented in Table 3 for the years 1920, 1940, and 1950. It should be carefully noted that these ratios relate outstanding debt to an aggregate of the owners' estimates of the market value of their properties, whereas the materials cited above use an indirectly derived estimate of real estate wealth.[2] The census figures show that the ratio of debt to value on mortgaged owner-occupied urban homes was substantially higher in 1940 than in 1920, but that over the decade 1940-50 the ratio fell from over 52 percent to about 45 percent (the comparison is somewhat imprecise because data from the 1950 census are not homogeneous with the earlier figures). It is almost certain that similar information for the years following 1950 would show a rise in this ratio, but unlikely that it would stand at the present time above the 1940 level. The primary reason for the improvement in the debt-to-value position of mortgaged owner-occupied homes over the decade 1940-50 lies, of course, in the twin facts of rising incomes, which made it possible to retire debt at increasing rates, and of inflation in the values of the properties.

[2] For the method used, see Grebler, Blank, and Winnick, *op. cit.*, Appendix D, especially the opening section.

TABLE 3

Regional Differences in the Percentage of Owner-Occupied Nonfarm Homes Mortgaged, and in Debt-to-Value Ratios, 1920, 1940, and 1950

CENSUS DIVISION[a]	PERCENTAGE OF NONFARM HOMES MORTGAGED[b]			DEBT-TO-VALUE RATIO[c]		
	1920	1940	1950	1920	1940	1950
New England	51.7%	57.6%	56.6%	43.9%	51.4%	41.2%
Middle Atlantic	51.3	52.0	48.9	44.8	54.5	
East North Central	41.6	47.3	42.9	41.0	51.3	43.1
West North Central	32.4	38.0	36.2	40.4	51.0	
South Atlantic	29.3	39.1	42.0	41.1	51.3	
East South Central	22.7	33.5	34.9	42.0	51.8	49.0
West South Central	26.0	33.5	37.3	39.2	54.2	
Mountain	29.5	35.0	38.8	41.8	50.2	49.5
Pacific	38.9	48.8	49.9	41.4	51.8	
United States	39.7%	45.3%	44.0%	42.6%	52.4%	45.0%

From various compilations by the Bureau of the Census: *Mortgages on Homes in the United States, 1920,* Monograph No. 2 (Tables 6 and 7, pp. 41 and 45); 16th Census: 1940, *Housing,* Vol. 4, Part 1 (Tables 14 and 15, pp. 63 and 65); and *1950 Census of Housing,* Vol. 1, General Characteristics, Part 1 (Table 1, p. 1-1), and Vol. 4, Residential Financing, Part 1, Chapter 2 (Table 3, pp. 61, 64, 67, 70, and 73).

[a] States included in the census divisions are as follows: *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] Covers owner-occupied homes whose mortgage status was reported (cf. Table 4). Data for 1940 and 1950 cover one- to four-family homes without business use; data for 1920 include some other types of structure.

[c] Represents outstanding mortgage debt as a percentage of the reported value of mortgaged owner-occupied homes. Data for 1940 cover only one-family homes whose owners reported both value of property and indebtedness (including first and junior mortgages). Data for 1920 differ as noted above. Figures for 1950 are mean averages computed from frequency distributions of the number of mortgaged owner-occupied one- to four-family properties by size class of debt-to-value ratio.

Data confirming these trends in mortgage indebtedness are given in Table 4, where it will be seen that the percentage of owner-occupied urban dwellings that were mortgaged was somewhat higher in 1940 than in 1920, though not appreciably so, and that there was a slight decrease in the percentage between 1940 and 1950. The recent Survey of Consumer Finances indicates a moderate increase between 1950 and early 1955.

Materials with which to trace the trend of debt-to-value ratios for tenant-occupied residences are not available; but it appeared from

TABLE 4

Number and Percent of Nonfarm Homes Owner-Occupied and Mortgaged, 1890-1950

	MILLIONS OF OCCUPIED DWELLING UNITS					PERCENTAGE OF:	
			Owner-Occupied				
YEAR	*Total*	*Reporting Tenure*	*Total*	*Reporting Mortgage Status*	*Mortgaged*	*Units of Known Tenure Owner-Occupied*	*Owner-Occupied Dwellings of Known Mortgage Status Mortgaged*
1890	7.9	7.9	2.9	2.9	0.8	37%	28%
1900	10.3	9.8	3.6	3.4	1.1	37	32
1910	14.1	13.7	5.2	5.1	1.7	38	33
1920	17.6	17.2	7.0	6.9	2.7	41	40
1930	23.3	22.9	10.5	[a]	[a]	46	[a]
1940	27.7	27.7	11.4	10.6[b]	4.8[b]	41	45
1950	37.1	37.1	19.8	17.8[b]	7.8[b]	53	44

From the *1950 Census of Housing*, Vol. 1, General Characteristics, Part 1, Tables J, L, and T, pp. XXVIII, XXX, and XXXVI.

[a] Not available.

[b] Figures represent number of owner-occupied dwelling units in one- to four-family structures without business use and are imperfectly comparable with the data for prior years, which represent owners' residences in some other types of structure as well; but the differences are not large enough to invalidate comparisons.

spot checks for urban areas in 1929 and 1933 that the ratios for these properties were at least as high as those for owner-occupied residences,[3] and results from the 1950 census Survey of Residential Financing show similar ratios for the owner-occupied and the rental properties.[4]

[3] Sample data based on a survey of owner-occupied homes in 52 cities and on a survey of tenant-occupied nonfarm homes in 44 cities reveal that the debt-to-value ratios for owner-occupied and for tenant-occupied homes were approximately the same at the end of 1929 (50.8 percent and 51.9 percent, respectively). By the end of 1933 the ratio for tenant-occupied homes was 60.4 percent; for owner-occupied homes, 55.6 percent. (David L. Wickens, *Residential Real Estate*, National Bureau of Economic Research, 1941, Table D3, p. 204.)

[4] The median debt-to-value ratio for two- to four-family owner-occupied nonfarm homes in 1950 was 38 percent, which compares closely with a median

Some interesting differences in mortgage financing trends in different regions of the country appear in Table 3. It will be observed that between 1940 and 1950 there was a tendency for the percentage of nonfarm homes mortgaged to decline in the older and more industrialized regions of the country, and for the frequency of use of mortgage debt to rise in those areas—notably the Southwest and the Far West—where in recent years the increase of urban population has been most rapid; only in the Pacific coast region was a striking growth in urban population accompanied by but a small increase in the already high percentage of mortgaged homes. Thus, the fact that there was a small decline in the national index of mortgage debt frequency between 1940 and 1950 veils important regional differences. It is also true that ratios of debt to value declined much more sharply between 1940 and 1950 in the New England, Middle Atlantic, and North Central sections of the country than in other areas. All of this suggests a close connection of both the frequency of mortgage indebtedness and the ratio of debt to value with rates of industrial and population growth.

Data are not available for 1950 on the debt-to-value ratio for mortgaged properties classified according to the size of the city in which the property is located, but information of this type is presented in Table 5 for 1920 and 1940. These data show that, in

TABLE 5
Debt-to-Value Ratios for Mortgaged Owner-Occupied Homes, 1920 and 1940, by Size of City

Size of City	*All Owner-Occupied Nonfarm Homes, 1920*	*One-Family Owner-Occupied Nonfarm Homes, 1940*
100,000 and over	44.6%	54.5%
50,000 - 99,999	42.8	52.6
25,000 - 49,999		48.4
Under 25,000	39.9	
United States	42.6%	52.4%

From *Mortgages on Homes in the United States, 1920,* Monograph No. 2 (Bureau of the Census, 1923), p. 102; and 16th Census: 1940, *Housing,* Vol. 4, Part 1, pp. 7, 18, 23, 33, and 88. For coverage and for a definition of the debt-to-value ratio, see Table 3, notes b and c.

ratio of 40 percent reported for urban rental properties with two to four dwelling units which were either vacant or tenant-occupied. (*1950 Census of Housing,* Vol. 4, Residential Financing, Part 1, pp. 323 and 554.)

general, the equity ratios have been somewhat lower in larger cities than in places of relatively small size.

Insured versus Conventional Mortgage Markets

Of the many factors that have affected the structure of the mortgage market since 1920 the most important was the introduction in 1934 of home mortgage insurance. The Federal Housing Administration's insurance program, and, ten years later, the Veterans' Administration loan guaranty program, created and developed a new mortgage market characterized by more liberal credit terms than were usual for conventionally financed (that is, noninsured) loans, and by a new risk-spreading device intended to appeal to both lender and borrower. Since this new market was open to lenders who in the past had been confined through statute and administrative regulation to more stringent lending policies, a description of it is essential for an understanding of the growth and changing composition of institutionally held urban real estate debt.

Though the importance of the new market can hardly be overrated—for instance, by 1953 government-insured loans constituted over one-third of the total outstanding nonfarm real estate debt and about 40 percent of the debt on one- to four-family homes—it is worth noticing that here, as for the home mortgage debt as a whole, a slowing down of the rate of increase is clearly recognizable (Table 6). Like the increase in the ratio of mortgaged to all homes, the increase in the ratio of government-insured to total outstanding home mortgage debt has been leveling off after a period of spectacular rise.

A comparison of the two markets, the government-insured and the conventionally financed, is now possible for mortgages outstanding in 1950 on single family owner-occupied homes. Within that group, conventional loans appear to have been more important than government-insured loans for borrowers with properties at the bottom and at the top of the distributions by market value, purchase price, and number of rooms (Table 7). Conventional mortgage loans also predominated both among borrowers of low socio-economic status—those with incomes of $2,500 or less, and those listed occupationally as operatives, service workers, and laborers—and among the small group at the upper end of the scale, the self-employed managers of business firms.

Socio-economic differences between conventional and insured bor-

TABLE 6

Amount of Government-Insured Nonfarm Mortgage Debt and Its Ratio to Total Nonfarm Mortgage Debt, 1935-53

(*dollar figures in millions*)

Year	*FHA and VA Home Mortgage Debt*[a]	*As Percent of Total Home Mortgage Debt*[b]	*Total FHA and VA Mortgage Debt*[a]	*As Percent of Total Nonfarm Mortgage Debt*[b]
1935	$ 12	0.1%	$ 13	[c]
1936	203	1.3	205	0.7%
1937	594	3.8	600	2.1
1938	967	6.2	1,003	3.6
1939	1,755	10.7	1,860	6.4
1940	2,349	13.5	2,453	8.2
1941	3,030	16.5	3,137	10.0
1942	3,742	20.5	3,868	12.6
1943	4,060	22.8	4,262	14.3
1944	4,190	23.3	4,431	14.9
1945	4,578	24.7	4,815	15.6
1946	6,292	27.3	6,505	17.6
1947	9,581	34.0	10,130	23.1
1948	12,469	37.5	13,611	26.7
1949	15,006	40.0	17,140	30.0
1950	18,863	41.9	22,082	33.1
1951	22,877	44.1	26,583	35.2
1952	25,370	43.2	29,290	34.9
1953	28,090	42.6	32,118	34.4

[a] For 1935-38, estimates from the Annual Reports of the Federal Housing Administration as of June 30. For 1939-53, end-of-year data from *Housing Statistics* (Housing and Home Finance Agency), January 1954, pp. 37 and 41.

[b] Refers to mortgage debt outstanding on one- to four-family residential properties, and on nonfarm residential and commercial properties combined, as given in *Survey of Current Business* (Department of Commerce), September 1953, Table 6, p. 18, and October 1954, Table 6, p. 19.

[c] Less than 0.05 per cent.

rowers may be detected also within different regions. Regional differences in the economic status of mortgagors reflect, of course, regional differences in the general distribution of income, namely the relative predominance of lower incomes in the South and of middle and upper middle incomes in the West. Within that setting there are also differences between the government-insured and the conventional sectors of the regional mortgage markets. In 1950 for the United States as a whole about one-sixth of the mortgages on single family owner-occupied homes were FHA-insured; a somewhat smaller proportion were VA-guaranteed, and two-thirds were

TABLE 7

Distribution of Owner-Occupied One-Family Homes with Conventional and with Insured Mortgages, 1950, by Value of Property, Borrower's Income, etc.

CHARACTERISTICS OF PROPERTY AND OWNER	CONVEN-TIONAL	INSURED		ALL
		FHA	*VA*	
Market Value of Home				
Less than $5,000	24%	2%	11%	18%
$5,000 - 9,999	41	49	56	44
10,000 - 14,999	21	38	27	25
15,000 - 19,999	8	8	5	8
20,000 and over	6	3	1	5
Purchase Price of Home				
Less than $5,000	45	14	17	36
$5,000 - 9,999	35	61	61	43
10,000 - 14,999	12	21	18	14
15,000 - 19,999	4	3	2	4
20,000 and over	3	1	1	2
Not acquired by purchase	1	[a]	[a]	1
Number of Rooms				
Less than 4	7	2	3	6
4	18	27	28	21
5	25	38	33	29
6	27	24	25	26
7 and over	23	9	11	18
Income of Owner[b]				
Less than $2,500	31	13	18	26
$2,500 - 3,999	38	39	49	40
4,000 - 5,999	20	34	26	24
6,000 - 7,999	5	8	4	5
8,000 - 9,999	2	2	1	2
10,000 and over	4	3	1	3
Occupation of Owner[b]				
Professional and technical workers, salaried	8	13	10	9
Professional and technical workers, self-employed	2	2	2	2
Managers and officials, salaried	9	13	10	10
Managers, officials, and proprietors, self-employed	8	6	4	7
Clerical and kindred workers	7	9	9	8
Sales workers	8	12	9	9
Craftsmen, foremen	24	25	27	25
Operatives	21	15	21	20
Service workers	6	4	5	5
Laborers (except miners)	6	2	3	5
Total	100%	100%	100%	100%

Refers to nonfarm properties, first mortgages only. Based on data from *1950 Census of Housing*, Vol. 4, Residential Financing, Part 1, Chapter 3, Table 3, pp. 162 and 165. Mortgaged properties for which the required information was not reported are excluded.

[a] Less than 0.5 percent. [b] Refers to owner who is head of the household.

conventionally financed (Table 8).[5] The proportion of outstanding mortgages that were FHA-insured was higher in the South and the West than elsewhere; yet in both regions it comprised less than one-fourth of all single family home mortgages. In the South about one-third of the FHA-insured, but over one-half of the conven-

TABLE 8

Regional Differences in the Percentages of Owner-Occupied One-Family Homes with Conventional and with Insured Mortgages, 1950

Type of Loan	*North-east*	*North Central*	*South*	*West*	*United States*
Conventional	*73%*	*72%*	*64%*	*63%*	*68%*
Insured	27	28	36	37	32
FHA	10	14	22	23	17
VA	17	14	14	14	15
Total	100%	100%	100%	100%	100%

Refers to nonfarm properties, first mortgages only. Based on data from *1950 Census of Housing*, Vol. 4, Residential Financing, Part 1, Chapter 3, Table 3, pp. 162-68. For states included in the regions, see note to Table 9.

tionally financed, mortgages represented loans made to borrowers in the lower income brackets (reporting family incomes of less than $3,500 at the time of the 1950 census; see Table 9).

It may, of course, be argued that the primary purpose of the government loan insurance program was to encourage higher housing standards without incurring high risks; the fact remains that so far as can be told from the outstanding debt, the low income borrower and the low-price housing market have remained the domain of conventionally supplied credit. This impression is reinforced by glancing at the housing cost to mortgagors in various economic groups as they are reflected in the ratio of mortgage payments (interest and principal) to borrower's income. Since conventionally supplied credit was as a rule extended on shorter terms than insured credit, and to a higher proportion of borrowers with small incomes, mortgage payments on the conventional loans were relatively large as compared with mortgagors' incomes, especially for borrowers in the lower income brackets. This was true for the nation as well as

[5] Comparisons in the present chapter between insured and conventional lending refer to first mortgages only, a restriction imposed by the data of Tables 7 through 11 and Table 13. About one-fourth of the FHA-insured mortgages were on properties also encumbered by VA-guaranteed second mortgages; hence from the standpoint of all mortgages, secondary liens included, the percentages given above tend to understate the importance of the VA-guaranteed loans.

TABLE 9

Regional Differences in Distribution of Owner-Occupied One-Family Homes with Conventional and with Insured Mortgages, 1950, by Borrower's Income

BORROWER'S INCOME[a]	CONVEN-TIONAL	INSURED		ALL
		FHA	*VA*	
		Northeast		
Less than $2,000	11%	4%	5%	9%
$2,000 - 3,499	29	20	37	29
3,500 - 4,999	25	34	32	27
5,000 - 7,999	23	30	21	23
8,000 - 9,999	5	5	3	5
10,000 and over	7	7	2	6
		North Central		
Less than $2,000	12	4	5	10
$2,000 - 3,499	31	17	37	30
3,500 - 4,999	28	35	36	30
5,000 - 7,999	21	33	18	22
8,000 - 9,999	3	5	2	3
10,000 and over	4	6	2	4
		South		
Less than $2,000	20	6	8	15
$2,000 - 3,499	34	27	36	33
3,500 - 4,999	21	34	33	26
5,000 - 7,999	17	28	19	20
8,000 - 9,999	3	3	2	3
10,000 and over	4	3	2	3
		West		
Less than $2,000	14	5	4	10
$2,000 - 3,499	28	18	30	26
3,500 - 4,999	29	35	41	32
5,000 - 7,999	22	33	22	25
8,000 - 9,999	3	5	1	3
10,000 and over	4	4	2	4
		United States		
Less than $2,000	14	4	5	11
$2,000 - 3,499	31	21	36	30
3,500 - 4,999	26	34	35	29
5,000 - 7,999	21	31	20	22
8,000 - 9,999	4	4	2	3
10,000 and over	5	5	2	5
Total	100%	100%	100%	100%

Refers to nonfarm properties, first mortgages only. Based on data from *1950 Census of Housing*, Vol. 4, Residential Financing, Part 1, Chapter 3, Table 3, pp. 165-168. Mortgaged properties for which owner's income was not reported are excluded.

The Northeast includes New England, New York, New Jersey, and Pennsylvania. The South includes states south of the northeastern group and the Ohio River, and westward to Texas and Oklahoma. The North Central group region extends from Ohio and Michigan west to Kansas, Nebraska, and the Dakotas. The West is the Mountain and Pacific states.

[a] Refers to income of owner and his immediate family in 1949.

for individual regions. For example, in 1950 for the United States as a whole, one-eighth of all mortgagors under conventional arrangements, but only one-twentieth and one-sixteenth, respectively, of mortgagors under FHA and VA arrangements, made current payments on interest and principal which exceeded 25 percent of their income (Table 10).

Also, in the two major regions in which the proportion of government-insured loans was higher than the national average—the South and the West—the proportion of conventional mortgages on which regular payments exceeded 25 percent of borrower's income was substantially higher than for the nation as a whole. Thus, although properties with government-insured mortgages in 1950 were most numerous in the regions of comparatively low incomes, it appears improbable, from the ratios of mortgage payments to income, that government-insured lending tended especially toward properties in the lower price brackets or toward borrowers presenting higher risks than those involved in conventional lending in comparable price brackets.

Other suggestive differences between FHA and conventional mortgages outstanding in 1950 are the following: (1) The government-insured loans had been made predominantly on new homes, but the conventional loans most frequently on existing properties. For example, about three-quarters of all conventional mortgages on single family owner-occupied homes, but only four-tenths of FHA-insured mortgages, represented loans on previously occcupied homes (Table 11). (2) The proportion of loans originated by one lender and later sold to another was noticeably higher for FHA-insured than for conventional loans. Nearly nine-tenths of the conventional mortgages secured by one-family homes and held by various lenders in 1950 were loans which they originated rather than purchased, whereas slightly less than three-fifths of the FHA-insured mortgages fell into that category.

All of these differences taken together, though small individually, point toward the possibility of a real functional difference between the government-insured and conventional loan markets, a difference that to a considerable extent is due to the legal framework within which the FHA must operate. This difference is seen in a tendency for the government-insured loan market to be oriented somewhat more than the conventional loan market toward the financing of new construction; toward medium-priced properties, and toward borrowers in the middle brackets of income and socio-economic

TABLE 10

Regional Differences in Distribution of Owner-Occupied One-Family Homes with Conventional and with Insured Mortgages, 1950, by Ratio of Repayments to Borrower's Income

RATIO OF PAYMENTS OF INTEREST AND PRINCIPAL TO INCOME[a]	CONVENTIONAL	INSURED *FHA*	INSURED *VA*	ALL
		Northeast		
Less than 5%	14%	9%	2%	11%
5 - 9	37	46	24	35
10 - 14	25	27	37	28
15 - 19	10	12	23	13
20 - 24	5	3	7	5
25 and over	9	4	6	8
		North Central		
Less than 5%	9	7	1	7
5 - 9	33	43	25	34
10 - 14	28	31	39	30
15 - 19	13	12	25	15
20 - 24	6	4	6	6
25 and over	11	3	4	9
		South		
Less than 5%	8	7	1	7
5 - 9	27	35	25	29
10 - 14	23	35	37	28
15 - 19	16	15	22	17
20 - 24	8	3	7	7
25 and over	17	5	8	13
		West		
Less than 5%	4	6	[b]	4
5 - 9	24	40	19	27
10 - 14	26	30	42	30
15 - 19	18	15	25	18
20 - 24	9	3	8	8
25 and over	18	6	6	13
		United States		
Less than 5%	9	7	1	7
5 - 9	31	41	24	32
10 - 14	26	31	38	29
15 - 19	14	14	24	15
20 - 24	7	3	7	6
25 and over	13	5	6	10
Total	100%	100%	100%	100%

Refers to nonfarm properties, first mortgages only. Based on data from *1950 Census of Housing*, Vol. 4, Residential Financing, Part 1, Chapter 3, Table 3, pp. 165-68. Mortgaged properties for which the required information was not reported are excluded. For states included in the regions, see note to Table 9.

[a] Income refers to earnings of less than $10,000 by the owner and his immediate family in 1949.

[b] Less than 0.5 percent.

status; and toward average and perhaps better than average risks. The loans, of course, have a higher degree of market negotiability because of their insurance or guaranty features.

TABLE 11

Percentage of New versus Existing Structures and Purchased versus Originated Mortgages for Owner-Occupied One-Family Homes with Conventional and with Insured Mortgages, 1950

CHARACTERISTICS OF STRUCTURE AND MORTGAGE	CONVENTIONAL	INSURED		ALL
		FHA	*VA*	
Structure as Acquired by Owner				
New	27%	60%	39%	34%
Previously occupied	73	40	61	66
Mortgage as Acquired by Holder				
Purchased	11	41	27	18
Originated	89	59	73	82
Total	100%	100%	100%	100%

Refers to nonfarm properties, first mortgages only. Based on data from *1950 Census of Housing*, Vol. 4, Residential Financing, Part 1, Chapter 3, Tables 2 and 3, pp. 159 and 162.

Since appraising the growth and changing composition of urban mortgage debt was the primary function of the present chapter, a word of caution is now in order should the data be used for other purposes. In interpreting the material on the preceding pages it is necessary to keep in mind that at no time has home mortgage credit been used exclusively for the financing of home purchases and home maintenance. During the twenties, for example, the practice of funding previously contracted debts through loans with real estate as collateral was quite common. For later years some quantitative information on the purposes for which mortgage loans are made is available from a continuous sample of savings and loan associations, compiled by the Home Loan Bank Board. These data show that even in the years of high home-purchase activity immediately following World War II, some 20 percent of the loans were made for other purposes than construction of new or acquisition of existing homes, and that at least one out of every fourteen loans was made for purposes not connected with housing expenditures even in a broad sense of the term (Table 12).

TABLE 12

Distribution of Annual Dollar Volume of Mortgage Loans by Savings and Loan Associations, 1936-50, by Purpose of Loan

Year	*Construction*	*Home Purchase*	*Refinancing*	*Reconditioning*	*Other Purposes*
1936	23%	30%	24%	9%	14%
1937	26	37	20	7	10
1938	28	33	20	7	12
1939	31	34	18	6	11
1940	33	36	17	5	9
1941	32	42	14	4	8
1942	18	55	16	4	7
1943	9	68	14	3	6
1944	7	73	11	2	7
1945	10	71	10	2	7
1946	17	66	8	2	7
1947	24	56	8	3	9
1948	29	47	9	4	11
1949	30	43	10	5	12
1950	34	43	8	4	11
1951	31	45	9	4	11
1952	32	45	9	4	11
1953	32	45	8	4	11

Based on the Home Loan Bank Board's *Statistical Summary, 1949,* Table 11, p. 12, and the Housing and Home Finance Agency's *Housing Statistics,* January 1954, p. 45. The data were compiled by the Operating Analysis Division from reports of approximately 3,000 savings and loan associations whose combined assets represented about four-fifths of the total assets of all such associations.

Mortgage lending by the associations is predominantly on nonfarm residential properties; cf. Table 27.

Similarly, census data for 1950 (Table 13) indicate that for all lenders, nearly one out of every six of the then outstanding mortgages on single family owner-occupied homes was made for other purposes than for acquisition or improvement and repairs of the home; that the mortgages made after the property had been acquired by the owner—including refinancings—accounted for over one-fourth of all loans (and for over one-third of all conventional loans); and that 70 percent of the refinancings and renewals, and over 50 percent of the new mortgages placed after acquisition of the property, had been taken out by the borrower for financial reasons (securing better terms, investing in other property, in business, etc.) and for other reasons not directly related to the purchase or improvement of his home.

TABLE 13

Distribution of Owner-Occupied One-Family Homes with Conventional and with Insured Mortgages, 1950, by Origin and Purpose of Loan

ORIGIN AND PURPOSE OF LOAN	CONVENTIONAL	INSURED		ALL LOANS
		FHA	*VA*	
ORIGIN OF LOAN				
Made or Assumed at Time of Property Acquisition	*64%*	*93%*	*97%*	*73%*
Refinanced or Renewed	*21*	*5*	*2*	*16*
Improve or repair property	6	1	1	5
Secure better terms	5	3	1	4
Renew or extend term	4	a	a	3
Other	6	1	a	4
Placed after Property Acquisition	*15*	*2*	*1*	*11*
Improve or repair property	7	1	1	5
Invest in other properties	1	a	..	1
Invest in business other than real estate	2	a	a	1
Other	5	1	a	4
Total	100%	100%	100%	100%
PURPOSE OF REFINANCED LOANS				
Improve or repair property	30	24	44	30
Secure better terms	25	48	29	27
Renew or extend term	18	4	4	17
Other	27	24	22	26
Total	100%	100%	100%	100%
PURPOSE OF MORTGAGES PLACED AFTER PROPERTY ACQUISITION				
Improve or repair property	47	43	66	47
Invest in other properties	7	4	..	7
Invest in business other than real estate	11	8	5	11
Other	35	45	29	35
Total	100%	100%	100%	100%

Refers to nonfarm properties, first mortgages only. Based on data from *1950 Census of Housing*, Vol. 4, Residential Financing, Part 1, Chapter 3, Table 3, p. 163.

[a] Less than 0.5 percent.

Notwithstanding the above qualifications, the data we have reviewed suggest a general, long-range pattern which, over the past thirty years or more, has been characterized by: (1) growth of mortgage debt, not only in absolute terms but—more importantly—in relation to the other components of private long-term debt; (2) within the growing mortgage debt, a rapid increase of the nonfarm or urban as compared with the farm sector; and (3) within the nonfarm sector, a steady rise of the residential as against the nonresidential debt, and a sustained decline in the importance of income-producing real estate as compared with the consumer type of shelter, i.e. the owner-occupied single family home.

This long-range development has been encouraged by the government through what was originally an emergency measure but has since become an integral part of the real estate finance structure of the economy. To what extent the pattern is also the outcome of growing urbanization, and with it an increasing willingness to make use of long-term debt financing, or of the maturing of an intensified demand for shelter as a reflection of the continuing struggle for rising standards of living, and to what extent it is due to the many accidental circumstances of the past which, in joint interaction, have helped shape the present, cannot be accurately judged. In any case, some implications of the development clearly point to a more pronounced impact of the vagaries of changing consumer demand and changing consumer incomes upon the financial structure of the economy than has been observable in the past. Whether and to what degree it will be possible to cushion such impacts—should this become necessary—through government or other action is a matter of conjecture. In any event, it would seem that the observed changes in urban mortgage financing have tended toward shifting major risks from the spender to the saver, from the younger to the older age groups, and—in general—from the present to the future.