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SAUL B. KLAMAN

TECHNICAL PAPER 13

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

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

FOREWORD

This Technical Paper is the first result of the Postwar Capital Market Study to be published by the National Bureau of Economic Research.[1] The study was started in the summer of 1955 under a grant to the National Bureau from the Life Insurance Association of America. Its primary objective, in the words of the National Bureau's Thirty-sixth Annual Report, 1956, is "an analysis of the structure and development of the American capital market in the decade 1946–1955 that ties a description of the institutional setting and a discussion of the major economic problems involved to an integrated statistical framework of the flow of funds through the capital market and of the assets and liabilities of financial institutions active in the market."

To achieve this objective two related approaches were adopted. First, a set of basic statistics for the analysis of the capital market is being built up by bringing up to date, and revising for the years 1946–1949, the estimates of saving, investment, national wealth, institutional and national balance sheets published for the period back to the turn of the century in *A Study of Savings in the United States* and *Financial Intermediaries in the American Economy Since 1900*;[2] and by developing as an experiment in statistical method and analysis fairly detailed quarterly statements of the flow of funds through the capital market for the years 1953–1955. Work is under way, secondly, on three institutional monographs which will provide a description and analysis of the most important sectors of the capital market, the market for government securities, the market for corporate securities and loans, and the nonfarm mortgage market.

This Technical Paper is part of Saul B. Klaman's monograph on the nonfarm mortgage market, but in nature it is similar to the basic capital market statistics just mentioned. It provides – notwithstanding some of

[1]Some papers representing progress reports from the study read at the 1956 meeting of the American Finance Association have already been published in the May 1957 issue of the *Journal of Finance*.

[2]Raymond W. Goldsmith, 3 vols., Princeton University Press, 1955 and 1956; and Princeton University Press for National Bureau of Economic Research, 1958.

the shortcomings of the figures, of which no one is more aware than the author — the most complete and consistent set of statistics now available on total amounts of mortgages outstanding on different types of properties, and on the holdings of these mortgages by the main groups of investors. particularly the various financial institutions for the period from 1945 through 1956, annually through 1952 but quarterly for the last four years. Economists working in this field will particularly welcome, we trust, the appraisal of mortgage debt statistics, and the detailed description of sources and methods of estimation which is given in the text discussion and in the column-by-column notes to the tables. In view of the size of the total mortgage debt, now well over $150 billion; of the status of mortgages as one of the main outlets for the funds of virtually every type of financial institution (the few exceptions, such as pension funds, may not remain so for long); and the essential role that mortgage investment plays in financing residential and commercial construction which together account for more than one-third of gross private domestic capital formation, the importance of adequate statistical information in this field needs no emphasis.

Because of the timeliness and importance of the basic statistics on mortgage debt and holdings assembled by Klaman in preparing his monograph, the National Bureau decided not to delay publication until the monograph was completed. The urgency was increased by numerous requests made by both government and private agencies for use of one or more series. For many series, quarterly data have not been previously available, and for others annual data have been brought up to date, revised, and generally improved. (Reasons for differences between figures published earlier by the National Bureau and those presented here are discussed at the beginning of section 2.) The three series developed by Klaman on residential, multifamily, and nonresidential mortgage debt should be particularly useful for analysis of the mortgage market.

It is hoped that the framework within which the quarterly data have been presented in this paper may serve as a foundation for the regular compilation and publication of more comprehensive mortgage debt statistics than now exist. Having had long experience in the development and use of mortgage statistics for current economic analysis, Klaman was mindful of such a purpose in preparing the new estimates. Their early publication might speed, we thought, initiation of a program of improved current reporting in this important area of economic activity, which could continue a new regular series without interruption after the fourth quarter of 1956, the last covered in this paper.

The objective of rapid availability to students of the mortgage market could be achieved only if the statistics were released without interpretative text. The analysis of the statistics included in this Technical Paper and their connection with institutional developments and with mortgage market techniques will be found in the relevant chapters of Klaman's monograph. This Technical Paper, thus, provides a basic tool for analysis of the American mortgage market. It provides also the first comprehensive description and appraisal of mortgage debt statistics, and offers recommendations for their improvement. In fulfilling these limited and specific functions we hope the paper will be found useful also for the study of the market's development during the postwar decade when its growth in size and importance has been well beyond that of any previous period.

RAYMOND W. GOLDSMITH
Director, Postwar Capital Market Study

ACKNOWLEDGMENT

I am happy to record my indebtedness to those who, giving generously of their time and knowledge, made this study a broader and more useful one than it otherwise would have been. Raymond W. Goldsmith, Director of the National Bureau's Postwar Capital Market Study, reviewed the paper at various stages of its development, and made trenchant suggestions for improving the contents, organization, and conceptual framework. I am grateful to Leo Grebler and Morris Mendelson, of the National Bureau of Economic Research, for a careful reading of a preliminary and much shorter version of the paper. Their suggestions were fundamental guideposts in the task of broadening and reorganizing the manuscript, and in modifying basic statistical concepts. Henry B. Schechter, of the Housing and Home Finance Agency and Albert I. Hermalin of the Institute of Life Insurance were kind enough to offer suggestions at a later stage in the manuscript.

The study was done largely before my affiliation with the National Association of Mutual Savings Banks and while I was with the Federal Reserve. I benefited from discussions with my colleagues there, especially Theodore Flechsig and Evelyn Hurley. Stanley Canfield of the Federal National Mortgage Association and Herbert Shapiro of the Federal Housing Administration were helpful in providing special tabulations. My thanks are due to Margaret T. Edgar of the National Bureau for such an able job of editing.

I owe a signal debt of gratitude to Ramsay Wood, of the Federal Reserve Board, whose expert and patient guidance was fundamental in the development of whatever capabilities I have attained in the economics of real estate credit and with mortgage statistics. Finally, my indebtedness is great to the Board of Governors of the Federal Reserve System, and to Ralph A. Young, Director of the Board's Division of Research and Statistics, for permitting me the luxury of a year's leave of absence to participate in the National Bureau's Postwar Capital Market Study, of which this paper is a part. Needless to say, errors, omissions, or technical inadequacies which may remain in this paper are entirely my responsibility.

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