COMMERCIAL BANK ACTIVITIES

in Urban Mortgage Financing
NATIONAL BUREAU OF ECONOMIC RESEARCH

OFFICERS (1951)
Boris Shishkin, Chairman
Harry Scherman, President
C. C. Balderston, Vice-President
George B. Roberts, Treasurer
W. J. Carson, Executive Director

DIRECTORS AT LARGE
Donald R. Belcher, American Telephone and Telegraph Company
Oswald W. Knauth, Beaufort, South Carolina
Simon Kuznets, University of Pennsylvania
H. W. Laidler, Executive Director, League for Industrial Democracy
Shepard Morgan, New York City
C. Reinoald Noyes, Princeton, New Jersey
George B. Roberts, Vice-President, National City Bank
Beardsley Ruml, New York City
Harry Scherman, Chairman, Book-of-the-Month Club
George Soule, Bennington College
N. I. Stone, Consulting Economist
J. Raymond Walsh, New York City
Leo Wolman, Columbia University
T. O. Yntema, Vice President-Finance, Ford Motor Company

DIRECTORS BY UNIVERSITY APPOINTMENT
E. Wight Bakke, Yale
C. C. Balderston, Pennsylvania
Arthur F. Burns, Columbia
G. A. Elliott, Toronto
Frank W. Fetter, Northwestern

H. M. Groves, Wisconsin
Gottfried Haberler, Harvard
Clarence Heer, North Carolina
R. L. Kozelka, Minnesota
Paul M. O'Leary, Cornell

Theodore W. Schultz, Chicago

DIRECTORS APPOINTED BY OTHER ORGANIZATIONS
Percival F. Brundage, American Institute of Accountants
Thomas C. Cochran, Economic History Association
Frederick C. Mills, American Statistical Association
Stanley H. Ruttenberg, Congress of Industrial Organizations
Murray Shields, American Management Association
Boris Shishkin, American Federation of Labor
Donald H. Wallace, American Economic Association
Frederick V. Waugh, American Farm Economic Association

RESEARCH STAFF
Arthur F. Burns, Director of Research
G. H. Moore, Associate Director of Research

Moses Abramovitz
Harold Barger
Morris A. Copeland
Daniel Creamer
David Durand
Solomon Fabricant
Milton Friedman
Millard Hastay
W. Braddock Hickman

F. F. Hill
Thor Hultgren
Simon Kuznets
Clarence D. Long
Ruth P. Mack
Frederick C. Mills
Raymond J. Saulnier
Lawrence H. Seltzer
George J. Stigler

Leo Wolman
RELATION OF THE DIRECTORS TO THE WORK AND PUBLICATIONS
OF THE
NATIONAL BUREAU OF ECONOMIC RESEARCH

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the National Bureau is carried on in strict conformity with this object.

2. To this end the Board of Directors shall appoint one or more Directors of Research.

3. The Director or Directors of Research shall submit to the members of the Board, or to its Executive Committee, for their formal adoption, all specific proposals concerning researches to be instituted.

4. No report shall be published until the Director or Directors of Research shall have submitted to the Board a summary drawing attention to the character of the data and their utilization in the report, the nature and treatment of the problems involved, the main conclusions and such other information as in their opinion would serve to determine the suitability of the report for publication in accordance with the principles of the National Bureau.

5. A copy of any manuscript proposed for publication shall also be submitted to each member of the Board. For each manuscript to be so submitted a special committee shall be appointed by the President, or at his designation by the Executive Director, consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when the summary and report described in paragraph (4) are sent to him. It shall be the duty of each member of the committee to read the manuscript. If each member of the special committee signifies his approval within thirty days, the manuscript may be published. If each member of the special committee has not signified his approval within thirty days of the transmittal of the summary and report, the Director of Research shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty additional days shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board and a two-thirds majority of those members of the Board who shall have voted on the proposal within the time fixed for the receipt of votes on the publication proposed shall have approved.

6. No manuscript may be published, though approved by each member of the special committee, until forty-five days have elapsed from the transmittal of the summary and report. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general, or of the special committee, have passed upon its validity in every detail.

7. A copy of this resolution shall, unless otherwise determined by the Board, be printed in each copy of every National Bureau book.

*(Resolution adopted October 25, 1926, and revised February 6, 1933, and February 24, 1941)*
COMMITTEE ON RESEARCH IN FINANCE

In the planning and conduct of its studies in finance the National Bureau benefits from the advice and guidance of its Committee on Research in Finance. The members of the Committee are:

RALPH A. YOUNG, Chairman—Director, Division of Research and Statistics, Board of Governors of the Federal Reserve System

RAYMOND J. SAULNIER, Secretary—Barnard College, Columbia University; Director, Financial Research Program, National Bureau of Economic Research

BENJAMIN HAGGOTT BECKHART—Columbia University; Economic Consultant, The Chase National Bank

ARTHUR F. BURNS—Columbia University; Director of Research, National Bureau of Economic Research

WILLIAM J. CARSON—University of Pennsylvania; Executive Director, National Bureau of Economic Research

GEORGE W. COLEMAN—Economist, Mercantile Trust Company

EDISON H. CRAMER—Chief, Division of Research and Statistics, Federal Deposit Insurance Corporation

ERNEST M. FISHER—Columbia University

E. A. GOLDENWEISER

F. CYRIL JAMES—Principal and Vice-Chancellor, McGill University

WALTER LICHTENSTEIN

WALTER MITCHELL, JR.—Managing Director, Controllers Institute of America

SHEPARD MORGAN

WILLIAM I. MYERS—Dean, College of Agriculture, Cornell University

JAMES J. O'LEARY—Director of Investment Research, Life Insurance Association of America

GEORGE BASSETT ROBERTS—Vice-President, The National City Bank; Treasurer, National Bureau of Economic Research

HAROLD V. ROESEL—Vice-President, Federal Reserve Bank of New York

CASIMIR A. SIENKIEWICZ—President, Central-Penn National Bank of Philadelphia

WOODLIEF THOMAS—Economic Adviser, Board of Governors of the Federal Reserve System

DONALD S. THOMPSON—Vice-President, Federal Reserve Bank of Cleveland

JOHN H. WILLIAMS—Graduate School of Public Administration, Harvard University; Economic Adviser, Federal Reserve Bank of New York

JOHN H. WILLS—Second Vice-President, Northern Trust Company

LEO WOLMAN—Columbia University; Research Staff, National Bureau of Economic Research

DONALD B. WOODWARD—Second Vice-President, Mutual Life Insurance Company of New York
Commercial Bank Activities in Urban Mortgage Financing

CARL F. BEHRENS

FINANCIAL RESEARCH PROGRAM
STUDIES IN URBAN MORTGAGE FINANCING

National Bureau of Economic Research
PREFACE

This study of the activities of commercial banks in financing urban real estate is one of a series completed under the Urban Real Estate Finance Project of the National Bureau's Financial Research Program. Other studies in the series deal with the effect of governmental intervention in the real estate market; the characteristics of real estate as they affect the financial requirements of that market; the mortgage lending activities of life insurance companies, savings and loan associations; and the Home Owners' Loan Corporation; the comparative markets and investment experience of various institutions lending on the security of urban property; and the relation of mortgage financing to economic fluctuations.

A special satisfaction is felt in the completion of this study, arising from its unusually broad-based support. Contributing to the work were a foundation, three groups representing private financial institutions, and two federal bank supervisory agencies. Specifically, financial support was received for the study in grants from the Association of Reserve City Bankers, the Life Insurance Investment Research Committee, acting for the Life Insurance Association of America and the American Life Convention, and the Rockefeller Foundation; many of the data on which the study rests were collected with the technical assistance of the American Bankers Association and the Board of Governors of the Federal Reserve System; finally, the research itself, which was conducted under the responsibility of the National Bureau of Economic Research, was done under a cooperative agreement between the National Bureau and the Federal Deposit Insurance Corporation. The task was a difficult one, even with the combined resources available from these several
quarters, but it would have been impossible except through such a cooperative effort.

The agreement running between the National Bureau and the Federal Deposit Insurance Corporation was an agreeable one in every respect, making it possible for us to draw on the experience and knowledge of Mr. Behrens, a member of the FDIC's research staff, and other personnel of the Corporation and to analyze extensive tabulations of data collected by the Corporation in the exercise of its function as a bank supervisory agency. In all of this the cordial support of Maple T. Harl, Chairman of the FDIC, has been an indispensable aid.

The National Bureau expresses with pleasure its gratitude for the support of the FDIC and of all the other agencies contributing to the conduct of the study.

R. J. SAULNIE\textsuperscript{\textregistered}
Director,

\textit{Financial Research Program}

\textit{December 1951}
AUTHOR'S ACKNOWLEDGMENTS

Many individuals and organizations have contributed to this study, but to certain members of the staffs of the Federal Deposit Insurance Corporation and the National Bureau of Economic Research, the two organizations under which the study was made on a cooperative basis, my indebtedness is particularly great.

Donald S. Thompson was chief of the Division of Research and Statistics, Federal Deposit Insurance Corporation, when the idea for the study was originated, and played an important role in its planning. To Chairman Harl and the Board of Directors of the Federal Deposit Insurance Corporation, I wish to express my appreciation for officially sanctioning my participation in the study. I am also very grateful to staff members of the National Bureau's Financial Research Program: to Ralph A. Young, formerly in charge of the National Bureau's work in finance, for aid in the initial stages of the study, to Raymond J. Saulnier for encouragement throughout the entire period of research and for his kindly and penetrating criticism of the manuscript in the various stages of its preparation, to J. E. Morton for suggestions and advice, to Mildred E. Courtney for secretarial work, to Catherine P. Martin and Doris P. Warner for statistical assistance, and to Katherine E. Krenning and Isabel C. Lundberg for editorial work on the manuscript. Ernest M. Fisher of Columbia University has also given me assistance for which I am very grateful.

Among my associates, past and present, in the Federal Deposit Insurance Corporation I am indebted to Homer Jones, Florence Helm, and Edison H. Cramer, who have been in charge of the Division of Research and Statistics at various times during the course of the study; to Thomas H. Norwood of the Division of Examination, who has given me the benefit of his wide experience on many aspects of mortgage financing; to Edythe Garber for editorial aid; and to Hazel Shea for diligence and skill in processing the tabular materials.
AUTHOR'S ACKNOWLEDGMENTS

I want also to express my appreciation to the numerous individuals in the several Federal Reserve banks and at the Board of Governors of the Federal Reserve System for assistance in obtaining the loan sample on which much of the study is based. Special acknowledgment is due the Federal Reserve Bank of Cleveland for preparation of the major part of the tabulations of sample data.

CARL F. BEHRENS
TABLE OF CONTENTS

Preface vii
Author's Acknowledgments ix
Introduction 1

1. Legal Framework of Urban Mortgage Lending by Commercial Banks 14

DEVELOPMENT OF LAWS AND REGULATIONS AFFECTING COMMERCIAL BANK MORTGAGE LENDING 15

Domination of Bank Mortgage Lending by State-Chartered Institutions, 1863–1913 15

Liberalization of the Legislative Basis of Mortgage Lending by National Banks, 1914–31 17

Legislative Developments in the Period Since 1931 20

THE PRESENT LEGAL BASIS OF COMMERCIAL BANK MORTGAGE LENDING 21

COMMERCIAL BANK SUPERVISION OF MORTGAGE LENDING 23

Objectives and Criteria 24

2. Role of Commercial Banks in the Urban Mortgage Market 26

URBAN MORTGAGE CREDIT OUTSTANDING IN COMMERCIAL BANKS, 1949 26

COMMERCIAL BANK SIZE AND THE AMOUNT OF URBAN RESIDENTIAL MORTGAGE INVESTMENT 28

STATE DISTRIBUTION OF COMMERCIAL BANK URBAN MORTGAGE INVESTMENT 30

TRENDS IN COMMERCIAL BANK URBAN MORTGAGE LENDING, 1929–49 32
### TABLE OF CONTENTS

   **DESCRIPTION OF SAMPLE** 36  
   **COMMERCIAL BANK HOLDINGS OF URBAN MORTGAGE LOANS, JUNE 1947** 39  
     - **Type of Property** 39  
     - **Period of Origination** 40  
     - **Size and Type of Loan** 41  
     - **Contract Terms** 43  
     - **Current Interest Rates** 45  
   **CHANGES IN MORTGAGE LOAN CONTRACT TERMS, 1920–47** 48  

   **MODIFICATIONS OF CONTRACT TERMS** 55  
   **FORECLOSURE EXPERIENCE** 59  
   **THE DISPOSAL OF FORECLOSED PROPERTIES** 64  
   **EXPECTED AND REALIZED YIELDS, AND LOSS RATES** 68  

5. Urban Mortgage Lending Operations, Costs, and Returns of Commercial Banks, 1946  
   **MORTGAGE LENDING OPERATIONS** 73  
   **ACCOUNTING PROBLEMS IN MEASURING LENDING COSTS AND RETURNS** 76  
   **DEFINITIONS** 78  
   **FINDINGS OF THE MORTGAGE LENDING COST SURVEY** 79  
   **Appendix A—LOAN EXPERIENCE CARD AND INSTRUCTIONS TO COOPERATING BANKS** 85  
   **Appendix B—SUPPLEMENTARY TABLES ON MORTGAGE LOAN EXPERIENCE** 99  
   **Appendix C—COST SCHEDULES AND INSTRUCTIONS** 109  
   **Index** 123  
   **National Bureau Publications** xii
I. Percentage Distribution of the Amount of Urban Mortgage Holdings of Life Insurance Companies and Commercial Banks by Type of Property Securing the Loans 5

II. Percentage Distribution of Urban Mortgage Holdings of Life Insurance Companies and Commercial Banks by Original Amount of Outstanding Loans 6

III. Percentage Distribution of the Amount Outstanding on One- to Four-Family Mortgage Loans of Life Insurance Companies and Commercial Banks by Type of Loan and Contract Terms 7

IV. Average Current Interest Rates for Urban Mortgage Loans on One- to Four-Family Dwellings Held by Life Insurance Companies and Commercial Banks, Classified by Type of Loan 8

V. Average Current Interest Rates for Urban Mortgage Loans on One- to Four-Family Dwellings Held by Life Insurance Companies and Commercial Banks, Classified by Census Region 9

VI. Foreclosure Rates for Urban Mortgage Loans on One- to Four-Family Dwellings Made by Life Insurance Companies and Commercial Banks, Classified by Year Made, 1920-46 11

1. Insured Commercial Bank Urban Mortgage Loans, Classified by Type of Property and Type of Bank, December 31, 1949 27
LIST OF TABLES

2. Loans Secured by Residential Properties as a Percentage of Total Assets, Time Deposits, and Total Capital of Insured Commercial Banks, Classified by Deposit Size of Bank, December 31, 1949 29

3. Loans Secured by Urban Properties as a Percentage of Total Assets, Time Deposits, and Total Capital of Insured Commercial Banks, Classified by Location of Bank, December 31, 1949 31

4. Total Mortgage Debt Outstanding and Percent Held by All Commercial Banks, by Type of Property, 1929–49 33

5. Response of Insured Commercial Banks to the Urban Mortgage Loan Experience Survey, Classified by Size of Urban Mortgage Loan Portfolio 37

6. Percentage Distribution by Location of Bank of Amount of Urban Mortgage Loans Held by All Insured Commercial Banks, June 30, 1946 and of Amount Outstanding on 4,617 Loans Held by 170 Commercial Banks, June 1947, Classified by Size of Urban Mortgage Loan Portfolio 38

7. Sample of Urban Mortgage Loans Held by 170 Commercial Banks, June 1947, Classified by Type of Property 39

8. Sample of Urban Mortgage Loans Held by 170 Commercial Banks, June 1947, Classified by Type of Property and Period Made 40

9. Percentage Distribution of a Sample of Urban Mortgage Loans Held by 170 Commercial Banks, June 1947, by Original Loan Amount and Type of Loan, Classified by Type of Property and Size of Urban Mortgage Loan Portfolio 42

10. Percentage Distribution of a Sample of Urban Mortgage Loans Held by 170 Commercial Banks, June 1947, by Type of Loan and Contract Terms, Classified by Type of Property 44

11. Average Current Interest Rates for a Sample of Urban Mortgage Loans Held by 170 Commercial Banks, June 1947, Classified by Type of Property and Type of Loan 45
LIST OF TABLES

12. Average Current Interest Rates for a Sample of Noninsured Urban Mortgage Loans Held by 170 Commercial Banks, June 1947, Classified by Type of Property, Property Location and Loan Contract Terms

13. Percentage Distribution of a Sample of Urban Mortgage Loans Made by 116 Commercial Banks by Period Made and Property Location, Classified by Type of Property, 1920–47

14. Percentage Distribution of a Sample of Urban Mortgage Loans Made by 116 Commercial Banks by Type of Loan, Classified by Period Made, 1920–47

15. Average Contract Interest Rates for a Sample of Straight Urban Mortgage Loans Made by 116 Commercial Banks, Classified by Property Location, Type of Loan and Period Made, 1920–47

16. Number and Original Amount of Loans Eventually Modified as a Percentage of Number and Original Amount of Loans Made for a Sample of Urban Mortgage Loans of 116 Commercial Banks, Classified by Number of Times Modified, Period Made, Type of Property and Size of Urban Mortgage Loan Portfolio, 1920–47

17. Number and Original Amount of Loans Eventually Modified as a Percentage of Number and Original Amount of Loans Made for a Sample of Urban Mortgage Loans of 116 Commercial Banks, Classified by Number of Times Modified and Loan Contract Terms, 1920–34

18. Over-all Experience on a Sample of Urban Mortgage Loans Made by 116 Commercial Banks, 1920–47

19. Foreclosure Rates for a Sample of Urban Mortgage Loans Made by 116 Commercial Banks, Classified by Year Made, 1920–47

20. Foreclosure Rates for a Sample of Urban Mortgage Loans Made by 116 Commercial Banks, Classified by Type of Property, Property Location, and Loan Contract Terms, 1920–29

21. Number of Foreclosed Properties and Gain or Loss, Classified by Percentage of Gain or Loss, 1920–47

23. Liquidation Experience on Foreclosed Properties for a Sample of Urban Mortgage Loans Made by 116 Commercial Banks, Classified by Type of Property, Property Location and Loan Contract Terms, 1920–47 68

24. Expected Yields, Realized Yields, and Loss Rates for a Sample of Urban Mortgage Loans Made by 116 Commercial Banks, Classified by Property Type, 1920–47 70

25. Expected Yields, Realized Yields, and Loss Rates for a Sample of Urban Mortgage Loans Made by 116 Commercial Banks, Classified by Type of Property and Period Made, 1920–47 71

26. Expected Yields, Realized Yields, and Loss Rates for a Sample of Urban Mortgage Loans Made by 116 Commercial Banks, Classified by Type of Property, Property Location and Loan Characteristics, 1920–29 72

27. Reporting Commercial Banks Classified by Ratio of Gross Income to Urban Mortgage Investment, 1946 80

28. Ratio of Gross Income to Urban Mortgage Loan Investment for Reporting Commercial Banks, 1921–46 82

29. Gross Income, Total Lending Costs, and Net Income as a Percentage of Urban Mortgage Loan Investment, and Related Data, for Reporting Commercial Banks, 1946 83

B1. Percentage Distribution of a Sample of Urban Mortgage Loans Held by 170 Commercial Banks, June 1947, by Original Amount and Type of Loan, Classified by Type of Property 101

B2. Percentage Distribution of a Sample of Urban Mortgage Loans Held by 170 Commercial Banks, June 1947, by Schedule of Repayments, Classified by Type of Property 101

B3. Percentage Distribution of a Sample of Urban Mortgage Loans Held by 170 Commercial Banks, June 1947, by Current Interest Rate, Classified by Type of Property 102
LIST OF TABLES


B5. Contract Interest Rates, Contract Lengths, and Loan-to-Value Ratios for a Sample of Straight Urban Mortgage Loans Made by 116 Commercial Banks, Classified by Type of Property, 1920–47 103

B6. Number and Original Amount of Urban Mortgage Loans Made and Extinguished 1920–47, for a Sample of Loans Made by 116 Commercial Banks, Classified by Type of Property 106

B7. Number and Original Amount of Urban Mortgage Loans Made and Extinguished, 1920–47, for a Sample of Loans Made by 116 Commercial Banks, Classified by Type of Property and Period Made 106

B8. Number and Original Amount of Urban Mortgage Loans Made 1920–29 and Extinguished by 1947, for a Sample of Loans Made by 116 Commercial Banks, Classified by Type of Property, Property Location and Loan Characteristics 107
1. Urban Mortgage Loans Held by National, State Member, and State Nonmember Insured Commercial Banks, by Broad Regional Groups, 1934–49


3. Number of Loans Eventually Modified as a Percentage of Number of Loans Made for a Sample of Urban Mortgage Loans from 116 Commercial Banks, 1920–47

4. Ratio of Gross Income to Urban Mortgage Loan Investment for Reporting Commercial Banks, 1921–46
National Bureau of Economic Research, Inc.
Behrens, Carl Fredrick, 1900--

Commercial bank activities in urban mortgage financing.
New York, National Bureau of Economic Research (1959,
xix, 131 p. diagrs., tables. 24 cm. (National Bureau of Economic
Research, Financial Research Program. Studies in urban mort-
gage financing)
1. Mortgages—U. S. 1. Title. (Series)
HG2051.U5B38  *832.82  832.72  52-9124

MATERIAL SUBMITTED BY PUBLISHER.
Commercial bank activities in urban mortgage financing.

Behrens, Carl Fredrick, 1900-


1. Mortgages—U.S. 1. Title.  (Series)

HG2051.U5B38  *332.32  332.72  52-9124

MATERIAL SUBMITTED BY PUBLISHER.