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STRUCTURE OF THE LENDING INDUSTRY

AS WE HAVE SEEN, four private institutional lenders—insurance companies, commercial banks, mutual savings banks, and savings and loan associations—represent a substantial part of the urban mortgage lending industry. In 1946, the year the National Bureau's sample was drawn,¹ they held nearly two-thirds of the entire non-farm real estate debt (66 percent) and a similar fraction of the debt on one- to four-family homes (69 percent); they also accounted in that year for about three-fourths (73 percent) of all lending activity on one- to four-family homes.² The total number of such institutions in 1946 was around 21,000, of which approximately two-thirds were commercial banks and somewhat less than three-tenths were savings and loan associations (Table 17). The small remainder was divided between mutual savings banks and life insurance companies in the approximate ratio of three to two.

The two most numerous groups of private institutional lenders—commercial banks and savings and loan associations—have contracted sharply in number since 1930, through failures and consolidations. For commercial banks the contraction was sharper and took place earlier than for savings and loan associations, largely because of differences in statutes governing the two types of institutions.³ Life insurance companies, on the other hand, have increased in number and have simultaneously increased their outlets by setting up field office and correspondent systems, while mutual savings banks displayed a relatively stable pattern, though their number decreased slowly from 620 in 1920 to about 528 in 1953.

Size Comparisons of Lending Institutions

Dividing lending institutions into three broad size groups—those with urban mortgage portfolios of less than a quarter million dollars, one-quarter of a million to \$50 million, and \$50 million or more—

¹ See the opening section of Chapter 4.

² By 1950 these ratios had increased to 74, 78, and 74 percent, respectively. (Department of Commerce, *Survey of Current Business*, October 1954, Table 6, p. 19; Home Loan Bank Board, *Estimated Home Mortgage Debt and Lending Activity*, 1950, p. 3.)

³ In cases of insolvency the applicable statutes compelled banks to close more promptly than associations.

TABLE 17

Number of Mutual Savings Banks, Commercial Banks, Life Insurance Companies, and Savings and Loan Associations, 1920-53

Year ^a	Mutual Savings Banks	Commercial Banks	Life Insurance Companies ^b	Savings and Loan Associations
1920	620	29,519	272	8,633
1921	623	30,189	288	9,255
1922	619	29,770	286	10,009
1923	618	29,560	291	10,744
1924	613	28,735	297	11,844
1925	611	28,230	308	12,403
1926	620	27,526	322	12,626
1927	618	26,443	319	12,804
1928	616	25,597	331	12,666
1929	611	24,719	353	12,342
1930	606	23,473	352	11,777
1931	600	21,471	342	11,442
1932	594	18,569	328	10,915
1933	576	14,048	318	10,596
1934	578	15,316	313	10,744
1935	571	15,482	340	10,266
1936	566	15,237	315	10,042
1937	564	15,016	308	9,225
1938	562	14,779	306	8,762
1939	552	14,594	306	8,006
1940	551	14,466	305	7,521
1941	550	14,369	304	7,211
1942	538	14,277	303	6,941
1943	537	14,129	305	6,498
1944	536	14,072	305	6,279
1945	534	14,067	348	6,149
1946	533	14,100	370	6,093
1947	533	14,222	398	6,045
1948	532	14,240	380	6,011
1949	530	14,199	435	5,983
1950	530	14,187	440	5,992
1951	529	14,151	418	5,995
1952	529	14,112	573	6,004
1953	528	14,051	580	6,010

Includes institutions in the United States and its possessions. Data for commercial and mutual savings banks are from *Annual Reports* of the Comptroller of the Currency and of the Federal Deposit Insurance Corporation; for life insurance companies, from *Statistical Abstracts* of the United States and from *Compendium of Official Life Insurance Reports* (Spectator Company); and for savings and loan associations, from *Trends in the Savings and Loan Field, 1953* (Home Loan Bank Board), Table 1, p. 4, and from *Annual Report, 1927* of the Comptroller of the Currency, p. 126.

(notes continued on next page)

Notes to Table 17 (continued)

^a Figures as of June 30 for commercial and mutual savings banks; as of December 31 for life insurance companies and savings and loan associations.

^b Represents companies reporting their financial statements to the Spectator Company; the aggregates published yearly in the Spectator Year Book are considered to represent nearly 100 percent of the business of United States legal reserve life companies. Estimates compiled by the Institute of Life Insurance on the number of companies reporting to individual state insurance departments in 1940 and 1950 through mid-1953 are from about one-third to one-half larger than those given by Spectator.

emphasizes the relatively small size of those that are most numerous. Over three-fifths of all institutions have portfolios of less than \$250,000, while less than one percent of them have urban mortgage portfolios in excess of \$50 million (Table 18). Furthermore, inter-institutional differences in portfolio size are clearly discernible. Commercial banks are the most frequent type of institution in the small size group; savings and loan associations and commercial banks appear with about equal frequency in the middle-sized group; and among the largest lenders insurance companies and mutual savings banks predominate (Table 18).

When the individual agencies in each of the four groups of institutional lenders are classified according to size of urban mortgage holdings, it is seen that about three-fourths of the commercial banks

TABLE 18
Distribution of Number of Lending Institutions, 1946,
by Type of Institution within Size Class of
Nonfarm Mortgage Portfolio

<i>Type of Lender</i>	<i>Under \$250,000</i>	<i>\$250,000 to 49.9 Million</i>	<i>\$50 Million and Over</i>	<i>Total</i>
Mutual savings banks	0.2%	6.4%	32.1%	2.6%
Insured commercial banks ^a	81.2	41.0	9.4	65.6
Life insurance companies ^b	1.0	2.7	56.6	1.8
Savings and loan associations ^c	17.6	49.9	1.9	30.0
Total	100.0%	100.0%	100.0%	100.0%
Distribution by portfolio size	61.4%	38.3%	0.3%	100.0%

Data compiled from records of the Federal Deposit Insurance Corporation, the National Association of Mutual Savings Banks, the Home Loan Bank Board, and the United States Savings and Loan League, and from *Compendium of Official Life Insurance Reports, 1947* (Spectator Company).

^a Includes banks in continental United States only, as of June 30.

^b Distribution as of December 31, excluding five companies for which data were not available.

^c Data as of December 31. Distribution of associations with portfolios of less than \$50 million is estimated.

have nonfarm mortgage portfolios of less than \$250,000, that mutual savings banks are approximately symmetrically distributed around their most frequent size group (\$1 million to \$5 million), and that insurance companies, though having nearly the same mode as the distribution of mutual savings banks, reach further into the large size classes (Table 19). No comparable information could be ob-

TABLE 19
Distribution of Number of Lending Institutions, 1946,
by Size of Nonfarm Mortgage Loan Portfolio

<i>Nonfarm Mortgage Loan Portfolio</i>	<i>Mutual Savings Banks^a</i>	<i>Insured Commercial Banks^b</i>	<i>Life Insurance Companies^c</i>	<i>Savings and Loan Associations^d</i>
No holdings	..	3.8%	9.7%	..
Under \$250,000	3.6%	72.2	24.9	29.4%
\$250,000 - 0.9 million	18.3	17.5	15.1	36.2
1 - 4.9 million	45.0	5.7	21.9	27.3
5 - 24.9 million	25.2	0.7	15.7	6.6
25 - 49.9 million	4.7	e	3.2	0.5
50 million and over	3.2	e	8.1	e
Not available	..	..	1.4	..
Total	100.0%	100.0%	100.0%	100.0%

Compiled from records of the National Association of Mutual Savings Banks, and the Federal Deposit Insurance Corporation, and from *Compendium of Official Life Insurance Reports, 1947* (Spectator Company); data for savings and loan associations were prepared by the Operating Analysis Division of the Home Loan Bank Board.

^a Distribution is by size of total mortgage loan portfolio, as of December 31.

^b Covers banks in continental United States, as of June 30.

^c Refers to companies in continental United States, as of December 31.

^d Distribution is by estimated asset size and covers all associations as of December 31. For percentage of assets consisting of mortgage loans, see Table 22.

^e Less than 0.05 per cent.

tained for savings and loan associations, but estimates based on asset size rather than on size of mortgage portfolio reveal a rather uniform distribution within a more confined size range: it is known, for example, that more than three-fifths of all savings and loan associations have assets of less than \$1 million.

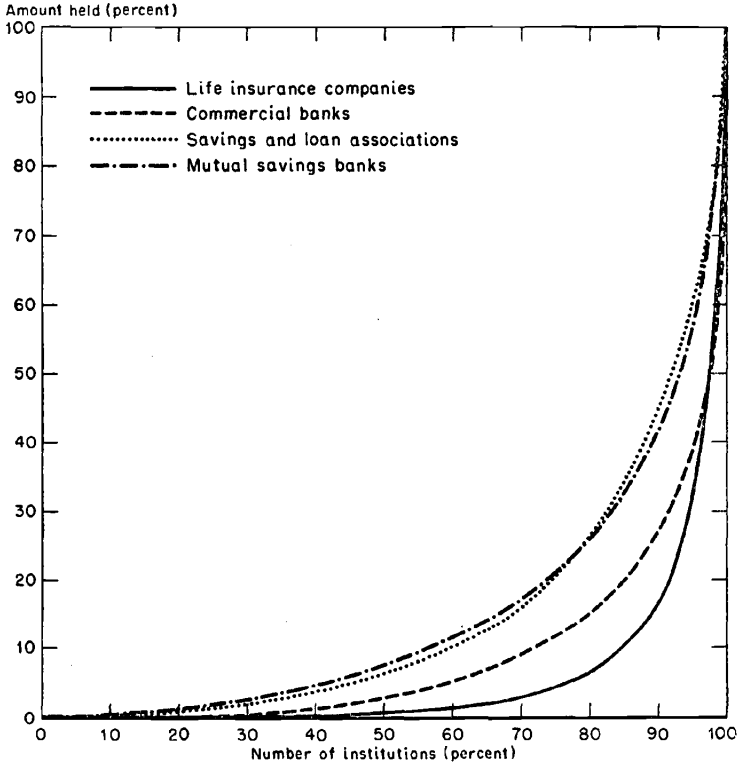
The four types of lender also differ quite clearly when compared with respect to the distribution of the industry's urban loan total among the portfolios of individual lending institutions: most even were the distributions for savings and loan associations and for mu-

tual savings banks; least even, that for the life insurance companies; commercial banks assumed an intermediate position (Chart 5).

This account of the portfolio size pattern of the mortgage lending industry can be supplemented with data for 1951 showing the types

CHART 5

Lorenz Curves of Nonfarm Mortgage Holdings of Institutional Lenders, 1946
(cumulative percentage distribution of number of institutions, and of their nonfarm mortgage holdings, for lenders ranked by size of portfolio)



Computed from Table C-4.

of loans which tend to characterize, and to differentiate, the various size groups of lending agencies.⁴ It is seen that conventionally financed loans predominate in the holdings of the small lenders, and that the proportion of insured loans increases as the portfolio size of the lender increases (Table 20). Only for insurance com-

⁴ In these data the portfolios include farm as well as nonfarm residential mortgage loans.

TABLE 20
 Relation between Size of Residential Mortgage Portfolio and
 Percent of Holdings Government-Insured, 1951
 (percentage distribution of amount outstanding)

TYPE OF LENDER AND SIZE OF MORTGAGE LOAN PORTFOLIO	INSURED			CONVEN- TIONAL	TOTAL
	FHA	VA	Total		
<i>Mutual Savings Banks</i>	28%	20%	48%	52%	100%
Under \$25,000	..	..	..	..	..
\$25,000 - 99,999	..	..	..	100	100
100,000 - 499,999	11	19	30	70	100
500,000 - 0.9 million	7	16	23	77	100
1 - 4.9 million	5	24	29	71	100
5 - 9.9 million	8	27	35	65	100
10 - 24.9 million	13	28	41	59	100
25 - 49.9 million	27	18	45	55	100
50 million and over	37	15	52	48	100
<i>Commercial Banks</i>	31	23	54	46	100
Under \$25,000	4	10	14	86	100
\$25,000 - 99,999	8	13	21	79	100
100,000 - 499,999	12	22	34	66	100
500,000 - 0.9 million	13	25	38	62	100
1 - 4.9 million	19	26	45	55	100
5 - 9.9 million	29	26	55	45	100
10 - 24.9 million	43	22	65	35	100
25 - 49.9 million	52	22	74	26	100
50 million and over	45	22	67	33	100
<i>Insurance Companies^a</i>	40	21	61	39	100
Under \$25,000	9	4	13	87	100
\$25,000 - 99,999	13	2	15	85	100
100,000 - 499,999	17	5	22	78	100
500,000 - 0.9 million	12	7	19	81	100
1 - 4.9 million	28	12	40	60	100
5 - 9.9 million	37	16	53	47	100
10 - 24.9 million	38	12	50	50	100
25 - 49.9 million	35	17	52	48	100
50 million and over	41	23	64	36	100
<i>Savings and Loan Associations</i>	6	22	28	72	100
Under \$25,000	5	3	8	92	100
\$25,000 - 99,999	^b	2	2	98	100
\$100,000 - 499,999	1	5	6	94	100
500,000 - 0.9 million	2	11	13	87	100
1 - 4.9 million	3	20	23	77	100
5 - 9.9 million	5	21	26	74	100
10 - 24.9 million	8	25	33	67	100
25 - 49.9 million	9	27	36	64	100
50 million and over	11	28	39	61	100

Based on data as of May 31, 1951 covering residential mortgages (nonfarm and farm) in "Real Estate Loans of Registrants under Regulation X" by Doris P. Warner, *Federal Reserve Bulletin*, June 1952, Table 5, p. 626.

^a Includes property insurance companies and other types as well as life companies.

^b Less than 0.5 percent.

panies and commercial banks with total mortgage portfolios of \$5 million or more, and for mutual savings banks having portfolios of \$50 million or more, do holdings of government-insured loans exceed those that are conventionally financed. Two other facts stand out. First, savings and loan associations in every size group had a smaller proportion of government-insured holdings than did the other types of lender. Second, among lending institutions of different types but comparable in size, differences in the percentage of insured holdings were smallest for the small lenders and largest for the large ones.

The composition of lenders' portfolios according to the type of property being financed is less clearly related to the size of the portfolio than is the insurance status of loans. The data do suggest a tendency for holdings of loans on nonresidential income-producing properties to increase with the size of the lender's total mortgage portfolio.⁵ Commercial banks are an exception, however; for them the opposite tendency was observed. Mutual savings banks in all size classes but the very largest had smaller ratios of nonresidential to all nonfarm mortgage loans than the other lenders except savings and loan associations, whose activity in the nonresidential market is negligible.

Relative Importance of Mortgage Investments to Various Institutions

An understanding of the characteristics of mortgage lending institutions requires analysis not only of their portfolio size, but also of the importance of their mortgage holdings as against their other investments. Hence a comparison of urban mortgage investments to total assets for the several types of lender should be helpful in interpreting differences among them.

Measured by their percentage relationship to total assets, urban mortgage investments have by far the greatest importance for savings and loan associations; mutual savings banks are next in this ranking, followed by life insurance companies and finally by commercial banks (Table 21). For savings and loan associations the ratio of urban mortgage investments to total assets has oscillated, since the end of World War I, between about two-thirds and nine-tenths; the range for mutual savings banks has been one-quarter to one-half; for insurance companies, one-eighth to three-tenths; and for commercial banks, one fortieth to one-twelfth.

⁵ Doris P. Warner, "Real Estate Loans of Registrants under Regulation X," *Federal Reserve Bulletin*, June 1952, Table 5, p. 626.

TABLE 21
Ratio of Nonfarm Mortgage Holdings to Lender's
Total Assets, 1920-53

Year ^a	Mutual Savings Banks	Commercial Banks	Life Insurance Companies	Savings and Loan Associations ^b
1920	46.5%	4.8%	16.0%	74.3%
1921	46.0	5.0	17.0	73.9
1922	47.4	5.4	17.6	88.1
1923	48.6	6.1	19.6	88.1
1924	50.9	6.9	22.1	88.1
1925	52.4	7.5	24.0	90.8
1926	54.1	7.7	26.9	90.7
1927	55.3	7.8	27.7	90.2
1928	55.6	8.0	29.2	89.0
1929	57.4	8.2	29.8	87.8
1930	57.3	7.7	29.3	85.7
1931	54.0	7.8	28.2	83.0
1932	53.1	8.7	26.4	79.5
1933	51.9	7.3	24.3	75.3
1934	48.3	6.1	21.1	67.2
1935	45.5	5.9	18.5	63.1
1936	42.3	5.1	16.8	62.6
1937	41.8	5.6	16.5	65.9
1938	41.4	5.8	16.4	68.5
1939	40.6	5.6	16.4	72.1
1940	40.3	5.4	16.5	75.8
1941	40.5	5.4	16.9	78.9
1942	38.6	4.4	16.7	77.4
1943	33.7	3.5	15.5	71.7
1944	29.0	2.9	14.3	66.0
1945	24.6	2.6	13.1	62.5
1946	23.7	4.3	13.2	70.9
1947	24.5	5.5	15.0	76.5
1948	28.2	6.4	17.7	79.7
1949	31.0	6.8	19.7	80.0
1950	36.7	7.5	23.1	81.3
1951	42.1	7.6	26.1	81.4
1952	44.9	7.8	26.6	81.5
1953	47.5	8.1	27.3	82.3

Data on total assets were compiled from *Annual Reports* of the Comptroller of the Currency, from *Life Insurance Fact Book, 1954* (Institute of Life Insurance), p. 60, and from *Trends in the Savings and Loan Field, 1953* (Home Loan Bank Board), Table 1, p. 4. Data for savings and loan associations in 1920 and 1921 were supplied by the United States Savings and Loan League. For amount of lender's nonfarm mortgage loans outstanding, see Table C-1.

^a Figures for total assets as of December 31, except those for commercial banks and mutual savings banks for 1920-35, which refer to June 30.

^b Represents net mortgage debt outstanding as a percentage of net total assets of all associations in the United States and its possessions.

Mutual savings banks, commercial banks, and life insurance companies increased the ratio of their urban mortgage holdings to their total assets throughout the expansion of the twenties, but the comparable ratio for savings and loan associations started to decline, though only moderately, in 1926. In 1937, however, the share of savings and loan associations began an increase that continued through 1941, while the ratios for other major private lenders declined or held to a roughly stable level until 1946.

Although the rapidly expanding mortgage activity of the late forties and early fifties brought a reversal of the downward trend in the importance of mortgage holdings within all assets, basic differences among lenders were not affected. Nonfarm mortgage investments remained least important for commercial banks and most important for savings and loan associations. Moreover, none of the lenders reached the point where the ratio of their mortgage holdings to their total assets equaled or exceeded that reached in 1929, though by 1953 commercial banks and life insurance companies were very close to it. The ratio for mutual savings banks, on the other hand, remained well behind the 1929 level.

The foregoing comparisons concern averages for all individual agencies within each of the four types of institutional lender. Additional insight may be gained as to the importance of urban mortgage investments to the various types of lender if individual institutions are grouped, as in the 1946 data of Table 22, according to asset size. These groupings reveal that differences between types of lender, rather than differences in the size of the individual agencies within any given group, account for the institutional differences in the ratio of mortgage holdings to total assets. It should be noted, however, that in the case of life insurance companies the ratio was lowest for companies of largest size, while among commercial banks the lowest ratio was observed among both the largest and the smallest banks. The asset size of mutual savings banks, on the other hand, apparently has no systematic effect on the extent to which resources are invested in urban real estate loans. The high ratios that are special to savings and loan associations are also uniformly characteristic except that there is some tendency for them to taper off for the very large associations.

Here it would be of interest to examine the net income derived by the various lenders from their nonfarm mortgage portfolios. Unfortunately such information is extremely scarce, in particular because of the nearly complete absence of data on portfolio costs;

TABLE 22
Ratio of Nonfarm Mortgage Holdings to Total Assets, 1946,
for Lenders Classified by Size of Assets

Asset Size	Mutual Savings Banks ^a	Insured Commercial Banks	Life Insurance Companies	Savings and Loan Associations ^b
Under \$500,000	23.0%	2.4%	14.1%	69.1%
\$500,000 - 0.9 million		3.0		71.3
1 - 2.49 million	23.8	3.9	15.2	73.4
2.5 - 9.9 million		5.4	21.9	72.5
10 - 24.9 million	23.1	5.5	18.1	69.1
25 - 49.9 million	23.0	4.4	26.7	
50 - 99.9 million	23.7	3.9	22.4	68.9
100 - 499.9 million		2.6	24.6	
500 million and over	24.2	2.0	10.4	
Total	23.8%	3.4%	13.2%	71.3%

Compiled from records of the National Association of Mutual Savings Banks and the Federal Deposit Insurance Corporation, and from *Compendium of Official Life Insurance Reports, 1947* (Spectator Company); data for savings and loan associations were prepared by the Operating Analysis Division of the Home Loan Bank Board. Figures as of December 31, with the exception of commercial banks (June 30).

^a Represents total mortgage debt as a percentage of total assets.

^b Represents estimated gross mortgage debt (i.e. inclusive of mortgage pledged shares) as a percentage of total assets.

what little evidence exists is not uniform and cannot be used to compare the several types of lending institution. Therefore, and because the best information at present available is on life insurance companies,⁶ attention will be limited to the annual portfolio cost and income structure which characterized this one type of lender during the period 1945-53.⁷

The data presented in Table 23 are derived from an annual questionnaire survey conducted by the Life Insurance Association of America. In its survey (which continues a similar survey made by the NBER for the years 1945-47) the Association classifies com-

⁶ R. J. Saulnier, *Urban Mortgage Lending by Life Insurance Companies* (National Bureau of Economic Research, Financial Research Program, 1950), Chapter 5; *City Mortgage Lending Income and Costs of Life Insurance Companies, 1945-1948* (Life Insurance Association of America, Investment Bulletin 53, 1950), and similar bulletins for later years (Nos. 75, 125, 173, and 201).

⁷ For mutual savings banks see Chapter 11 of *Mutual Savings Banks in the Savings and Mortgage Markets*, by John Lintner (Harvard University, 1948); and for commercial banks see *Commercial Bank Activities in Urban Mortgage Financing*, by Carl F. Behrens (National Bureau of Economic Research, Financial Research Program, 1952), Chapter 5.

panies according to whether they operate branches for originating and servicing mortgages or rely predominantly on loan correspondents, and, within these broad groupings, according to the size of the companies' mortgage loan portfolio. For the present discussion,

TABLE 23
Ratios of Gross and Net Income to Average Urban Mortgage Holdings
for Life Insurance Companies, 1945-53, by Size of Investment

YEAR	NONBRANCH COMPANIES WITH PORTFOLIOS OF:			
	<i>Under \$5 Million</i>	<i>5 - 24.9 Million</i>	<i>25 - 99.9 Million</i>	<i>\$100 Million and Over</i>
	<i>Gross Income</i>			
1945	4.55%	4.62%	4.44%	4.28%
1946	4.40	4.30	4.13	4.16
1947	4.26	4.34	4.09	4.03
1948	4.29	4.23	4.09	4.05
1949	4.34	4.31	4.13	4.09
1950	5.11	4.34	4.14	4.03
1951	4.75	4.45	4.28	4.16
1952	4.81	4.64	4.29	4.20
1953	5.10	4.61	4.40	4.27
	<i>Net Income</i>			
1945	3.46%	3.58%	3.69%	3.77%
1946	3.29	3.01	3.28	3.45
1947	2.74	2.97	3.16	3.16
1948	3.06	2.96	3.18	3.24
1949	3.42	3.35	3.39	3.38
1950	4.30	3.35	3.25	3.29
1951	3.99	3.68	3.52	3.50
1952	4.12	3.83	3.63	3.59
1953	4.34	3.88	3.74	3.66

Data supplied by the Life Insurance Association of America. Income data are expressed as percentages of annual average loan investment, computed for 1945-50 by averaging beginning and end of year holdings of city mortgages and real estate sales contract balances, and for 1951-53 by averaging monthly data. Average ratios are weighted by size of loan investment.

With nonbranch companies are included companies originating or servicing less than 25 percent of their loans through branch offices. Through 1949, companies are classified by portfolio size on the basis of their average holdings in 1946; thereafter classification is determined by current portfolio size. The number of companies varies from year to year.

only the data for companies not operating branches are used, since there are too few companies in the other category to yield representative results; and cost comparisons are limited to companies of different portfolio size within a given year. The refinements that have been made during the course of the survey's history to date

in the investment base to which income and costs are related, and in classifying companies by portfolio size, impair year-to-year comparability of the data.⁸

Throughout the period 1945-53, gross income per dollar of average outstanding nonfarm loan balance was lowest for the companies having large portfolios, which is consistent with the fact that government-insured or -guaranteed loans and relatively low-rate conventional loans on commercial properties usually predominate in the large portfolios. Companies in the smallest portfolio-size group (under \$5 million) in 1945 and 1947 and those with the largest portfolios (\$100 million and over) in 1946 were the only exceptions to the inverse relationship between gross income ratios and portfolio size.

The pattern of change in average net income ratios as portfolio size increases is less regular. Net income per dollar of average loan investment varied directly with portfolio size in 1945 and 1947; although the movement in 1946 and 1948 was erratic, the net income ratios of the largest portfolio companies were higher than those of the smallest portfolio companies. A similar though somewhat more nebulous tendency for net income ratios to be highest for companies having large mortgage holdings was also observed by Saulnier in his analysis of lending costs and returns in 1945-47.⁹ On the other hand, the data for 1949 and 1950 and especially those for 1951-53 show an inverse relationship between net income ratios and portfolio size.

A partial explanation of the change, first observable in 1949, in the relationship between net rates of return and portfolio size is found in the behavior of the total cost ratios; that is, in the difference between gross and net yields. Throughout the period, average unit costs, like gross yields, tended to vary inversely with portfolio size. During the years 1945 through 1948 unit costs fell sufficiently with size to offset the decline in gross yields associated with increasing size of operations. Consequently, net income ratios were higher for companies with large portfolios. Beginning with 1949, but especially

⁸ Through 1950 the investment base is the average of a company's holdings of city mortgages and real estate sales contracts at the beginning and end of each year. For 1951 through 1953, average loan investment is computed from monthly data. During 1945-49, portfolio-size classification was determined by a company's average holdings as of 1946 or the first year thereafter in which it contributed data; since 1950, companies are classified according to their current portfolio size.

⁹ See Saulnier, *op. cit.*, p. 69.

in later years, the differences in the total cost ratios for the various portfolio size groups became much less. Substantial decreases in the cost ratios of small-portfolio companies from their highs of the 1945-48 period largely accounted for this greater uniformity of cost ratios and also for the reversal of the previously more favorable position of the large-portfolio companies with respect to their net income ratios.

The LIAA studies for 1951 and 1952¹⁰ also point toward lower cost ratios for portfolios consisting predominantly of conventionally financed loans than for government-insured portfolios. Since gross yields, on the other hand, were generally smaller on the insured part of the portfolios, a substantial spread resulted between net returns on investment from primarily FHA-insured and from conventionally financed portfolios.

All this suggests that for life insurance companies the relationship between net yields and size of the companies' nonfarm mortgage portfolio may be highly irregular. In periods such as the immediate postwar years when companies with small portfolios were expanding their loan volume at unusually high rates, they were not always successful in maintaining their lending costs at a level such as would enable them to hold the advantage which they enjoyed over the large-portfolio companies with respect to gross income ratios. It should be pointed out, however, that the above evidence may exaggerate to some degree the difference between the large- and the small-portfolio lender. It is not unlikely that underreporting of costs is found more often among small- than among large-portfolio companies and that in some small-portfolio companies accounting records do not permit as decisive an allocation of income and costs to lending operations as is feasible for the larger companies. In addition, the data make no allowance for the risk factor, which may be higher for the smaller-portfolio companies, who may well have been holders of higher risk portfolios. Serious consideration should also be given the possibility that variation in the data may result from the small size of the sample (particularly for the small-portfolio size group), from its changing composition, over the period, and from the changes that have been made in computing the investment base.

¹⁰ *City Mortgage Lending Income and Costs of Life Insurance Companies*, 1951, pp. 4 ff., and *ibid.*, 1952 (Investment Bulletin 201, 1954), pp. 3 ff.

Geographic Patterns of Institutional Holdings

The markets served by the four principal private mortgage lenders cover the entire United States, but the aggregate portfolios of the four are not equally distributed geographically.

Historical data on location of mortgaged properties are available only for life insurance companies; for other institutions, information is limited to location of lender. However, commercial banks, savings and loan associations, and mutual savings banks are, unlike insurance companies, mainly short-distance lenders, though the savings banks have in recent years appreciably increased their purchases of out-of-state mortgages. Hence location of lender and location of collateral should be highly correlated for all three types of lenders, especially if the geographic grouping is in terms of broad areas such as the census divisions used in the subsequent tables. The geographic scope of commercial bank operations would be revealed as more extensive, certainly so far as the larger money-market institutions affect the aggregate, if the analysis were to include loans for large-scale construction projects and short-term loans for carrying mortgages destined for ultimate sale to long-term investors. These activities are not covered, however, in the present analysis.

Observing the geographic patterns of the various lending institutions (Table 24), we find that mutual savings banks showed the heaviest concentration. Few changes have taken place in this situation since the late twenties: the relative importance of some of the South Atlantic and especially of the West North Central states as mortgage investment outlets for the mutuals has increased since 1928, while the importance of the Pacific and East North Central regions has decreased. In spite of those shifts, only about 2 percent of the urban mortgage debt held by mutual savings banks is held by institutions in the West North Central and South Atlantic regions combined; the overwhelmingly most important market of the mutuals is still, as it was in the late twenties, the northeastern United States. In three of the nine census divisions no mutuals were found at all.

This long-standing pattern of heavy geographic concentration is confirmed by the recently tabulated results of the Survey of Residential Financing of 1950, which do throw some light on geographic location of collateral.¹¹ Nearly nine-tenths of the mutual savings banks' aggregate portfolio of loans on one- to four-family homes was

¹¹ Reference is to the *1950 Census of Housing*, Vol. 4, Residential Financing, Part 1, Chapter 2, Table 2, pp. 40 ff. The data are tabulated by type of lender and by actual location of the property.

TABLE 24
Regional Distribution of Nonfarm Mortgage Holdings
of Institutional Lenders, 1928-50

<i>Region and Census Division^a</i>	1928	1933	1934	1939	1946	1950
<i>Mutual Savings Banks</i>						
<i>North</i>	97%	98%	98%	98%	98%	98%
New England	83	32	31	30	28	26
Middle Atlantic	12	65	65	67	68	70
East North Central	2	1	1	1	1	1
West North Central	..	..	b	b	1	1
<i>South</i>	1	1	1	1	1	1
South Atlantic	1	1	1	1	1	1
East South Central	..	..	..	..	..	..
West South Central	..	..	..	..	..	..
<i>West</i>	2	1	1	1	1	1
Mountain	..	..	..	..	..	..
Pacific	2	1	1	1	1	1
<i>Commercial Banks</i>						
<i>North</i>	68%	71%	66%	60%	58%	58%
New England	14	12	12	9	7	6
Middle Atlantic	22	41	34	27	21	23
East North Central	30	16	16	19	22	21
West North Central	2	2	4	5	8	8
<i>South</i>	6	6	10	13	16	15
South Atlantic	3	3	6	8	9	9
East South Central	1	1	2	3	3	3
West South Central	2	2	2	2	4	3
<i>West</i>	26	23	24	27	26	27
Mountain	2	1	1	2	3	3
Pacific	24	22	23	25	23	24
<i>Savings and Loan Associations</i>						
<i>North</i>	79%	79%	79%	70%	66%	64%
New England	8	9	10	12	10	8
Middle Atlantic	35	34	35	23	20	20
East North Central	29	29	28	27	28	28
West North Central	7	7	6	8	8	8
<i>South</i>	15	15	15	21	22	22
South Atlantic	7	7	8	13	14	13
East South Central	2	3	3	3	3	3
West South Central	6	5	4	5	5	6
<i>West</i>	7	6	6	9	12	14
Mountain	2	1	1	2	2	2
Pacific	5	5	5	7	10	12

(continued on next page)

TABLE 24 (continued)

<i>Region and Census Division^a</i>	1928	1933	1934	1939	1946	1950
	<i>Life Insurance Companies</i>					
<i>North</i>	73%	74%	74%	74%	68%	50%
New England	3	3	3	4	5	3
Middle Atlantic	40	40	41	43	39	23
East North Central	22	24	24	21	19	18
West North Central	8	7	6	6	5	6
<i>South</i>	18	16	16	17	22	32
South Atlantic	10	9	9	10	12	15
East South Central	4	4	3	3	3	5
West South Central	4	4	4	4	7	12
<i>West</i>	9	10	10	9	10	18
Mountain	1	1	1	1	1	3
Pacific	8	9	9	8	9	15

Based on data for mutual savings banks and commercial banks from the *Annual Reports* of the Comptroller of the Currency (as of June 30 for 1928, 1933, and 1934), and for life insurance companies from relevant issues of the *Proceedings of the Annual Meeting of the Life Insurance Association of America*; the latter represent the holdings of 49 companies (in 1928, 52 companies) whose admitted assets accounted for about 90 per cent of the assets of all legal reserve life companies in the United States. For savings and loan associations the 1928-46 figures are based on the distribution of mortgage investments by state given in the *Annals of the United States Savings and Loan League*; regional totals in 1928, where the distribution was incomplete, were adjusted upward by apportioning the amount for "other states" according to the relationship between the components of the "other states" group and their regional totals in 1933. Data for 1950 are from *Trends in the Savings and Loan Field, 1951* (Home Loan Bank Board), Table 7, p. 11.

^a Refers to location of institution except in the case of life insurance companies, where reference is to the location of the mortgaged properties. For a listing of states included in the census divisions, see Table 3, note a.

^b Less than 0.5 percent.

secured by collateral located in the Northeast; only 3 percent was located in the two North Central regions combined, and the same small fraction in the whole of the South.

A number of reasons have been advanced to explain the heavy geographic concentration of the mutual savings banks, which distinguishes them sharply from other major types of lending institutions. Of these the most important is probably the early need for thrift institutions to invest the modest but regular savings of urban industrial workers in the New England and Middle Atlantic states, which contrasts markedly with the greater possibilities and greater demands for direct investment by the individual saver in the agricultural areas of the Middle West and the South. By the time the

demand for capital in the West had assumed significant proportions, there had already been established a network of commercial banks with the right to accept savings deposits unlimited by the restrictions which surrounded that function in the East.¹²

Commercial banks and savings and loan associations—which, like mutual savings banks, have been primarily short-distance lenders serving a local market—differed from mutual savings banks in their geographic pattern, which was much more diversified. In 1950 about one-quarter of the entire urban mortgage debt held by commercial banks was held by banks located in the Pacific states (Table 24). The relatively large number of big lenders in California—including the largest single urban mortgage lender, the Bank of America—accounts for the fact that the Pacific coast is such an outstanding mortgage market for banks. The industrial Middle Atlantic and the East North Central states follow closely; the South Central and Mountain states are the least important. Since the predepression peak, gradual changes have occurred in this geographic pattern, suggesting a growing interest in the new markets of the South, of the western farm belt (West North Central), and of the Mountain states, at the expense of the traditional investment areas of commercial banks—the East North Central, New England, Pacific, and Middle Atlantic states.

Mortgage holdings of savings and loan associations were more heavily concentrated geographically than those of commercial banks, but less so than the holdings of mutual savings banks. In 1928 nearly three-quarters of the aggregate mortgage holdings of the associations was held by those located in the Northeast and in the midwestern states east of the Mississippi; but the associations' market has been slowly shifting, like the markets of commercial banks, toward the South and the West (Table 24). Thus, while the importance of the East North Central and of the Middle Atlantic states decreased, the newer markets of the South and West have gradually expanded.

Insurance companies showed a different pattern from any of the foregoing three. By their very nature they are long-distance lenders, serving markets far away from their home offices. Since their lending radius is not restricted by legislation comparable to that applying to some of the other lenders, and since in many instances they have created elaborate and far-flung channels for the acquisition of loans, insurance companies have been comparatively free to allocate their funds regionally. The most important regions of urban mortgage

¹² See Lintner, *op. cit.*, Chapter 3 in particular.

investment for insurance companies, as for savings and loan associations, were the Northeast and the part of the Middle West lying east of the Mississippi; in the late twenties and thirties over three-fifths of the entire outstanding urban mortgage debt of insurance companies was secured by properties located in the Middle Atlantic and East North Central states (Table 24). Until the end of 1946 the geographic pattern of the urban mortgage holdings of insurance companies was more stable over time and underwent fewer changes than the distributions for savings and loan associations and, especially, commercial banks. This may be due to the greater stability of insurance companies in the depression of the thirties and to their greater flexibility in the choice of markets, which permitted them to follow a steady policy of gradual diversification. Over the entire period beginning with 1928 and including the depression, the greatest shift was a relative increase for the West South Central states and a corresponding decrease for the Middle Atlantic and East North Central states.

Institutional Participation in Insured Lending

The availability of mortgage loan insurance seems to have been of greatest interest to the lending institutions which in the past have been least heavily committed to the mortgage as a type of investment, and of least interest to those institutions that, by and large, have been most heavily dependent on urban mortgage financing as a channel of investment. Thus, judging by FHA reports of the number of institutions with insured holdings at the end of 1950, nearly all life insurance companies, but less than three-tenths of all savings and loan associations, had then some investment in insured mortgages, despite the fact that mortgage investment has traditionally been the major outlet for the associations' funds. In another manner the same contrast is revealed in figures which show that insurance companies and commercial banks held about three-fourths of all FHA-insured loans on one- to four-family homes in 1950, and that the largest numbers of conventional loans were held by the savings and loan associations and the group labeled "individuals" (Table 25).

A second point of interest in this connection is that, except for the savings and loan associations, the various lenders have tended to make their relatively heaviest use of mortgage loan insurance in the more recently industrializing and more rapidly developing sections of the country. Thus, for life insurance companies the percentage of

TABLE 25
Distribution of Conventional and of Insured
Mortgages on Owner-Occupied Homes, 1950,
by Type of Mortgage Holder

TYPE OF MORTGAGE HOLDER	INSURED			CONVEN- TIONAL	TOTAL
	FHA	VA	Total		
Commercial banks	34%	31%	33%	17%	22%
Mutual savings banks	10	11	10	8	8
Savings and loan associations	9	31	20	33	29
Life insurance companies	40	14	27	6	12
Mortgage companies	3	1	2	1	1
Federal National Mortgage Association	2	10	6	..	2
Individuals	..	a	a	31	22
Other	2	2	2	4	4
Total	100%	100%	100%	100%	100%

Based on data covering first mortgages on one- to four-family nonfarm homes occupied by owner, from *1950 Census of Housing*, Vol. 4, Residential Financing, Part 1, Chapter 2, Table 2, p. 41.

^a Less than 0.5 percent.

insured mortgage holdings in 1950 was highest in the South and lowest in the Northeast (Table 26). For commercial banks the percentage was highest in the West, and for mutual savings banks it was high in both the South and the West. By and large, savings and loan associations have made about equal use of the insurance device in all areas of the country.

By way of explanation, it would appear that life insurance companies and mutual savings banks have relied on government loan insurance most heavily in markets that were not their accustomed ones; namely, the insurance companies in the South and the mutual savings banks in the South and West—in the case of the mutuals, particularly because the liberalization of geographic restrictions on their investment in mortgages applied only to FHA and VA loans. With respect to the commercial banks, an explanation of their extensive use of government insurance and guaranty in connection with mortgage lending in the West can probably be found in the lending policies of the largest single mortgage lender serving the markets of the West, the Bank of America, and its favorable attitude toward FHA and VA loans. The over-all effect observable in the data on utilization of government insurance has been toward a greater homogeneity in the markets, both with respect to the participation in mortgage lending by various types of institutional lenders and in mortgage investment in various parts of the country.

TABLE 26

Differences in Extent of Use of Government Home Mortgage Insurance, Regionally and by Type of Lender
(percentage distribution of lender's holdings
within region: number of mortgages
and amount outstanding, 1950)

REGION AND TYPE OF LOAN	MUTUAL SAVINGS BANKS		COMMERCIAL BANKS		LIFE INSURANCE COMPANIES		SAVINGS AND LOAN ASSOCIATIONS		MORTGAGE COMPANIES	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
NORTHEAST										
<i>Insured</i>	33	46%	41	51%	41	45%	21	33%	68	80%
FHA	14	18	16	16	21	19	2	3	36	37
VA	19	28	25	35	20	26	19	30	32	43
<i>Conventional</i>	67	54	59	49	59	55	79	67	32	20
NORTH CENTRAL										
<i>Insured</i>	39	47	41	56	63	67	21	30	50	62
FHA	29	32	22	31	47	48	4	6	41	52
VA	10	15	19	25	16	19	17	24	9	10
<i>Conventional</i>	61	53	59	44	37	33	79	70	50	38
SOUTH										
<i>Insured</i>	56	67	31	49	71	74	19	28	63	80
FHA	42	51	19	29	54	54	7	10	40	47
VA	14	16	12	20	17	20	12	18	23	33
<i>Conventional</i>	44	33	69	51	29	26	81	72	37	20
WEST										
<i>Insured</i>	61	67	60	73	64	64	21	31	55	64
FHA	46	47	35	38	53	52	10	14	41	44
VA	15	20	25	35	11	12	11	17	14	20
<i>Conventional</i>	39	33	40	27	36	36	79	69	45	36
UNITED STATES										
<i>Insured</i>	35	48	44	59	64	67	20	31	59	73
FHA	17	21	23	29	48	48	5	7	40	46
VA	18	27	21	30	16	19	15	24	19	27
<i>Conventional</i>	65	52	56	41	36	33	80	69	41	27

Based on data covering first mortgages on one- to four-family nonfarm homes occupied by owner, from 1950 *Census of Housing*, Vol. 4, Residential Financing, Part 1, Chapter 2, Table 2, pp. 41-57 *passim*. For areas included in each region, see note under Table 9.

The complexities of the mortgage-credit-supplying industry in general, and the differences between the four principal mortgage lenders in particular, are the result of a long list of circumstances, among which are (1) differences in the legal framework within which the various types of lending institution have operated, (2) differences in the types of funds they channeled into the market and in the costs of, and returns from, such operations, and (3) differences in the historical setting within which these institutions developed.

Differences in their policies consequent on those varied circumstances all played an important role. Thus, savings and loan associations—the successors to the early building societies—even today reflect their original preoccupation with the field of housing, although like other lending institutions they have diverted an increasing part of their assets into the government bond market. These associations today, as earlier, are the most uniformly distributed important supplier of the home mortgage markets of the nation. They continue to rely largely on conventional mortgage financing, having made less use of government-sponsored loan insurance than any of the other principal mortgage lenders.

Less heavily involved in the mortgage lending business than the savings and loan associations were the mutual savings banks, and still less so the commercial banks. Mutual savings banks, at one time a close second to the associations, steadily declined after 1920 in their importance among mortgage fund suppliers. Some of the reasons underlying the geographic restriction of these lending institutions to the older markets of the country may also furnish part of the explanation for their relative decline as mortgage fund suppliers. Yet the slowing down of the momentum of residential construction in the old industrial centers of the East cannot sufficiently account for the decline of mutual savings banks. Even in their traditional markets they have fallen behind other mortgage lenders because of a failure to increase their resources as rapidly as other institutions and through a tendency to increase their investment in public securities.

Commercial banks assumed a position of relative importance as direct lenders in the mortgage field before the life insurance companies but later than the savings and loan associations, and the banks' share of the mortgage market has increased more slowly than that of the life companies. This in-between situation of the commercial banks with respect to historical development is matched by their position within the present lending industry's structure: between the small savings and loan association and the large life insurance company, between the specialist in small home loans and the distributor of large mortgages on income-producing property, and between the short-distance, single-outlet dealer and the long-distance, multiple-outlet lending institution.

Last among the four principal lenders to be drawn into the financing of the building boom were the life insurance companies. Whereas associations and banks declined in numbers from the early twenties

onward, the life insurance sector of the industry increased, not only in number of lenders but also in its share of the market. This rapid expansion of the nonfarm mortgage portfolios of life insurance companies probably ranks close to the rapid increase in the importance of the government's role in the mortgage markets as an outstanding feature of the structural change that has taken place since the end of World War I. A glance at the structure of mortgage assets and their distribution for various lenders will quickly persuade the observer of the tremendous impact that must be exerted by even a minor change in the portion of investable funds that insurance companies seek to locate in the nation's mortgage markets.

Within the general framework of interlender differences, certain realignments can be discerned; and although the uncertainty of the future trends cautions against overemphasizing them, it may be worth while to point out the presence of elements in today's mortgage lending structure that tend to overshadow some of the time-honored distinctions between the four major types of lending institution.

Overlapping the historical grouping of nonfarm mortgage lenders into savings and loan associations, mutual savings banks, commercial banks, and life insurance companies, new and functionally important differences emerge: the difference between the small and the large mortgage portfolio, between the locally and the nationally oriented lender, between institutions making extensive use of FHA insurance and those relying more heavily on conventional forms of mortgage finance. Though these differences are not independent of the accustomed four-way grouping of lenders, they do point toward new affinities—say, from the point of view of the cost structure—between lenders that resemble one another with respect to size, geographic lending horizon, and the like. Frequently the new affinities are, in turn, closely interrelated. Thus institutions which, because of the amount of funds to be invested, are driven toward large-scale mortgage lending operations are likely also to consider markets beyond the immediate local ones; and to such lenders, since they are engaged in what might be compared to mass production, the lower net returns on FHA-insured loans are not in themselves discouraging. Therefore the large-scale, long-distance lender often will make eager use of government loan insurance in the markets that are unfamiliar to him.

In this connection it should be recalled that the impact of govern-

ment on the structure of the mortgage industry has by no means been limited to the effects of the insurance and guaranty programs on mortgage characteristics—that is, to direct intervention in the mortgage markets through the FHA and VA. Less direct, though probably more potent in long-range effect on the structure of the lending industry, was the government fiscal program, the consequences of which are only in part reflected in the tables on the preceding pages. At the same time that the government through its mortgage insurance programs furthered a cost and income structure tending to reduce the spread between net returns on mortgages and on government bonds, it also provided a growing demand for funds through its constantly expanding debt. So strong has been the government's influence on the structure of the lending industry, that it seems hardly exaggerated to think of the successful mortgage lender's future policy problems in terms of attempts to anticipate the government's over-all policies rather than of the traditional attempts to evaluate mortgage risks. In conclusion, it might again be pointed out that in effect, though probably not by intention, most of the government's measures in the mortgage field facilitated and hastened a development toward greater uniformity in the markets and in the lending industry.