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Volume Author/Editor: Raymond J. Saulnier

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Chapter Author: R. J. Saulnier

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CHAPTER 4

The Urban Mortgage Market Served by Life Insurance Companies, 1920-46

THE urban mortgage market served by life insurance companies from 1920 to 1946 may be described in terms of the characteristics of a sample of urban mortgage loans that were drawn for use in the analysis of mortgage loss experience. The description is necessarily in terms of those loan characteristics on which data are available in the records of lenders over the entire period—that is, geographical distribution of loans, types of property financed, and salient features of the loan contracts. Data on the social and economic identity of the mortgagors would be of interest for such a description, but these are generally lacking in records of loans made prior to the early thirties.

The sample covers twenty-four large insurance companies which, in the aggregate, held about 65 percent of the total amount of urban mortgage loans of life insurance companies as of December 31, 1944.[1] Each company drew records from its active and inactive files covering every 100th loan made since January 1, 1920, and pertinent information on each sample loan was transcribed onto a "loan experience card." [2] No data were requested that would identify the mortgagor or the property securing the loan, and the analysis combined the loans of all cooperating companies into one group. The sample provided 8,931 loans, with an original face amount of $92,141,000. The results for mortgage loss experience are given in Chapter 6; in this chapter the data are used to reconstruct the mort-

[1] The thirty insurance companies having the largest urban mortgage loan portfolios at the end of 1944, and accounting for about 85 percent of all urban mortgage loans held by life insurance companies at that time, were asked to participate in the study. All but six companies (one among the largest, another medium-sized, and four quite small) cooperated.

[2] The loan experience card and the instructions followed by cooperating companies in selecting their loan samples and transcribing data from the primary records are reproduced in Appendix A.

gage lending history of life companies since 1920 and to describe the mortgage portfolios held by these companies at the end of 1946.

REVIEW OF INSURANCE COMPANY LENDING HISTORY, 1920-46

In order to reconstruct the urban mortgage lending history of life insurance companies from 1920 through 1946, the 8,931 loans included in the sample were grouped, according to the year of their origination, into five periods chosen to coincide as nearly as possible with broad shifts in the underlying character of the urban mortgage market. Table 7 shows the distribution of these loans according to period originated and property type.

TABLE 7 – SAMPLE OF URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY AND PERIOD MADE, 1920-46[a]

(dollar figures in thousands)

Period Made	*1-4 Family Dwellings*		*All Other Property*		*All Property*	
	No.	Orig. Amt.	No.	Orig. Amt.	No.	Orig. Amt.
1920-24	851	$3,780	118	$5,602	969	$9,382
1925-29	2,061	11,069	239	16,760	2,300	27,829
1930-34	809	4,447	54	2,689	863	7,136
1935-39	1,177	6,525	139	8,968	1,316	15,493
1940-46[b]	3,243	16,492	224	15,734	3,467	32,226
Not available	16	75	..	..	16	75
Total	8,157	$42,388	774	$49,753	8,931	$92,141

[a] Represents a 1 percent sample of all loans made after January 1, 1920.
[b] Includes 73 loans made in 1947.

GEOGRAPHICAL SCOPE OF LENDING[3]

Several broad observations, based on the evidence presented in Table 8, may be made concerning the geographical scope of urban

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

mortgage lending by life insurance companies since 1920. First, although the market served by some insurance companies may be limited, all leading companies combined have operated in a market that is national in scope. Second, this credit market, when described in terms of the regional distribution of loans, is roughly like the distribution of total population and, when described in terms of the size of the place in which property securing the loan is located, coincides generally with the distribution of urban population. And third, the geographical distribution of insurance company lending in the urban mortgage field has not changed substantially since 1920. The relatively low percentage of loans made in New England in 1920-24 appears to be due to peculiarities of the data.[4] Other changes, notably the decline in the relative importance of the West North Central region and the growth in the relative importance of the West South Central region, as well as the tendency for an increasing proportion of loans to be made on properties located in the smallest centers of population, appear to reflect basic shifts in the mortgage market served by life companies.

TYPE OF PROPERTY FINANCED AND AMOUNT OF LOAN MADE

Since the amount of a mortgage loan depends in large part on the type of property that secures it, changes since 1920 in the types of property financed and in the original amount of loans are closely related. Table 9 shows that over the whole period loans on single family dwellings have constituted the most common type made by life companies, and, accordingly, loans of less than $10,000 have accounted for roughly 85 percent of the number, and 35 percent of the amount, of all loans made.

Additional details on size of loan are given in Appendix Table B3 for one- to four-family dwellings and for all other property types, separately. This table shows that over 90 percent of the number and 75 percent of the amount of loans made on one- to four-family dwellings were for an original amount of less than $10,000, with the average size of loan fairly constant, ranging from $4,400 in the 1920-24 period to $5,500 in the 1930-34 and 1935-39 periods. On the income-producing properties about 60 percent of the number and 90 percent

[4] At the end of 1924, life company urban mortgages outstanding in New England accounted for about 3 percent of the total according to figures compiled by the Association of Life Insurance Presidents for a group of insurance companies holding 90 percent or more of the total admitted assets of all companies.

TABLE 8 — URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY PERIOD MADE AND GEOGRAPHIC LOCATION, 1920-46 [a]

(percentage distribution of number and original amount)

Geographic Location	*1920-24*		*1925-29*		*1930-34*		*1935-39*		*1940-46*	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
CENSUS REGION [b]										
New England	.6%	.6%	2.2%	2.0%	2.6%	6.1%	2.8%	6.7%	3.0%	4.2%
Middle Atlantic	13.1	21.0	21.9	38.0	18.4	29.2	24.1	37.1	16.5	32.2
East North Central	20.5	26.5	23.2	24.8	25.8	28.3	25.6	17.0	21.2	21.7
West North Central	22.5	19.0	9.6	7.8	8.5	6.4	8.6	4.5	7.1	6.1
South Atlantic	14.4	11.8	11.4	8.4	11.1	6.7	14.1	14.3	17.3	12.3
East South Central	9.7	5.0	7.5	3.5	7.1	4.1	6.1	2.7	6.4	3.5
West South Central	5.7	6.8	4.0	3.1	5.0	3.2	6.2	6.3	13.7	9.6
Mountain	2.2	1.2	2.6	1.5	3.0	2.2	2.0	2.1	2.4	1.3
Pacific	11.3	8.1	17.5	10.8	18.4	13.7	10.4	9.3	12.5	9.1
SIZE OF CITY [c]										
1,000,000 and over	16.7	29.8	20.2	33.2	16.2	28.3	18.4	28.1	13.5	21.9
500,000 – 999,999	3.5	9.8	6.3	9.8	5.9	11.3	7.4	5.5	5.3	13.5
250,000 – 499,999	27.7	27.2	24.7	21.6	18.7	17.2	15.7	11.0	17.9	15.9
100,000 – 249,999	23.4	16.7	14.8	11.6	17.4	10.9	13.3	12.2	15.5	13.2
25,000 – 99,999	18.7	10.4	17.9	15.0	22.8	16.8	20.1	27.2	19.0	14.3
10,000 – 24,999	5.8	4.0	9.2	5.2	10.7	8.0	10.4	6.1	10.3	9.1
Under 10,000	4.0	2.0	6.6	3.4	8.2	7.4	14.6	9.8	18.2	12.0

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TABLE 8 – (concluded)

Geographic Location	1920-24		1925-29		1930-34		1935-39		1940-46	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
SIZE OF DISTRICT [c]										
Metropolitan	*88.8%*	*93.3%*	*89.0%*	*93.9%*	*88.2%*	*92.2%*	*88.9%*	*90.8%*	*81.8%*	*89.6%*
1,000,000 and over	26.0	39.2	39.0	54.8	38.9	56.2	43.9	57.0	33.2	49.8
250,000 – 999,999	34.5	37.9	33.0	28.3	26.6	21.2	28.7	19.1	29.8	28.6
100,000 – 249,999	23.8	13.2	13.4	8.7	18.3	12.7	13.3	10.2	15.6	9.5
50,000 – 99,999	4.5	3.0	3.6	2.1	4.4	2.1	3.0	4.5	3.2	1.7
Non-Metropolitan	*11.2*	*6.7*	*11.0*	*6.1*	*11.8*	*7.8*	*11.1*	*9.2*	*18.2*	*10.4*
25,000 – 49,999	5.4	2.7	4.4	2.7	5.4	4.1	3.6	5.1	4.7	2.8
10,000 – 24,999	4.2	3.5	4.0	1.8	3.8	1.9	3.2	1.6	4.8	2.5
Under 10,000	1.6	.5	2.6	1.6	2.6	1.8	4.3	2.5	8.7	5.1

[a] Based on a 1 percent sample of all loans made after January 1, 1920. Percentage distributions do not necessarily add to 100 percent owing to the omission of a few loans because of data inadequacies. For a breakdown of the data in this table by two broad property types, see Appendix Table B2.

[b] For a listing of states included in the census regions, see footnote 3 of this chapter.

[c] Loans are classified according to the 1940 population of the cities in which the properties securing them are located.

TABLE 9 – URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY PERIOD MADE, TYPE OF PROPERTY, ORIGINAL LOAN AMOUNT, AND TYPE OF CONTRACT, 1920-46 [a]

(percentage distribution of number and original amount)

	1920-24		*1925-29*		*1930-34*		*1935-39*		*1940-46*	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
TYPE OF PROPERTY										
1-4 Family Dwellings	*87.8%*	*40.3%*	*89.6%*	*39.8%*	*93.7%*	*62.3%*	*89.4%*	*42.1%*	*93.6%*	*51.2%*
1 family [b]	78.0	31.3	78.8	31.9	87.1	54.9	85.9	40.1	89.0	47.6
2-4 family [b]	8.6	5.8	9.9	6.7	6.0	6.2	3.0	1.5	4.4	3.3
1-4 family with business use	1.2	3.2	.9	1.2	.6	1.2	.5	.5	.2	.3
All Other Property	*12.2*	*59.7*	*10.4*	*60.2*	*6.2*	*37.7*	*10.5*	*57.9*	*6.4*	*48.8*
Apartments	6.1	22.7	5.8	30.4	2.8	14.2	6.5	40.9	3.1	23.0
Stores	3.6	17.2	2.9	17.8	2.5	19.2	2.9	9.7	2.1	11.2
Other income property	2.5	19.8	1.7	12.0	.9	4.3	1.1	7.3	1.2	14.6
ORIGINAL LOAN AMOUNT [c]										
Less than $5,000	63.7	19.6	53.0	14.6	51.2	20.0	45.6	13.5	55.5	22.3
5,000 – 9,999	22.1	14.9	30.1	16.3	34.9	27.8	39.0	21.6	35.3	23.7
10,000 – 19,999	5.5	7.0	9.2	9.7	9.2	14.4	8.4	9.6	5.2	7.1
20,000 – 49,999	4.5	12.9	4.3	10.4	2.9	10.2	4.3	10.8	2.0	6.5
50,000 – 99,999	1.9	12.2	1.6	9.4	1.4	11.7	1.1	5.4	.9	7.0
100,000 and over	2.3	33.4	1.8	39.6	.4	15.9	1.6	39.1	1.1	33.4
TYPE OF CONTRACT [c]										
Straight mortgage	100.0	100.0	99.9	99.7	97.2	98.0	81.8	82.9	90.1	84.6
Purchase money mtg.	..	..	..	..	2.8	2.0	17.8	16.9	9.6	15.1
Real estate sales contract	..	..	..	..	..	..	.3	.1	.3	.3

[a] Based on a 1 percent sample of all loans made after January 1, 1920. Percentage distributions do not necessarily add to 100 percent owing to the omission of a few loans because of data inadequacies. [b] With no business use.

[c] For a breakdown of these data by two broad property types, see Appendix Table B3.

or more of the amount were on loans of $20,000 and over. The average size of loan for these properties varied widely—from $47,500 in 1920-24 to over $70,000 in 1925-29 and 1940-46.

A comparison of the loans made in 1925-29 with those made in 1930-34 suggests that the proportion of loans secured by income-producing properties, and therefore of loans of relatively large original amount, is very much less during periods of low real estate activity than during periods of expansion (Table 9). Owing to the lesser instability of construction in the small home field, loans on one- to four-family structures fluctuate less in volume than do loans on other types of property, and therefore rise in relative importance during periods of receding and low construction activity.

The effect of economic conditions on mortgage lending is also shown in the type of contract drawn, i.e., whether loans are made on a straight mortgage basis, as purchase money mortgages, or as real estate sales contracts (Table 9).[5] It was only on loans made in 1935 and later, when insurance companies were disposing of properties foreclosed under loans made in earlier years, that the purchase money mortgage and the real estate sales contract assumed any great importance.

LOAN CONTRACT TERMS

The introduction of mortgage loan insurance in 1934 revolutionized the contract terms on which life companies extend urban mortgage credits. There had been a trend toward a gradual liberalization of mortgage credit terms (interest rates on loans, length of contract maturities, and loan-to-value ratios) from 1920 to 1934, but in 1935 the change was greatly accelerated (Table 10 and Chart 4).[6] A brief review of the principal changes in lending policy of insurance com-

[5] A purchase money mortgage is one taken as part of the consideration received on the sale of property owned by the mortgagee.

[6] Chart 4 and Appendix Table B5 give three-year moving averages of contract interest rates, contract lengths, and loan-to-value ratios, each weighted by three-year moving averages of original loan amounts. Table B5 also gives data on an annual basis for each of the three credit terms. The data refer to straight mortgages only and exclude purchase money mortgages and real estate sales contracts. A study of the latter two types of contracts showed that real estate sales contracts and purchase money mortgages of the 1930-46 period usually had a shorter contract length, and a higher interest rate, than straight mortgages and loan-to-value ratios of 80 percent or more, as compared with loan-to-value ratios averaging, with one exception, between 40 and 65 percent on straight mortgages. By the 1940-46 period, however, loans made on one- to four-family dwellings, regardless of type of contract, had an average loan-to-value ratio of about 80 percent.

TABLE 10 — URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY PERIOD MADE AND LOAN CONTRACT TERMS, 1920-46 [a]

(percentage distribution of number and original amount)

Contract Terms	*1920-24*		*1925-29*		*1930-34*		*1935-39*		*1940-46*	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
TYPE OF LOAN										
Insured										
FHA	..	..	..	..	..	..	29.5%	19.4%	57.4%	31.0%
Veterans' Adm.	..	..	..	..	..	..	..	..	3.4	2.3
Conventional										
Fully amortized	24.4%	9.0%	17.6%	9.5%	31.5%	16.8%	42.6	25.2	32.9	37.7
Partially amortized	58.6	68.4	59.6	63.0	51.5	53.0	25.8	51.5	5.5	27.0
Nonamortized	16.7	22.3	22.7	27.5	16.8	29.7	2.0	2.3	.5	1.7
CONTRACT INTEREST RATE										
3.0 – 3.9%	..	..	..	..	..	..	.1	.1	.8	7.8
4.0	..	..	b	1.2	.1	.9	.8	7.7	12.8	22.1
4.1 – 4.9	..	..	..	..	.1	b	13.1	20.1	70.8	59.2
5.0	.1	.1	.8	12.8	.7	11.2	53.9	50.1	13.3	9.1
5.1 – 5.9	16.7	31.2	24.6	40.9	10.9	17.0	15.8	12.0	1.2	.5
6.0	72.3	57.9	70.5	43.4	79.5	64.4	15.9	9.9	1.0	.9
6.1 and over	10.8	10.8	4.0	1.6	8.6	6.4	.3	.1	b	b

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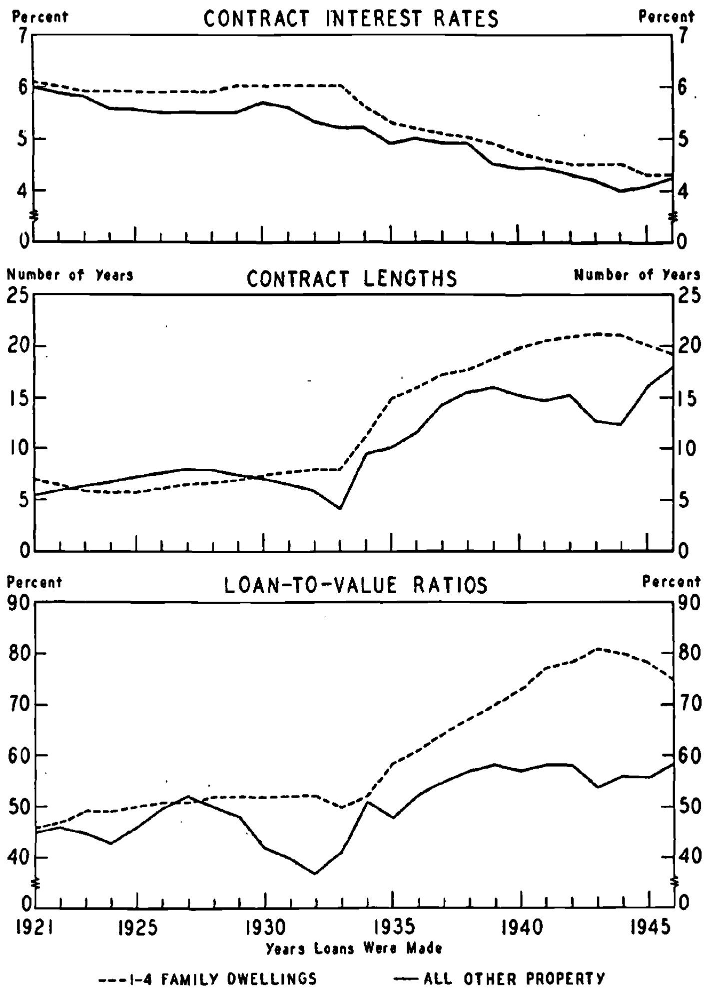
TABLE 10 – (concluded)

Contract Terms	*1920-24*		*1925-29*		*1930-34*		*1935-39*		*1940-46*	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
CONTRACT LENGTH										
0 – 4 years	12.5%	13.9%	22.0%	19.2%	17.5%	23.1%	1.8%	1.3%	.3%	.1%
5 – 9	60.4	64.7	48.7	48.4	38.7	42.8	7.7	9.4	1.6	2.7
10 – 14	26.8	21.2	24.8	25.0	23.7	19.9	28.2	40.9	10.2	21.2
15 – 19	.1	b	3.9	2.6	19.2	13.3	23.9	21.0	20.1	32.7
20 and over	..	..	.3	4.6	..	..	38.2	27.3	67.4	42.6
LOAN-TO-VALUE RATIO										
0 – 39%	14.2	21.8	7.7	11.3	7.9	19.0	5.5	9.2	2.4	4.3
40 – 59	61.8	63.4	75.0	66.5	58.9	60.0	28.2	36.1	12.8	19.4
60 – 79	4.5	7.1	7.3	19.0	7.5	7.2	39.0	36.1	26.8	39.7
80 and over	.6	1.3	b	.2	2.0	1.8	26.5	18.3	57.5	35.1

[a] Based on a 1 percent sample of all loans made after January 1, 1920. Percentage distributions do not necessarily add to 100 percent owing to the omission of a few loans because of data inadequacies. For a breakdown of the data in this table by two broad property types, see Appendix Table B4.

[b] Less than .05 percent.

CHART 4 – CONTRACT INTEREST RATES, CONTRACT LENGTHS, AND LOAN-TO-VALUE RATIOS ON A SAMPLE OF STRAIGHT URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, 1921-46 *



*Three-year moving averages of interest rates, contract lengths, and loan-to-value ratios, each weighted by three-year moving averages of original loan amount. Data in Appendix Table B5.

Contract terms on loans secured by one- to four-family dwellings were liberalized in the twenties, and eased sharply after 1934. Some tightening of terms occurred during the early thirties.

panies shows that: First, amortized loans, which are now well-nigh universal in the mortgage field as a result of the introduction of loan insurance, were made on a fairly large scale before 1930 (Table 10). Only about one-sixth of all loans made in 1920-24 were of the non-amortized variety. Full amortization by maturity was provided on over a quarter of the loans and partial amortization on more than half of the loans made in 1920-24 on one- to four-family dwellings. Only a few loans made on income-producing properties in this period were fully amortized but 75 percent of those made were partially amortized (Appendix Table B4).

Second, the decline in interest rates affected loans on one- to four-family structures somewhat later than loans secured by other types of properties. When the decline in rates on one- to four-family home loans did begin, however, it proceeded more rapidly than the fall in rates on loans secured by other properties.

Third, the liberalization of mortgage loan contracts through lengthening of the original term to maturity definitely did not begin to show marked advances until 1934, and followed some tightening of credit terms on income-producing property loans during the preceding five years (Chart 4 and Table 10).

It may be of interest to note that there was a considerable difference, in respect to length of loan-life, between expectations and realizations on loans made prior to 1935. Such comparisons are of little significance for loans made in and after 1935, since most of these were still on the books in 1946, but it is significant that loans made in the periods 1920-24, 1925-29, and 1930-34, and extinguished in one form or another by the end of 1946, had actual lives averaging 7.9, 10.8, and 8.6 years, respectively, compared with expected lives of 6.1, 6.7, and 7.5 years.[7] The difference between the contract and actual time to extinguishment of loans was greatest for those loans that went to default and for loans made on income-producing properties. While the average contract life for all loans made between 1920 and 1934, and extinguished by 1946, was 6.7 years, the defaulted loans had an actual life of 13.9 years between origination and final sale of property,

[7] Averages are weighted by original loan amounts. The length of the actual life of all loans made in the several periods will not be known, of course, until all loans are extinguished, but it will be considerably longer than that indicated above, since 3.2, 8.6, and 10.7 percent of the number, and 7.4, 14.5, and 13.0 percent of the amount, of loans made in the periods 1920-24, 1925-29, and 1930-34, respectively, were still outstanding when the samples were drawn. See Appendix Tables B6 and B7 for the data upon which the above comments are based.

while other loans had an average actual life of 8.3 years. The actual life of loans on income-producing properties, whether or not the loans went to foreclosure, tended to differ from the average contract life considerably more than was the case for loans on one- to four-family dwellings.

And finally, a liberalization of urban mortgage lending terms is also evident in changes in the ratio of the amount of the loan to the appraised value of the underlying security (Chart 4). On loans made on one- to four-family dwellings, the loan-to-value ratio was comparatively stable (about 50 percent) until 1934 when the amount loaned relative to appraised value increased rapidly so that by 1943 it was over 80 percent. Following a very considerable tightening of terms from 1928 through 1932, the terms on income-producing properties were eased, but not so greatly as those on one- to four-family dwellings.

While some terms were eased before 1934, the sharp change after that year reflects the shift from a largely noninsured to a predominantly insured portfolio. Important conclusions to be drawn from these data are that (1) by the late thirties, urban mortgage terms had reached a distinctly different level from that characteristic of the twenties, and (2) there was no tightening of terms during the early thirties except on income-producing properties.

The above data on the terms of mortgage loans refer to the provisions of original contracts, but these terms are frequently modified before the loan is extinguished. More than one-third of all loans made from 1920 to 1929 were modified one or more times. As a rule, modifications relaxed terms by extending contract maturity, reducing interest rate, or advancing more funds against the same security. An extension of the contract term was the most frequent modification, occurring in about five-sixths of the modified loans studied, followed by interest rate reductions, which were effected in nearly one-half of the cases. Advances of additional funds were made on about one-sixth of the modified loans, and on about one-tenth of them the lender agreed to a compromise, that is, to a reduction of the principal. This pattern of modifications did not vary much among loans secured by different types of property. But, the more often a loan was modified the more likely it was that the modifications would be an extension of term and a compromise of principal rather than a reduction of interest rate or an advance of additional funds.

Urban Mortgage Portfolios of Insurance Companies, End of 1946

The mortgage loan sample makes it possible to describe the composition of urban mortgage loan portfolios in 1946 in the same terms as those employed in the reconstruction of lending history. In this analysis all the loans outstanding when the sample was chosen—3,390 loans with an original amount of $37,128,000—are classified according to relevant characteristics.

GEOGRAPHICAL DISTRIBUTION

The distribution of outstanding loan balances at the end of 1946 throughout the United States and in places of different population size is shown in Table 11. The wide regional spread of insurance company mortgage lending is clear from this table. It will also be observed that the market for loans on one- to four-family dwellings, as served by life companies, is wider in regional scope than the market for loans on income-producing properties. The concentration of mortgage loans on properties in places of relatively large population size (Table 11) is also less marked for loans on one- to four-family properties than for other types; on the former about one-half, and on other properties about one-quarter, of the number and amount of loan balances are found in cities with populations of less than 100,000; similarly about 35 percent of the number of loans on one- to four-family homes and 15 percent of the number of loans on other property types were located either in non-metropolitan districts or in metropolitan districts with populations under 250,000.

TYPE OF PROPERTY FINANCED AND AMOUNT OF LOAN MADE

Insurance company urban mortgage loans outstanding at the end of 1946 are classified in Table 12 according to the type of property that secured them and in Table 13 according to two broad property classes and amount of original loan. Outstanding in these two tabulations are the overwhelming importance, in terms of number, of loans made on single family properties and the predominance among these of small-sized loans. About 90 percent of the number and 45 percent of the amount of loans outstanding were on one- to four-family properties (the great majority on single family homes) and on this type of property about 95 percent of the number and 85 percent of the

TABLE 11 — URBAN MORTGAGE LOANS HELD BY 24 LEADING LIFE INSURANCE COMPANIES AT THE END OF 1946, CLASSIFIED BY TYPE OF PROPERTY AND GEOGRAPHIC LOCATION [a]

(percentage distribution of number and amount outstanding)

Geographic Location	*1-4 Family Dwellings* Number	*1-4 Family Dwellings* Amount	*All Other Property* Number	*All Other Property* Amount
CENSUS REGION [b]				
New England	3.2%	3.3%	4.8%	7.2%
Middle Atlantic	22.1	23.5	31.3	54.1
East North Central	20.2	21.1	24.4	15.0
West North Central	6.4	6.0	9.6	5.9
South Atlantic	16.6	16.1	9.3	7.5
East South Central	6.1	5.5	2.1	.3
West South Central	12.0	12.1	4.1	4.4
Mountain	2.4	1.9	.3	.1
Pacific	11.0	10.5	14.1	5.5
SIZE OF CITY [c]				
1,000,000 and over	15.2	15.5	37.1	40.9
500,000 – 999,999	5.0	5.4	12.7	7.9
250,000 – 499,999	16.9	16.5	13.4	12.8
100,000 – 249,999	14.2	12.6	11.0	12.2
25,000 – 99,999	19.6	18.5	14.8	15.7
10,000 – 24,999	10.4	11.2	4.1	5.3
Under 10,000	18.7	20.3	6.9	5.2
SIZE OF DISTRICT [c]				
Metropolitan	*82.9*	*84.1*	*93.5*	*97.8*
1,000,000 and over	35.7	39.2	63.6	71.4
250,000 – 999,999	29.1	28.3	21.7	21.6
100,000 – 249,999	15.0	14.0	6.5	2.6
50,000 – 99,999	3.1	2.6	1.7	2.2
Non-Metropolitan	*17.1*	*15.9*	*6.5*	*2.2*
25,000 – 49,999	4.5	3.8	1.4	.4
10,000 – 24,999	4.5	4.1	2.1	.3
Under 10,000	8.1	8.0	3.0	1.5

[a] Based on a 1 percent sample of all loans made after January 1, 1920.
[b] For a listing of states included in the census regions, see footnote 3 of this chapter.
[c] Loans are classified according to the 1940 population of the cities in which the properties securing them are located.

amount were originally made in amounts of less than $10,000. Loans on the larger residential and other income properties accounted for a much higher proportion of the amount, than of the number, of outstanding loans.

TABLE 12 – SAMPLE OF URBAN MORTGAGE LOANS HELD BY 24 LEADING LIFE INSURANCE COMPANIES AT THE END OF 1946, CLASSIFIED BY TYPE OF PROPERTY [a]

(percentage distribution of number and amount outstanding; dollar figures in thousands)

Type of Property	*Number of Loans*	*Amount Outstanding*	*Percentage Distribution* No.	Amt.
1-4 Family Dwellings	3,099	$12,893	91.4%	44.0%
1 family [b]	2,905	11,792	85.7	40.3
2-4 family [b]	180	976	5.3	3.3
1-4 family with business use	14	125	.4	.4
All Other Property	291	16,356	8.6	56.0
Apartments	158	10,253	4.7	35.1
Stores	91	3,647	2.7	12.5
Other income property	42	2,456	1.2	8.4
Total	3,390	$29,249	100.0%	100.0%

[a] Based on a 1 percent sample of all loans made after January 1, 1920.
[b] With no business use.

TABLE 13 – URBAN MORTGAGE LOANS HELD BY 24 LEADING LIFE INSURANCE COMPANIES AT THE END OF 1946, CLASSIFIED BY TYPE OF PROPERTY AND ORIGINAL LOAN AMOUNT *

(percentage distribution of number and amount outstanding)

Original Loan Amount	*1-4 Family Dwellings* Number	Amount	*All Other Property* Number	Amount
Less than $5,000	54.5%	40.2%	3.1%	.1%
5,000 – 9,999	39.6	46.4	14.4	1.4
10,000 – 19,999	5.3	11.2	19.9	3.8
20,000 – 49,999	.6	2.2	30.9	12.3
50,000 – 99,999	..	..	13.8	11.6
100,000 and over	..	..	17.9	70.8

* Based on a 1 percent sample of all loans made after January 1, 1920.

LOAN CONTRACT TERMS

The majority of mortgage loans held by life companies at the end of 1946 that were secured by one- to four-family properties were either FHA-insured loans, thus requiring full amortization by maturity, or were conventional loans written on a full amortization basis (Table 14). Although FHA loans are not made outside the small residential

TABLE 14 – URBAN MORTGAGE LOANS HELD BY 24 LEADING LIFE INSURANCE COMPANIES AT THE END OF 1946, CLASSIFIED BY TYPE OF PROPERTY AND LOAN CONTRACT TERMS *

(percentage distribution of number and amount outstanding)

Contract Terms	1-4 Family Dwellings		All Other Property	
	Number	Amount	Number	Amount
TYPE OF LOAN				
Insured				
FHA	50.9%	47.7%	2.8%	8.4%
Veterans' Adm.	3.8	5.5	.7	.1
Conventional				
Fully amortized	32.5	35.6	32.6	17.0
Partially amortized	7.9	6.2	56.0	68.3
Nonamortized	4.8	4.8	6.9	6.0
SCHEDULE OF REPAYMENT				
Monthly	89.2	89.7	39.9	29.5
Quarterly	1.9	2.2	32.3	52.1
Semi-annually	3.1	2.6	14.1	7.1
Annually	.9	.6	6.2	2.6
None	4.8	4.8	6.9	6.0
CONTRACT LENGTH				
0 – 4 years	4.4	4.6	2.4	1.7
5 – 9	4.2	2.7	21.3	13.1
10 – 14	9.8	8.4	43.0	39.6
15 – 19	18.0	18.1	23.0	28.3
20 and over	63.2	65.8	10.3	17.3
LOAN-TO-VALUE RATIO				
0 – 39%	2.0	1.6	11.0	6.7
40 – 59	18.4	17.0	47.1	33.8
60 – 79	27.5	29.8	27.1	42.2
80 and over	51.9	51.3	13.4	14.8

* Based on a 1 percent sample of all loans made after January 1, 1920. Percentage distributions do not necessarily add to 100 percent, owing to the omission of a few loans because of data inadequacies.

field, except on a few apartment structures, only a small percentage of the loans outstanding in 1946 were of the nonamortized type. Table 14 also shows that monthly payments on principal characterized the great bulk of loans on one- to four-family properties; the use of the quarterly and semi-annual schedule of principal payments was a good deal more frequent in mortgages on other types of property.

As indicated in Table 14, credit terms tended to be more liberal with respect to loan-to-value ratio and contract length on loans secured by one- to four-family properties than on loans on other structures. Loans with original contract terms of twenty years and over were made mainly on one- to four-family properties; most other mortgage loans outstanding were made for shorter periods. In addition, half of the number and amount of loans on one- to four-family properties contrasted with about one-seventh of the loans on other property types were made with loan-to-value ratios of 80 percent and over.[8]

The broad outlines of the structure of original contract interest rates on life company mortgage loans are evident in Table 15, which classifies loans into two broad classes of properties and according to their original contract interest rates. This table shows that about 56 percent of the number and amount of loans secured by one- to four-family properties had original rates of between 4.1 and 4.9 percent. Interest rates on loans secured by other types of property, while also concentrated in the same range, were more widely distributed in higher and lower interest rate classes.

Additional data on urban mortgage interest rates are given in Tables 16 and 17. These rates differ from those presented in Table 15, being the rates carried by loans at the time the sample was drawn, rather than the original contract rates of these loans. Individual current interest rates for loans in the several classes, weighted by the

[8] In view of the fact that a large share of life company mortgage loans are currently made on a long-term basis, it may be asked whether there had been, by 1946, a very substantial repayment of principal on existing balances. Of course, some loans made before 1946 had been fully repaid by that year, but it is interesting to inquire how much repayment had been made on those still outstanding at the end of 1946. Calculations based on the sample data show that the amortization of life company urban mortgage portfolios at the end of 1946 was only slightly over 20 percent. Put somewhat differently, only a little more than 20 percent of the original amount of all loans made since 1920, and still on the books at the end of 1946, had been repaid. The effective amortization is only a little over 10 percent, if only those loans made since 1940 are considered. See Appendix Table B6 for these data.

TABLE 15 — URBAN MORTGAGE LOANS HELD BY 24 LEADING LIFE INSURANCE COMPANIES AT THE END OF 1946, CLASSIFIED BY TYPE OF PROPERTY AND ORIGINAL CONTRACT INTEREST RATE *

(percentage distribution of number and amount outstanding)

Original Contract Interest Rate	*1-4 Family Dwellings*		*All Other Property*	
	Number	Amount	Number	Amount
3.0 – 3.9%	.3%	.5%	5.2%	14.1%
4.0	11.2	14.7	19.9	26.2
4.1 – 4.9	55.9	56.9	33.7	31.2
5.0	18.3	16.8	18.2	14.7
5.1 – 5.9	4.6	3.6	11.0	5.1
6.0	9.0	7.2	10.7	8.3
6.1 and over	.6	.2	.6	.2

* Based on a 1 percent sample of all loans made after January 1, 1920. Percentage distributions do not necessarily add to 100 percent owing to the omission of a few loans because of data inadequacies.

balance outstanding on each loan, have been averaged for this analysis. The principal conclusions to be drawn from these tabulations are as follows: First, the average rate of interest received on portfolios of urban mortgage loans at the end of 1946 was 4.5 percent on one- to four-family dwelling loans and 4.2 percent on income-producing property loans. These may be compared with weighted averages of the original contract interest rates on the same loans of 4.8 percent and 4.6 percent, respectively.

Second, there were virtually no geographical differences among interest rates on one- to four-family properties, whether rates are studied according to regions of property location, population size of the city, or metropolitan or non-metropolitan district in which the property was located (Table 16). Small differences are noted, but these are not significant; the overwhelming impression is one of similarity in interest rate levels in different geographical areas.

Third, interest rates on loans on all property types tended to be higher on loans with no amortization provision in their original contract than on those having provision for full amortization by maturity (Table 17). One would expect this to be true for insured loans, as compared with those not insured, but it is also true for loans made on a noninsured basis, indicating that the amortization feature is re-

TABLE 16 — AVERAGE CURRENT INTEREST RATES ON A SAMPLE OF URBAN MORTGAGE LOANS HELD BY 24 LEADING LIFE INSURANCE COMPANIES AT THE END OF 1946, CLASSIFIED BY TYPE OF PROPERTY AND GEOGRAPHIC LOCATION [a]

(dollar figures in thousands)

Geographic Location	*1-4 Family Dwellings*			*All Other Property*		
	No. of Loans	Amt. Outstanding	Average Interest Rate [b]	No. of Loans	Amt. Outstanding	Average Interest Rate [b]
CENSUS REGION [c]						
New England	99	$421	4.6%	14	$1,178	3.8%
Middle Atlantic	682	3,021	4.6	91	8,845	4.2
East North Central	627	2,723	4.5	70	2,423	4.3
West North Central	198	777	4.5	28	971	4.5
South Atlantic	514	2,078	4.5	27	1,224	3.9
East South Central	189	707	4.5	17	771	3.7
West South Central	372	1,559	4.5			
Mountain	74	248	4.6	42	904	4.4
Pacific	341	1,347	4.5			
SIZE OF CITY [d]						
1,000,000 and over	470	1,993	4.7	107	6,649	4.2
500,000 – 999,999	154	691	4.6	37	1,286	4.2
250,000 – 499,999	524	2,130	4.5	39	2,092	4.1
100,000 – 249,999	437	1,617	4.5	31	1,989	3.8
25,000 – 99,999	609	2,394	4.5	43	2,578	4.4
10,000 – 24,999	321	1,444	4.5	12	870	4.4
Under 10,000	581	2,612	4.5	20	852	4.1
SIZE OF DISTRICT [d]						
Metropolitan	*2,565*	*10,835*	*4.5*	*270*	*15,953*	*4.2*
1,000,000 and over	1,105	5,054	4.6	184	11,645	4.2
250,000 – 999,999	900	3,646	4.6	63	3,533	4.1
100,000 – 249,999	464	1,795	4.4	23	775	3.9
50,000 – 99,999	96	340	4.6			
Non-Metropolitan	*531*	*2,046*	*4.5*	*19*	*363*	*4.3*
25,000 – 49,999	141	496	4.5	10	127	4.4
10,000 – 24,999	141	532	4.5			
Under 10,000	249	1,018	4.5	9	236	4.2

[a] Based on a 1 percent sample of all loans made after January 1, 1920.

[b] Represents averages of current, or last contract, interest rates weighted by amounts outstanding.

[c] For a listing of states included in the census regions, see footnote 3 of this chapter.

[d] Loans are classified according to the 1940 population of the cities in which the properties securing them are located.

TABLE 17 — AVERAGE CURRENT INTEREST RATES ON A SAMPLE OF URBAN MORTGAGE LOANS HELD BY 24 LEADING LIFE INSURANCE COMPANIES AT THE END OF 1946, CLASSIFIED BY TYPE OF PROPERTY AND LOAN CONTRACT TERMS[a]

(dollar figures in thousands)

Contract Terms	*1-4 Family Dwellings*			*All Other Property*		
	No. of Loans	Amt. Outstanding	Average Interest Rate[b]	No. of Loans	Amt. Outstanding	Average Interest Rate[b]
TYPE OF LOAN						
Insured						
FHA	1,577	$6,148	4.5%	10	$1,394	3.6%
Veterans' Adm.	116	712	4.1			
Conventional						
Fully amortized	1,006	4,584	4.6	93	2,745	4.3
Partially amortized	245	802	4.9	163	11,168	4.2
Nonamortized	148	612	4.9	20	984	4.5
CONTRACT LENGTH						
0 – 4 years	135	583	5.0	6	248	5.6
5 – 9	128	346	5.1	61	2,132	3.9
10 – 14	303	1,088	4.6	125	6,481	4.2
15 – 19	558	2,325	4.6	67	4,630	4.2
20 and over	1,961	8,490	4.5	30	2,825	4.1
LOAN-TO-VALUE RATIO						
0 – 39%	63	209	4.4	32	1,093	4.0
40 – 59	570	2,186	4.6	135	5,493	4.3
60 – 79	851	3,836	4.6	79	6,894	4.2
80 and over	1,606	6,607	4.5	39	2,430	4.1
ORIGINAL LOAN AMOUNT						
Less than $5,000	1,686	5,175	4.6	9	21	4.7
5,000 – 9,999	1,227	5,976	4.4	41	219	4.5
10,000 – 19,999	165	1,440	4.6	58	623	4.4
20,000 – 49,999	18	290	4.7	89	1,976	4.3
50,000 – 99,999	..	..	..	40	1,901	4.2
100,000 and over	..	..	..	52	11,576	4.1
Total[c]	3,096	$12,881	4.5%	289	$16,316	4.2%

[a] Based on a 1 percent sample of all loans made after January 1, 1920.

[b] Represents averages of current, or last contract, interest rates weighted by amounts outstanding.

[c] Excludes five loans included in Table 12 because current interest rate was not available. The sum of number and amount does not necessarily add to total owing to omission of some loans because of data inadequacies.

garded as reducing risk sufficiently to warrant a more favorable interest rate.

Fourth, there was a distinct tendency for interest rates to be lower on loans of long maturity than on those of short contract length (Table 17). This results in part from the predominance of FHA-insured loans among those of long maturity in the small residential field. However, the relation cannot be wholly attributed to loan insurance, since there is some evidence of a similar pattern of rates on loans secured by properties outside the one- to four-family field, on which FHA insurance is relatively uncommon. Apparently, loans of a higher-than-average degree of risk are written for a relatively short maturity period and at a somewhat higher-than-average rate of interest. Also, higher interest rates would be justified on the shorter-term loans to compensate for the shorter period over which originating costs can be spread.

Fifth, although it might be expected that loans having a high loan-to-value ratio would carry higher interest rates than loans having a low ratio, there is no evidence of this possibly due to the combination of relatively high loan-to-value ratios and low interest rates on FHA loans (Table 17).

Finally, there was a distinct tendency for interest rates on loans secured by properties other than the one- to four-family type to decrease as the size of the loan increased. This is the most marked and regular relationship observed in the interest rate data and doubtless results primarily from the fact that costs of administration are proportionately lower on loans of large size. However, there was very little difference in the interest rates on one- to four-family home loans according to size of loan.