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CHAPTER XIII

SECULAR CHANGES IN SOURCES OF MORTGAGE FUNDS

VAST shifts have occurred during the past fifty or sixty years in the sources of mortgage funds for the acquisition of new residential real estate. The most dramatic of these have been the increasing institutionalization of mortgage lending, the appearance of federal agencies as residential mortgage lenders, and, among the private financial institutions, the emergence of commercial banks as major sources of mortgage funds. These shifts, unfortunately, cannot be measured directly, for few data exist on the participation of different types of lenders in mortgage lending on new, as distinguished from existing, residential construction. However, analysis of changes in the distribution of the outstanding residential mortgage debt by types of lenders offers at least an approximation.

Such an approximation suffers from two general weaknesses. First, as was observed in Chapter XI, the relationship between changes in aggregate mortgage debt and the financing of new capital formation is itself highly complex. Second, the size of a lender's mortgage portfolio does not always correspond to his role as an originator of mortgage debt. For recent decades, however, mortgage data on one- to four-family houses make it possible to distinguish loan initiations from loan holdings.

The Classification of Mortgagees

The analysis of changes in sources of mortgage funds is conditioned by the classification of sources. For broad analysis the outstanding mortgage debt is here distributed between two types of mortgagees, institutional and noninstitutional. The first class is subdivided into nine categories of financial institutions: commercial banks; mutual savings banks; savings and loan associations; life insurance companies; other insurance companies; mortgage companies; installment investment companies; and two government agencies, the Home Owners' Loan Corporation and the Federal National Mortgage Association.[1]

The noninstitutional category, statistically and conceptually, is a residual, comprising every type of mortgagee not listed among financial institutions. This class is therefore a heterogeneous mixture of indi-

[1] This classification follows that by Raymond W. Goldsmith in *A Study of Saving in the United States* (Princeton University Press, 1955), from which many of the data in this chapter are drawn.

viduals, estates, trust funds, incorporated and unincorporated business firms, and nonprofit institutions. It is obvious that many of these mortgagees are functionally unrelated; their activity in the mortgage market springs from motivations of the widest possible range. Individuals account for the bulk of the mortgages held by noninstitutional lenders. Many of these individuals are professional operators or real estate attorneys in direct and continuous touch with the market.[2] Others are nonprofessional, one-time lenders who acquire loans (1) in the form of purchase money mortgages arising from the sale of their homes, (2) as the result of intrafamily transactions, often noneconomic in character, or (3) as occasional investors of personal funds who seek an attractive mortgage.

Had the data permitted, some mortgagees such as trust funds and nonprofit institutions might more logically have been shifted to the institutional category. On the other hand, mortgage companies as well as insurance (other than life insurance) companies and installment investment companies, classified here as institutional mortgagees, are frequently included in other mortgage series as part of the residual category. The relative size of each of the two broad classes of mortgagees—institutional and noninstitutional—therefore depends partly on the classification scheme employed, although the broad movements over time should not be distorted if the classification remains consistent.

The enormous difficulties in allocating the residential mortgage debt among various types of lenders in an annual series extending back more than half a century are apparent from the notes to tables in Appendix N. Two major statistical problems must be mentioned here because they affect the interpretation of the series. The residual derivation of the holdings of noninstitutional lenders means that the level and movements of this series will be affected by errors in apportioning the debt held by institutional mortgagees and by errors inherent in the estimates of total residential mortgage debt, which are discussed in Appendix L. Second, the estimates of residential mortgages in institutional portfolios for the pre-1925 period, and to a degree for more recent decades, are derived by extrapolation from the movements in total nonfarm mortgage holdings of institutions. Since the latter holdings represent reasonably firm estimates, the institutional residential mortgage estimates in the early decades are probably fairly accurate as to direction of movement, but the absolute amounts are subject to some margins of error.

Notwithstanding the many crudities of the data, the dominant trends in the distribution of residential mortgage holdings emerge rather

[2] Cf. *Residential Mortgage and Construction Financing*, Bureau of Business and Economic Research, University of Maryland, 1951, p. 11.

clearly. The minor movements, however, are more susceptible to error and must be interpreted with caution.

Growth of Institutional Holdings

Between 1900 and 1952 the share of the residential mortgage debt held by financial institutions rose from less than 50 per cent to about 84 per cent (Table 52). There is a distinct possibility that better data

TABLE 52
Proportion of Nonfarm Residential Mortgage Debt Held by Institutional Mortgagees at Various Dates, 1896-1952
(*per cent*)

Year Ending:	*Residential Debt Excluding Real Estate Bonds* (1)	*Residential Debt Including Real Estate Bonds* (2)
1896	49.5	49.5
1900	48.8	48.8
1912	66.0	65.3
1920	57.8	56.4
1925	62.5	58.5
1931	62.4	56.9
1945	67.5	65.6
1950	80.8	80.1
1952	84.1	83.6

Column	Source
1	Table N-3, column 3.
2	Table N-1, column 6.

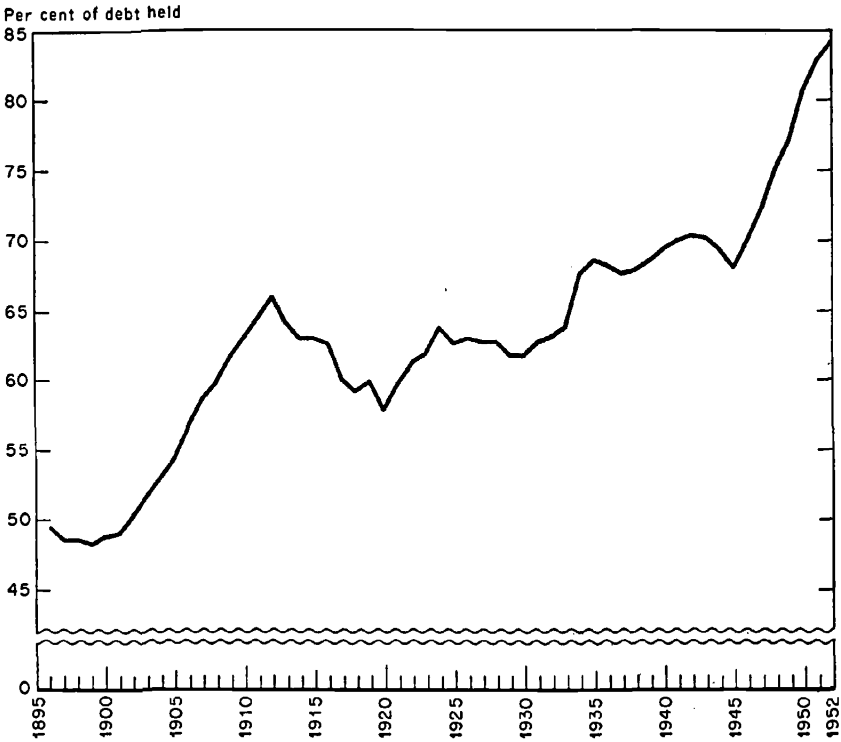
would have shown an even greater change since the extrapolation procedure has probably overstated the institutional holdings of earlier years. The shift from noninstitutional to institutional hands has, however, been far from continuous. The dominance of the institutional mortgagees emerged during two separate periods, from 1899 to 1912[8] and from 1945 to 1952 (Chart 20), each period accounting for about half of the total 1900-1952 increase. During the intervening period, 1912-1945, the participation of institutions was highly variable, declining from 1912 to 1920, rising from 1920 to 1924, decreasing from 1924 to 1930, and finally increasing, with minor interruptions, after 1930.

The relative gain of institutional mortgagees has been more pronounced since 1925 in the debt on one- to four-family houses than in the multi-family segment (Tables N-5 and N-7). The greater role of the noninstitutional investor in the debt on multi-family housing may

[8] The abruptness of the downturn in 1912 may be affected by the nature of the 1912 aggregate mortgage debt estimate. See Appendix L.

CHART 20

Proportion of Nonfarm Residential Mortgage Debt, Excluding Real Estate Bonds, Held by Institutional Mortgagees, 1896-1952



Source: Table N-3 (column 2).

be due to a preference for a relatively large mortgage on a single property, involving a lower servicing cost than an investment of the same sum in a number of small mortgages. In addition, the emphasis in government mortgage insurance programs on owned homes has tended to increase the participation of institutional lenders in this field, for the programs operate predominantly through financial institutions.

Factors Associated with Institutional Growth

The rising trend, though not the short-term fluctuation, in institutional holdings of residential mortgages is largely accounted for by the operation of five long-run influences. The first is the tendency of financial institutions to absorb an increasing share of personal savings. Table 53 gives some indication of this change over the past fifty years, although the movements have been erratic. The growth of institutions

TABLE 53
Share of Personal Savings Accounted for by Savings through Major Financial Institutions, Selected Periods, 1897-1949
(*per cent*)

Period	*Proportion of Personal Savings*	*Period*	*Proportion of Personal Savings*
1897-1909	36.9	1934-1938	115.5[a]
1909-1914	40.1	1939-1945	43.9
1915-1921	34.7	1946-1949	54.3
1922-1929	40.8		

[a] Larger than total personal savings because dissaving occurred in other saving media.

Source: Raymond W. Goldsmith, *A Study of Saving in the United States*, Princeton University Press, 1955, Vol. I, Table S-34. Savings in the form of consumer durables have been removed from the total savings estimates given by Goldsmith. The financial institutions considered are commercial banks, mutual savings banks, life insurance companies, and savings and loan associations.

as holders of personal savings provided the resources for increased holdings of all types of debt, including mortgage debt.[4]

Second, there has been a tendency toward liberalization of legal restrictions on mortgage lending by financial institutions, especially by commercial banks, whose role in the mortgage market has rapidly expanded. The loosening of these restrictions, which were in the form of narrow specifications as to types of property eligible as security and as to mortgage contract terms as well as in the form of outright prohibition of mortgage lending, has been particularly rapid since the inception of the government-insured mortgage. Since 1935, institutions have even become favored lenders compared with individuals. Under the mortgage insurance programs of the Federal Housing Administration the noninstitutional lender is generally ineligible.

Another influence, more difficult to document, can be associated with the enormous growth in the amount of the residential mortgage debt and the absolute increase in the incidence of indebtedness. The ability to make and service a large volume of small loans depends largely on technical facilities. Until assured of a scale of operations sufficient to justify a separate mortgage department able to operate with low unit lending and servicing costs, financial institutions may have considered small home loans unprofitable. The widening of the residential mortgage market was thus itself capable of stimulating institutional participation.

[4] Thus the share of financial intermediaries, which includes a larger list of institutions than the four shown in Table 53, increased between 1900 and 1949 from 24 to 38 per cent of all intangible assets and from 45 to 77 per cent of all fixed long-term claims. Raymond W. Goldsmith, *The Share of Financial Intermediaries in National Wealth and National Assets, 1900-1949*, National Bureau of Economic Research, Occasional Paper 42, 1954, Table A.

Tables N-8 through N-10 reveal the sharper growth of residential mortgage holdings of institutions compared with their nonresidential mortgages.

Fourth, technical advances in transportation and communication have extended the effective geographical lending area of many kinds of institutions. The telephone and the automobile have permitted the successful penetration of localities within the legal lending radius once dominated by individual mortgage lenders. Finally, the federal mortgage insurance and guarantee programs during the past twenty years have profoundly altered lenders' risks, making the mortgage a prime institutional investment.

The position of financial institutions in total residential mortgage holdings has also been subject to short-run fluctuations (Chart 20). These fluctuations appear to be largely the result of adjustments by financial institutions in the composition of asset holdings, in response to changes in relative yields of alternative investments and possibly to changes in institutional attitudes toward liquidity. A comparison of Charts 21 and 22 gives some evidence that major financial institutions have increased the proportion of nonfarm mortgage loans[5] to total assets during periods when the absolute spread between mortgage interest rates and bond yields has been high and have tended to decrease this proportion when the spread has been low. Thus the three periods of mortgage accumulation by banks and insurance companies, the 1900's, most of the twenties, and the 1945-1952 period, were characterized by relatively attractive gross yields on mortgages; and the periods of relative or absolute decumulation, World War I, the late twenties, and the early thirties, by unattractive yields relative to those on bonds.

Mutual Savings Banks

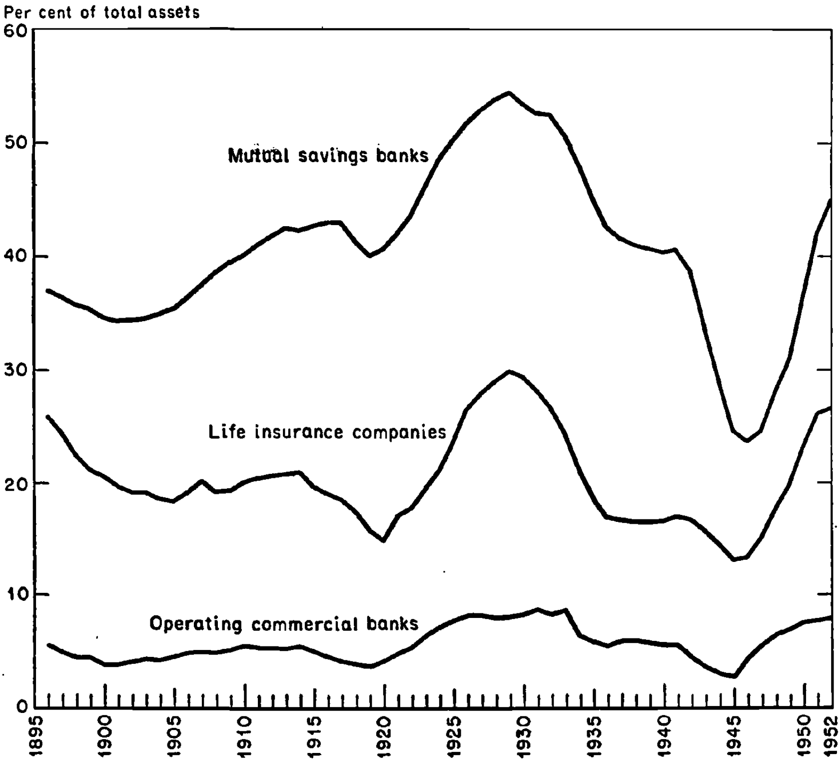
Mutual savings banks, once outstanding in the residential mortgage market, now hold a less significant position. Their share in the residential mortgage debt increased until 1912 but has tended to decline since, falling to 11 per cent in 1947. The position of the savings banks as the foremost institutional mortgagees remained unchallenged until 1920, when they were displaced by savings and loan associations. By the middle of the forties savings banks were overtaken by other institutions, and they currently stand last among the four principal institutional mortgagees (Table 54).

The fundamental explanation for this decline seems to be the regional concentration of mutual savings banks in the Middle Atlantic and New

[5] Data on total nonfarm rather than residential mortgage debt are used for this analysis because of the interpolated nature of the latter series in the earlier decades.

CHART 21

Nonfarm Mortgages as a Percentage of Total Assets, Major Financial Institutions, 1896-1952



Source: Tables N-8 through N-10.

England states. Until recently, these banks were legally restricted in the geographical range of their operations, so that virtually their entire mortgage holdings were confined to real estate located in the two regions (Table 56). The relative decline of the older regions in terms of population and new residential construction was described in Chapter VI.

This shrinkage of mortgage investment opportunities is also reflected in new lending activity of the savings banks. During the boom period 1925-1929, savings banks accounted for an annual average of 10.5 per cent of all loans on one- to four-family houses; in the 1946-1950 period they averaged 7.5 per cent. This latter ratio represents a recovery from even lower levels and reflects the increasing prominence of FHA and VA loans, upon which legal restrictions of lending areas exercise less constraint.

CHART 22

Spread between Average Mortgage Interest Rates in Manhattan and Bond Yields, 1896-1952

Source: Table O-1, columns 2 and 6 for the period 1905-1952 and 1 and 6 for the earlier years.

TABLE 54

Residential Mortgage Holdings of Various Financial Institutions as a Percentage of Total Residential Mortgage Debt and of Total Assets, Selected Years, 1900-1952

	1900	*1912*	*1920*	*1925*	*1932*	*1939*	*1950*	*1952*
Mutual savings banks								
% of total debt	21.7	25.9	19.5	17.6	18.2	17.0	13.0	14.2
% of own assets	26.0	31.5	30.5	37.8	41.0	32.7	31.5	39.2
Life insurance companies								
% of total debt	6.3	9.6	6.1	8.2	11.5	11.2	20.3	21.9
% of own assets	10.5	10.6	7.6	12.2	13.8	8.7	17.2	20.6
Commercial banks								
% of total debt	5.4	9.9	8.8	10.8	10.3	12.0	19.2	17.6
% of own assets	1.6	2.2	1.7	3.2	5.4	4.1	6.1	6.4
Savings and loan associations								
% of total debt	12.7	17.4	20.4	23.2	20.1	16.5	24.1	25.4

Source: Tables N-3 and N-8 to N-10.

The regional concentration of savings banks also explains why these institutions have been relatively more important holders of mortgages on multi-family structures than of mortgages on one- to four-family houses. Their decline as lenders on apartment houses has been less precipitous and was sharply reversed in recent years. At the end of 1952 savings banks held about 33 per cent of the total mortgage debt on multi-family structures, or a ratio nearly equal to the peak of 1925 (Table N-7). While savings banks are also important lenders on nonresidential real estate, residential loans have increasingly tended to dominate their mortgage portfolios. Between 1925 and 1952 the residential proportion has risen from 75 to 87 per cent (Table N-8).

A comparison of Charts 21 and 23 indicates that the decline of savings banks in the mortgage market has been due to their diminishing relative standing as financial institutions rather than to changes in investment policy. During the first part of the period, when mortgages formed a growing proportion of their total assets, savings banks became more important as residential mortgage lenders. During the twenties, however, in spite of an impressive shift of investments in favor of mortgage loans, from 41 to 54 per cent of their assets, the share of savings bank holdings in total residential mortgage debt dropped. During the next two decades the relative position of mortgages in savings bank assets moved in roughly parallel fashion to that position in other institutions, while the share of savings banks in the total residential mortgage debt continued to fall. The decisive element was the relative decline of total investible funds brought about largely by the same regional factors that caused investment outlets to shrink. The assets of mutual savings banks comprised 20 per cent of total assets of the four major financial institutions in 1896, 10 per cent in 1925, and 8 per cent in 1950.[6]

The FHA insurance and VA guarantee programs have rekindled the interest of savings banks in residential mortgages, although the banks were noticeably tardy in utilizing these new opportunities.[7] Since 1947 the proportion of residential mortgage debt held by savings banks has increased, and the recent removal of legal limitations on lending areas for certain types of loans has permitted the use of new investment outlets. But even if savings banks were to raise their holdings of residential mortgages to the peak proportions of the late twenties, about

[6] Table N-11. A fuller explanation, as well as other indications of the relative decline of savings banks as financial intermediaries, is given in John Lintner's *Mutual Savings Banks in the Savings and Mortgage Markets* (Harvard University Press, 1948, Chap. III).

[7] *Ibid.*, p. 237.

42 per cent of total assets, their rank among institutional holders of residential mortgage debt would remain unaltered.

Life Insurance Companies

Life insurance companies held about 6 per cent of the total residential mortgage debt in 1900, 8 per cent in 1925, and over 22 per cent in 1952 (Table 54). The most striking relative gain has been since 1936, when holdings amounted to nearly 10 per cent.

The fiftyfold growth in insurance company assets since 1896 has been so great that the increased participation in the residential mortgage market occurred in spite of a slightly falling trend in the ratio of nonfarm mortgages to total assets. Nonfarm mortgage loans have at all times been a leading investment outlet for life insurance companies, averaging about 20 per cent of their assets for the period as a whole. There is evidence that by the turn of the century, total nonfarm mortgage loans constituted about one-fourth of all assets, and that they were even more important in earlier decades.[8]

Geographical limitations on mortgage as well as other investments of life insurance companies are much less severe than those for other types of financial institutions. Saulnier concludes from a survey of state laws and regulations "that in most cases . . . the [geographical] restrictions applying to life insurance companies are far more liberal than those applying to savings banks, savings and loan associations, and commercial banks."[9] As a result, mortgage investments by life insurance companies have come to be more widely dispersed geographically than those by other major institutional lenders.

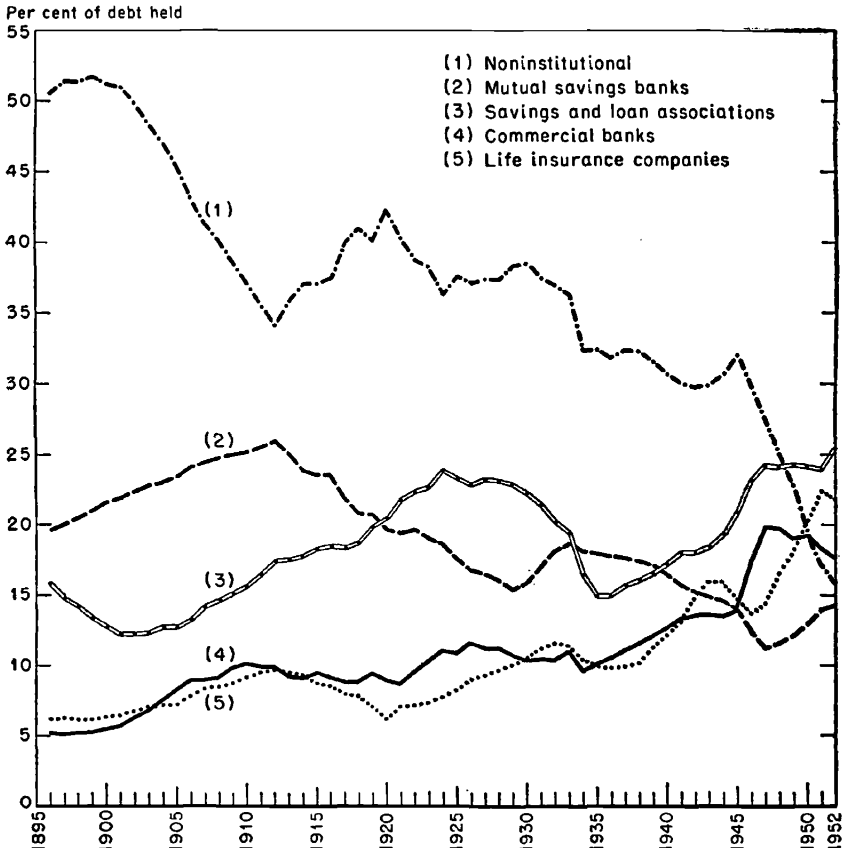
Fluctuations in the share of life insurance companies in total residential mortgage holdings have been influenced by the proportion of their total resources invested in mortgage loans (Charts 21 and 23). A rise of the ratio of nonfarm mortgage loans to total assets from 1905 to 1914 was accompanied by an increase in their share in the residential mortgage debt, and a decline in this ratio until 1920 caused their share to diminish. The twenties were a period of active mortgage investment, and by the end of the decade nonfarm mortgages accounted for 30 per cent of all assets, a peak within the six-decade period. From the end of 1920 to the end of 1929 the share of life insurance companies in the residential mortgage debt rose from 6 to 10 per cent. The assets of life insurance companies, unlike those of other financial institutions,

[8] Lester W. Zartman, *The Investments of Life Insurance Companies*, Holt, 1906, p. 14. Zartman's data are also given in R. J. Saulnier's *Urban Mortgage Lending by Life Insurance Companies* (National Bureau of Economic Research, 1950, p. 10).

[9] Saulnier, *op. cit.*, p. 24.

CHART 23

Proportion of Nonfarm Residential Mortgage Debt, Excluding Real Estate Bonds, Held by Major Types of Lenders, 1896-1952



Source: Table N-3.

continued to grow during the thirties. Consequently, they maintained their position as holders of residential mortgages although such mortgages were dwindling in their investment portfolios, falling from 12 per cent in 1929 to 9 per cent in 1938 (Table 54). Since 1938, life insurance companies have increased their acquisitions of residential mortgages, except for some of the war years, and by the end of 1952 had allocated over one-fifth of their assets to this form of investment. This latest change in the composition of their assets sharply increased their role in the residential mortgage market, nearly doubling their share of the residential mortgage debt compared with 1939. Furthermore, the increase in residential mortgage loans has been associated with a relative decline in loans on other types of property. In 1938, residential mortgages in life insurance company portfolios constituted less than one-half of all nonfarm mortgage loans, and by the end of 1952, over 77 per cent. The rise in the proportion of residential mortgages is particularly marked in the case of one- to four-family loans, although life insurance companies have been traditionally important sources of funds for loans on multi-family structures, second only to savings banks.

At the end of 1952, life insurance companies had invested a larger proportion of their assets in nonfarm mortgages than at any time since the turn of the century, with the exception of the 1927-1931 period. The concentration in *residential* mortgages was the greatest since 1925, the first year for which the data permit independent estimates of residential and nonresidential mortgage debt, and possibly greater than for any year in their history.

Commercial Banks

The participation of commercial banks in the mortgage market has been as much influenced by changes in legal regulations as by economic factors. At the beginning of the century and during the years immediately preceding, commercial banks, though holding by far the largest assets of all financial institutions, were not important lenders on real estate compared with other major institutions. At that time commercial banks accounted for nearly two-thirds of institutional assets but held only 5 per cent of the residential mortgage debt, while nonfarm residential mortgages formed less than 2 per cent of their total assets. The urban mortgage lending activity of commercial banks was probably greater than data based on official sources indicate. It is known that state banks frequently made loans on real estate, although ostensibly based on other types of collateral.

By the traditional canons of commercial banking, real estate loans were alien to sound practice. These principles were embodied in the National Banking Act, which between 1864 and 1913 severely circumscribed the mortgage lending of national banks. In 1913 less than 1 per cent of the assets of these institutions were invested in mortgages.[10] Legal restrictions on state institutions in this respect were relatively lax or entirely absent. As a result, state-chartered institutions became active mortgage lenders, accounting for more than 95 per cent of real estate loans held by all commercial banks in 1913, and the total investment in such loans amounted to nearly 16 per cent of assets.[11] The Federal

[10] Carl F. Behrens, *Commercial Bank Activities in Urban Mortgage Financing*, National Bureau of Economic Research, 1952, p. 17.

[11] *Ibid.*, p. 17. Judging from 1914 data, farm mortgages represented over half the total mortgage portfolio.

Reserve Act of 1913 liberalized the mortgage lending powers of national banks. By 1923 the mortgage holdings of national banks had increased fivefold, but their portfolios remained quite small both in absolute terms and in comparison with those of state-chartered banks.[12] Further legislative relaxations followed in 1927. Between the end of 1920 and the end of 1930 the proportion of assets invested in nonfarm mortgages by commercial banks doubled, rising from 4 to 8 per cent.

During the middle and late thirties, while their absolute holdings of residential mortgages were still declining, commercial banks were quick to take advantage of the recovery in the residential mortgage market. The volume of new lending on one- to four-family houses toward the end of the decade approached that of the twenties, while other institutions were still operating substantially below the levels of that decade (Table N-13). The share of commercial banks in the residential mortgage debt consequently began to rise as early as 1934. After a temporary interruption during the war, commercial banks entered the mortgage market in unprecedented volume, largely as the result of their active participation in the government mortgage insurance programs (Chapter XVI). Between 1934 and 1950 their holdings increased from 9.6 per cent to a peak of 19.2 per cent of the total residential mortgage debt, and in recent years they were almost as large as those of life insurance companies. Because of the enormous gain in total resources, however, the proportion of assets invested in nonfarm mortgages at the end of 1950 was still below that of the twenties. After 1950 the share of commercial banks in total residential mortgage holdings declined, indicating perhaps a less sustained interest in the mortgage market than is shown by other major institutions.

Commercial banks, like other mortgage lending institutions, have increasingly tended to concentrate on loans on residential property. This tendency was visible even in the years preceding the emergence of government mortgage insurance. Between 1925 and 1934 the proportion of residential mortgages in their nonfarm mortgage portfolios moved up from 42 to 65 per cent. After 1934, residential mortgages became more and more dominant and by the end of 1952 accounted for nearly five-sixths of all nonfarm mortgages. Unlike mutual savings banks and life insurance companies, commercial banks hold relatively few mortgages on multi-family structures. In 1950, mortgages on multi-family structures constituted less than 10 per cent of all their residential mortgages.

Because of their resources, commercial banks have come to be a significant supplier of long-term funds for residential capital forma-

[12] *Ibid.*, pp. 18 and 20.

tion, although only a small fraction of their assets (6 per cent in 1952) were devoted to this form of investment. Decisions by commercial banks to increase or decrease their investment in residential mortgages by even small percentages can have enormous effects on the supply of funds.[13]

Savings and Loan Associations

The savings and loan association, also known by a variety of other names,[14] is the only major financial institution that functions almost exclusively as a supplier of residential mortgage funds. So complete is its specialization that, statistically, its entire net mortgage investment portfolio has been considered as comprised of loans on one- to four-family houses.[15] By 1896 there were nearly 6,000 institutions of this type holding almost 16 per cent of the residential mortgage debt. This proportion decreased to less than 13 per cent in 1901, apparently continuing a decline that had set in during 1893, as a result of depression failures and attendant loss of public confidence.[16] From 1901 until the middle twenties, savings and loan associations increased their relative share of the residential mortgage debt, reaching 23 per cent in 1925 and thus emerging as the largest holder among institutional mortgagees. This growth showed no interruption even during World War I and in years immediately preceding, a period in which the mortgage activity of other institutions was dwindling. Absolute holdings continued to increase to 1929, but the relative position of savings and loan associations as residential mortgage holders began to decline in the mid-twenties and diminished until 1936, when their share of the residential mortgage debt reached a low of 14 per cent. The next fourteen years

[13] Commercial banks are also important suppliers of short-term funds for financing residential building operations and the activities of mortgage brokers and investors. The June 1950 report of the Federal Deposit Insurance Corporation showed that insured commercial banks had a total outstanding of $837 million in construction loans and $404 million in loans to nonbank mortgage lenders.

[14] Building and loan association, homestead association, cooperative bank, land association, etc.

[15] These institutions are legally permitted to make and have in fact made limited investments in loans on other types of real estate, but any resulting overstatement is relatively small, especially in recent decades. At the end of 1939, about 93 per cent of all mortgage loans held by savings and loan associations were on one- to four-family houses (*Federal Home Loan Bank Review*, December 1940, p. 73). The resulting overstatement of their total residential mortgage holdings is smaller than the 7 per cent indicated, since the latter includes mortgages on multi-family structures.

[16] These failures were largely concentrated among the so-called "national" associations, which had attained some importance during the last quarter of the nineteenth century. The "nationals" were state-chartered associations whose total operations extended over wide areas comprising many states, in contrast to the traditional localized activities of the ordinary savings and loan associations.

were a period of uninterrupted and extremely rapid growth, and by the end of 1952, savings and loan associations held a larger share of the residential mortgage debt than at any previous time in their history. Their importance is even more pronounced in the debt on one- to four-family houses, of which they held about 30 per cent in 1952.

The resurgence of savings and loan associations occurred in spite of their slight participation in the FHA mortgage insurance program, which was so important to the revival of mortgage investment by other types of institutions (Chapter XVI). After drastic reorganizations with federal aid during the thirties (introduction of federal charters, share insurance, and direct investment of government funds), total assets of savings and loan associations grew steadily to $23 billion at the end of 1952. The increase from 1939 to 1950 was over fourfold—a greater relative gain in resources than that of any other major type of financial institution over the same period.[17] The geographical dispersion of savings and loan associations gives them coverage of many areas other institutions find it uneconomical or difficult to enter. Their experience in the acquisition and servicing of relatively small, regularly amortized loans facilitated their expansion in the field of home loans, which has dominated the market since the thirties.

Other Institutional Mortgagees

Three of the remaining five categories of institutional mortgagees—mortgage companies, other insurance companies (fraternal and casualty), and installment investment companies—have at no time held more than exceedingly small proportions of the residential mortgage debt. Mortgage companies are more important as loan originators and servicing agents than as portfolio lenders. Moreover, the data on their holdings are too scanty and undependable to offer reliable insights.

On the other hand, the Home Owners' Loan Corporation and to a lesser extent the Federal National Mortgage Association, both federal institutions, have been important portfolio holders at one time or another during the past eighteen years. At the peak of its holdings, in 1935, the HOLC, now liquidated, had acquired over one-sixth of the mortgage debt on one- to four-family houses and one-eighth of the total residential mortgage debt. The HOLC, however, represented a salvage operation that affected only the existing debt.[18] Its influence on the supply of funds for new residential construction was, at most, indirect. By restoring some semblance of order in the residential real estate market and by improving the liquidity position of institutional mort-

[17] Table N-11.

[18] C. Lowell Harriss, *History and Policies of the Home Owners' Loan Corporation*, National Bureau of Economic Research, 1951.

gagees, the HOLC helped provide conditions conducive to the financing of new residential construction.

The Federal National Mortgage Association attained some degree of importance after 1948 and by 1950 held about 3 per cent of the residential mortgage debt, but its significance in the markets for government-insured or -guaranteed loans (the only loans eligible for purchase by the FNMA) is much greater. Its operations are discussed in Chapter XVI.

Position of Mortgagees as Original Lenders

The ranking of mortgagees by the proportion of mortgage indebtedness that they hold does not reveal their importance as initial suppliers of mortgage funds. The relationship between a mortgagee's relative standing as a holder of debt and his role as an originator of new debt need not be very close, and the two measures are subject to only limited comparisons. The net change in the holdings of any mortgagee is determined on the negative side by repayments, resales, and foreclosures and on the positive side by loan acquisitions through purchase as well as direct origination.

The available data on lending activity by type of mortgagee refer only to acquisition through mortgage origination and thus describe only one of many factors influencing total holdings.[19] Moreover, they are limited to loans on one- to four-family houses and to the period since 1925, supplemented since 1939 by mortgage recordings of less than $20,000 in principal amount (Tables N-13 and N-14).

Savings and loan associations throughout this period have been the most important lenders on one- to four-family houses, generally accounting for one-third or more of such loans. During the past twenty-five years they have had somewhat greater prominence as originators than as holders of this type of mortgage loan.

Individuals and others[20] represent the second most important type of original lender. This residual class contains so many diverse elements—among others, mortgage companies, which are important originators but heavy net sellers, and fraternal and casualty insurance companies, which usually acquire mortgages by purchase rather than origination—that generalization is difficult.[21] Except for recent years, the relative

[19] Purchases and sales of FHA-insured mortgages since 1937 are discussed in Chapter XVI.

[20] This category is more inclusive than the noninstitutional class in the data on mortgage holdings. It includes mortgage companies as well as minor institutional lenders shown separately there.

[21] The series on mortgage recordings, which shows data separately for individuals, indicates that this class of lenders during the period 1939-1952 accounted

importance of this class has been somewhat greater in holdings than in lending activity on one- to four-family houses. Since its position as holder has been declining one would also expect that its lending activity should have been decreasing. However, this is not the case (Table 55). It appears, therefore, that increasing proportions of the loans originated by this group have been sold. Mortgage companies are an important component of "individuals and others." In 1950, mortgage companies originated nearly 28 per cent (by face amount) of two types of FHA mortgages but held only 3.4 per cent of the total outstanding of such mortgages, largely in the form of inventory.[22] Individuals proper are probably also net sellers of the mortgages they originate. Portfolio holdings in the "individuals and others" category have more and more become associated with other components of this group: the trust companies, pension funds, estates, and insurance companies other than life insurance companies.

Third in importance as loan originators are commercial banks, accounting for nearly one-fourth of the total home loans made in the 1946-1950 period. They have become increasingly active as loan originators, in keeping with their rise as residential mortgage debt holders. Commercial banks appear to be net sellers of the loans they originate; since 1925 their share in total home mortgage lending activity has exceeded their share in home mortgage holdings. The opposite is true of mutual savings banks, which are net buyers of mortgages.

The greatest contrast between the relative position in debt holdings and loan origination is found in the case of life insurance companies, which acquire large volumes of loans through purchase and assignment rather than by direct origination. Life insurance companies have accounted for a half to two-thirds of all secondary purchases of FHA home loans made in recent years.[23]

Implications of Institutional Dominance

The shift in sources of funds from individuals to institutions has altered the organization of the mortgage market in a number of ways, but its specific effects on the volume and availability of capital funds for new construction can only be surmised. First, the institutionalization of mortgage lending has tied the mortgage market more closely to other capital markets, making the supply of mortgage funds more

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for over half the amount of mortgages originated by lenders other than the four major financial institutions.

[22] *Fourth Annual Report*, Housing and Home Finance Agency, 1950, p. 249.

[23] *Annual Reports* of the Housing and Home Finance Agency for 1948 through 1950. Loans under Sections 203, 603, and 603-610 of the National Housing Act.

TABLE 55

Share[a] of Total New Mortgage Loans Made, by Type of Lender, One- to Four-Family Houses, Selected Periods, 1925-1950

(*per cent*)

TYPE OF LENDER	1925-1930	1931-1936 Incl. HOLC	1931-1936 Excl. HOLC	1937-1941 Incl. HOLC	1937-1941 Excl. HOLC	1942-1945 Incl. HOLC	1942-1945 Excl. HOLC	1946-1950
Individuals and others	25.6	18.4	22.2	26.0	26.8	31.0	31.3	26.6
Commercial banks	14.1	17.3	21.8	21.0	21.7	19.6	19.8	23.6
Mutual savings banks	10.6	10.1	11.9	6.5	6.7	5.1	5.1	7.5
Savings and loan associations	39.0	31.4	40.0	34.1	35.2	35.6	36.0	33.4
Life insurance companies	10.7	3.7	4.2	9.4	9.7	7.8	7.9	8.8
Home Owners' Loan Corporation	..	19.2[b]	..	3.1	..	.9	..	..

[a] Annual average of percentage shares in each subperiod.

[b] HOLC operations did not begin until 1933. The proportion of new loans made by the HOLC for the period 1933-1936 was 28.7 per cent. HOLC loans listed in later periods are primarily purchase money mortgages on foreclosed property.

Source: Tables N-13 and N-14.

sensitive to conditions in the general money market and to government monetary policies. Second, mortgage lending operations have become more rationalized, with the consequent greater standardization of lending terms and practices resulting perhaps in a decline in the real costs of lending. The amortized mortgage requiring elaborate bookkeeping systems would probably not have been economically feasible or profitable for the small individual lender.

Third, the growing dominance of insurance companies and commercial banks has tended to reduce regional differences in lending terms and practices (Chapter XV); the latter institutions represent an important new source of funds of great potential magnitude, and one whose participation in this market is possibly more unstable than that of other suppliers of funds. Finally, the rise of the institutional lender has played an important part in the emergence of large-scale construction in both rental and single-family projects which require large units of capital beyond the means of the individual lender.