CHAPTER 2

Survey of Postwar Changes in Mortgage Debt Structure and in Mortgage Flows

THE financing of construction and real estate in the decade following World War II—in heavy demand during the period and at rising costs and prices during most of it—resulted in a rapid growth in mortgage debt and significant changes in the structure and characteristics of mortgage markets. Underlying the quadrupling of mortgage debt in those ten years were marked changes in the importance of mortgage lending institutions, in types of properties securing mortgage indebtedness, in types and terms of mortgage underwriting, and in types of borrowers. A summary comparison of those changes is undertaken in this chapter. Appraisal of basic factors influencing structural changes in the market, and of annual and quarterly net mortgage flows is left in the main for later chapters.

Because the period of the present study begins at the end of a great war and in the midst of the consequent economic and financial dislocations, postwar growth and change in mortgage debt can be seen in perspective only in the context of its long-term changing position in the nation's economy. The following brief discussion sketches the changes in mortgage debt in relation to other economic and financial magnitudes back to the turn of the century, with special consideration given to the decade following World War I.

Long-Term Position of Mortgage Debt in the Economy

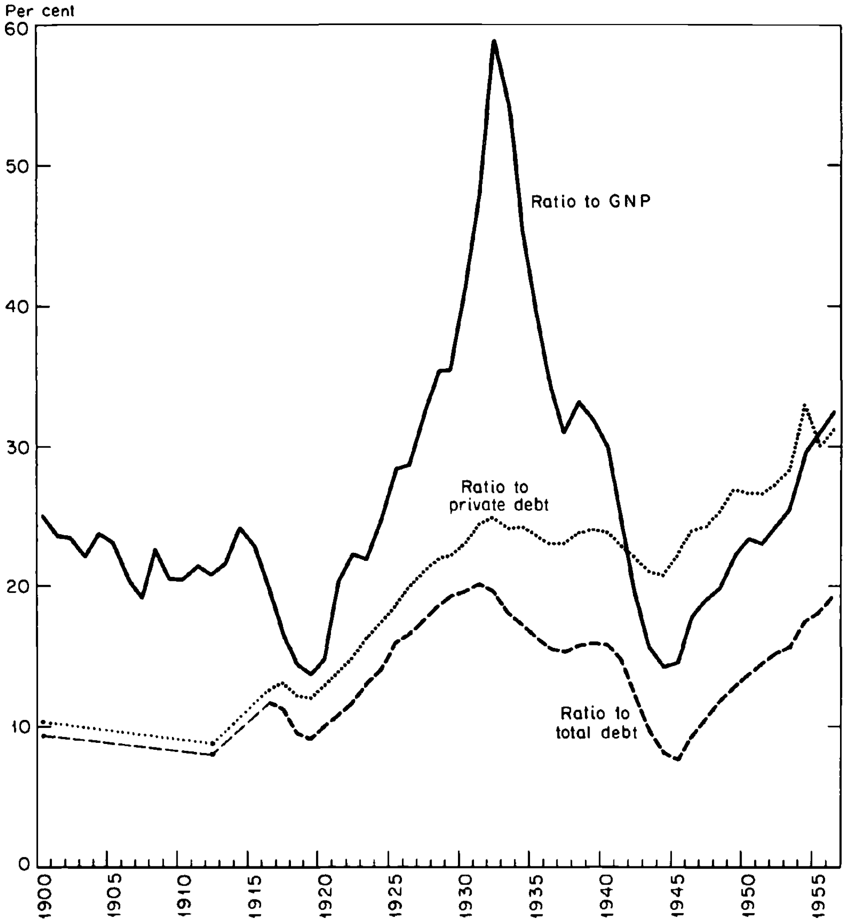
At least three fundamental conclusions emerge from the summary appraisal: (1) Mortgage debt as part of the nation's economic and financial structure was relatively less important—or a relatively lesser burden—at the conclusion of World War II than in almost any year back to 1900. (2) Changes in the position of nonfarm mortage debt over the years were markedly different from those in the position of farm mortgage debt. (3) Changes in the relative position of mortgage debt during comparable periods before and after World Wars I and II, while basically similar, differed in important respects. These conclusions are supported statistically, whether mortgage debt is compared with total economic activity, total debt and private debt, real estate wealth, or total assets of financial institutions.

When World War II ended, the level of nonfarm mortgage debt was about the same as at the beginning of the war, though well above the level of earlier years on record except for the late twenties and early thirties. Farm mortgage debt had declined sharply during the war-induced farm prosperity, however, and in 1945 was lower than in any year after the beginning of World War I. Since other economic magnitudes associated with war activity had expanded sharply between 1939 and 1945, nonfarm mortgage debt was a less heavy burden on the economy at the end of World War II—as measured by its relation to GNP (Chart 2)—than in any preceding year from the turn of the century, except for 1918–1919, when the burden was about the same. It was from this low level of mortgage debt relative to GNP, therefore, that the marked postwar increase in mortgage debt began. Although the rise was steep, it did not reach the relative position attained in the prosperous late twenties and remained well below that in the mid-thirties.

In the debt structure of the nation, nonfarm mortgage debt was also relatively much less important at the end of World War II than in preceding years. The sharp relative decline from the peak of the early thirties to an all-time low by 1945 reflected almost entirely the extraordinary expansion in federal debt for government financing of new public activities during the prolonged depression and of nearly four years of total war. Even in the private debt structure, however, nonfarm mortgage debt failed to maintain its prewar position. In the post-World War II decade, the expansion in nonfarm mortgage debt, accompanied by an absolute decline in outstanding federal obligations, carried mortgage debt well above its record low 1945 position in the total debt structure, but not quite to its record high position in the late twenties and early thirties. Postwar nonfarm mortgage debt, moreover, expanded at a considerably faster rate than corporate or other types of private debt did (except consumer credit). As a result, by the end of 1956, nonfarm mortgage debt had attained a new high position in the nation's private debt structure (Chart 2).

Other evidence of the relatively low level within the nation's economic structure to which mortgage debt had fallen by the end of 1945 appears when it is compared with the value of the total stock of real estate. As Table 1 shows, 1945 ratios of nonfarm mortgage debt (total and residential) to capital values had declined to the lowest level since World War I, while comparable ratios for farm mortgage debt had reached an all-time low. These sharp declines reflected limited availability of mortgage credit during World War II and, at the same time, steadily rising capital values. The values of both nonfarm and farm real estate (including land and structures) had been maintained relative to total

CHART 2
Ratios of Nonfarm Mortgage Debt to GNP and Total and Private Debt, 1900–1956



SOURCE: Ratios were calculated from data obtained from following sources: For total and private long term debt, beginning in 1916, Department of Commerce, *Survey of Current Business,* September 1953 and May 1957. For benchmark years prior to 1916, R. W. Goldsmith, *A Study of Saving in the United States,* Vol. III, Table W-9 (hereafter cited as Goldsmith, *A Study of Saving*). For nonfarm mortgage debt, 1945–56, Saul B. Klaman, *The Volume of Mortgage Debt in the Postwar Decade,* Technical Paper 13, New York, NBER, May 1958 (hereafter cited as Klaman, Technical Paper 13); before 1945, Goldsmith, *A Study of Saving,* Vol. I, Table M-3 and M-8. For GNP, 1929–1956, *Survey of Current Business,* July 1957; before 1929, Goldsmith, *A Study of Saving,* Vol. III, Table N-1. See also Table A-2 below.

TABLE 1

Real Estate Wealth and Mortgage Debt, Selected Years, 1900–1956
(amounts in billions of dollars)

End of Year	Real Estate Wealth: Nonfarm Total (1)	Real Estate Wealth: Nonfarm Residential (2)	Real Estate Wealth: Farm (3)	Mortgage Debt: Nonfarm Total (4)	Mortgage Debt: Nonfarm Residential (5)	Mortgage Debt: Farm (6)	Debt–Wealth Ratios, Nonfarm to: Total (7)	Debt–Wealth Ratios, Nonfarm to: Residential (8)	Debt–Wealth Ratios: Farm (9)
1900	39.1	20.1	17.8	4.4	3.0	2.3	11.3	14.9	12.9
1914	68.7	34.5	38.6	8.7	5.8	5.0	12.7	16.8	13.0
1918	118.7	59.9	57.5	11.1	7.4	7.1	9.3	12.4	12.3
1925	168.7	92.2	49.6	24.5	16.2	9.7	14.5	17.6	19.6
1929	204.7	113.6	47.1	35.8	25.0	9.6	17.5	22.0	20.4
1933	157.1	88.3	31.5	30.7	21.2	7.7	19.5	24.0	24.4
1939	180.7	109.2	32.2	29.7	21.0	6.6	16.4	19.2	20.5
1941	205.1	127.2	37.3	31.7	23.2	6.4	15.5	18.2	17.2
1945	245.1	165.8	59.8	30.8	23.3	4.8	12.5	14.1	8.0
1956	607.2	404.4	108.4	134.7	112.1	9.9	22.2	27.7	9.1

NOTES BY COLUMN:

(1), (2), and (3). All years except 1945 and 1956, from Raymond W. Goldsmith, *A Study of Saving in the United States*, Princeton, 1955, Vol. III, Table W-1, pp. 14–15. For 1945 and 1956, data are from the National Bureau's Postwar Capital Market Study, mimeographed Table W-1. Data include estimates for land as well as structures.

(4 and 5). For 1900, 1914, and 1918, Goldsmith, *A Study of Saving*, Vol. I, Table R-34, p. 627. These figures are not strictly comparable with those for later years which have been revised since Goldsmith's estimates were published. The degree of noncomparability is not great enough, however, to influence the analysis of trends. For other years through 1941 data are based on J. E. Morton, *Urban Mortgage Lending, Comparative Markets and Experience*, Table 2, p. 18, adjusted to reflect revised estimates of multifamily mortgage debt made in Saul B. Klaman, *The Volume of Mortgage Debt in the Postwar Decade*, Technical Paper 13, New York, National Bureau of Economic Research, 1958, Table 6. Data for 1945 and 1956 are from Tables 3 and 4 of that study.

(6) Department of Agriculture, *Agricultural Finance Review*, various issues. Data for 1945 and 1956 are the same as shown in *Volume of Mortgage Debt*, Table 9.

(7, 8, and 9) Calculated from cols. 1 through 6, by dividing Col. 4 by Col. 1, Col. 5 by Col. 2, and Col. 6 by Col. 3.

national wealth during the war. While the value of the nation's real estate increased substantially in the postwar decade, nonfarm mortgage debt grew at a much faster rate from its low 1945 level, bringing debt-to-value ratios to record high levels by the end of 1956. Farm mortgage debt, on the other hand, increased at about the same rate as asset values, and the ratio between them was little higher in 1956 than in 1945.

Our last measure of the relatively low level of mortgage debt in the nation's economic and financial structure at the end of World War II is presented in Table 2, which relates nonfarm mortgage holdings of major types of financial institutions to their total assets in selected years

TABLE 2

Nonfarm Mortgage Loans and Total Assets Held by Main Types of Financial Institutions, Selected Years, 1900–1956

End of Year	*Total Assets* (1)	*Nonfarm Mortgage Loans* (2)	*Ratio, (2) to (1)* (3)	Share of Nonfarm Mortgage Loans in Total Assets: Savings and Loan Associations (4)	Life Insurance Companies (5)	Commercial Banks (6)	Mutual Savings Banks (7)
	(billions of dollars)			(per cent)			
1900	14.7	1.9	13.2	75.7	20.5	3.8	34.5
1914	33.4	5.1	15.2	89.2	21.0	5.4	42.3
1918	54.0	6.1	11.3	87.0	17.4	3.8	41.3
1925	81.7	15.4	18.8	90.8	23.7	7.6	50.2
1929	100.4	22.4	22.3	87.8	29.9	8.0	54.4
1933	78.2	18.5	23.7	75.3	24.3	8.7	50.7
1939	111.5	17.1	15.4	72.2	16.4	5.8	40.3
1941	128.4	19.2	14.9	79.0	16.9	5.6	40.3
1945	230.7	19.7	8.6	62.5	13.1	2.7	24.6
1956	389.7	107.3	27.5	83.2	31.8	8.5	59.1

NOTES BY COLUMN:

(1) Totals of assets of institutions shown in Cols. 4–7, which for the years 1900–1933 were obtained from Goldsmith, *A Study of Saving*, Vol. I, Tables J-2, I-5, L-24, L-30, pp. 436, 455, 409, and 417, respectively. For other years, data are from the *Federal Reserve Bulletin*, May 1958, pp. 565 and 575.

(2) Totals of nonfarm mortgage loans held by institutions shown in cols. 4–7.
1900–1933: Same Source as col. 1.
1939, 1941: Based on data shown in *Federal Reserve Bulletin*, March 1953, pp. 273–274.
1945, 1956: Klaman, *Volume of Mortgage Debt*, Table 3, p. 44.

(3) Based on cols. 1 and 2.

(4 to 7) Based on sources cited above for cols. 1 and 2.

of prosperity and depression, war and peace, from 1900 to 1956. For each of the major mortgage lenders, mortgage portfolios in 1945 were much lower relative to total assets than in any preceding benchmark year. It reflected chiefly the record holdings of federal obligations acquired by institutions during the war. It reflected, also, limited opportunities for mortgage investment, and accelerated repayment of mortgage debt by both consumers and businesses. Heavy sales of government securities and rapid acquisition of readily available and higher yield mortgage loans in the postwar years raised the ratio of mortgages to total assets for each of the four major types of financial institutions to record or near-record levels by the end of 1956. An analysis of the liquidity position of financial institutions at war's end and its influence on mortgage markets is included in Chapter 3.

Mortgage Debt before and after Two World Wars

Within the framework of longer-range developments, we can examine more closely at the relative position of mortgage debt in the economy before and after World Wars I and II. Such a comparison, pictured in Chart 3, reveals basically similar movements within comparable periods around each war but with important differences in relative positions. The divergence between movements of farm and nonfarm mortgage debt is also strikingly revealed by the chart.

Clearly, the significance in the nation's economy of nonfarm mortgage debt declined sharply during both wars but in most relationships more than recovered its prewar position a decade after the conclusion of hostilities in each case. In view of the different nature, length, and extent of United States participation in each war and the changes that occurred in the structure of the economy over four decades, the relationships and movements of nonfarm mortgage debt within the economy during the periods shown were more similar than might have been expected. Some significant differences are worth noting, however.

Relative to gross national product, for example, nonfarm mortgage debt was at the same level at the end of each world war, but the decline from the beginning of World War II was much greater and the rise in the decade after it was smaller than in comparable World War I periods. As a consequence, the apparent burden of nonfarm mortgage debt in the national economy was no greater ten years after World War II than at the beginning of that war, but was much greater ten years after World War I than at its beginning. Similarly, the decline in nonfarm mortgage debt relative to total debt during the second war was much greater than during the first. The relative rise in the post-World War II decade was, however, considerably greater than in the post-World War I decade, and at the end of each period nonfarm mortgage debt was in the same position relative to total debt.

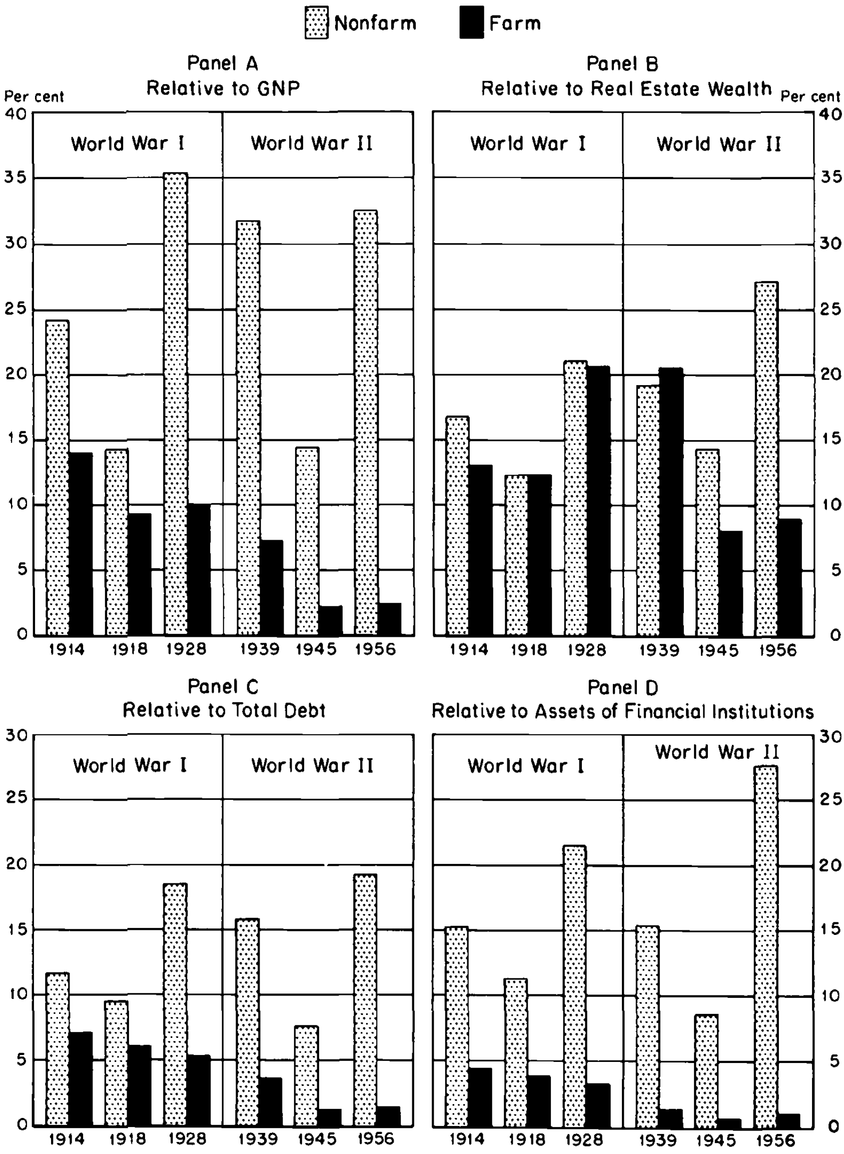
Like nonfarm mortgage debt, farm mortgage debt declined substantially relative to other economic magnitudes during both world wars, without however, regaining its prewar position, but rather remaining in the same low position to which it had declined at the end of each war. Moreover, the relative levels in the post-World War II period were much lower than those of the post-World War I period (Chart 3).

Structure of Mortgage Debt at Beginning of Post-World War II Decade

That, however measured, mortgage debt, at the end of World War II was exceptionally low compared with earlier periods and its relative

CHART 3

Mortgage Debt in the United States Economy—Before and After Two World Wars



SOURCE: Data before 1945 are based on Goldsmith, *A Study of Saving*, Vols. I and III; after 1945, data are from *Survey of Current Business*; Klaman, *Volume of Mortgage Debt in the Postwar Decade*; and *Federal Reserve Bulletin*, various issues. See also Table A-3 below.

importance not much different than at the end of World War I must be borne in mind in considering the unusually large flow of funds into mortgages beginning with 1946. The interplay of economic and social forces in operation during the postwar decade, moreover, tended on balance to stimulate that flow in far greater volume than into other sectors of the capital market. The influence of these factors, including liquidity of lenders, yield differentials, federal policies, and demand for housing

TABLE 3

Structure of Mortgage Debt and Net Mortgage Flows, by Type of Property Mortgaged, 1946–1956
(amounts in billions of dollars)

Type of Property Mortgaged	*Outstanding at End of 1945* Amount	Per Cent Distribution	*Net Flows, 1946–1956* Amount	Per Cent Distribution	*Outstanding at End of 1956* Amount	Per Cent Distribution	Per Cent Increase from 1945
All properties	35.5	100	109.1	100	144.6	100	307
Nonfarm	30.8	87	104.0	95	134.7	93	338
Residential	23.3	66	88.8	81	112.1	78	381
1- to 4-family	18.6	52	80.4	73	99.0	68	432
Multifamily	4.7	13	8.4	8	13.1	9	179
Commercial	7.5	21	15.2	14	22.7	16	203
Farm	4.8	13	5.1	5	9.9	7	106

SOURCE: Klaman, *Volume of Mortgage Debt*, Tables 1 and 22.

are described in some detail in Chapter 3. Of immediate concern here is a summary appraisal of the structure of mortgage debt at the war's end —the starting point for this study—and the structural changes which occurred as a result of little more than a decade of sharp but uneven growth in the various mortgage debt sectors.

Neither the level nor the character of mortgage debt had changed much between the beginning and end of World War II—years of war restricted real estate and construction activity. Nonfarm mortgage debt had become relatively more important than farm mortgage debt by 1945 than in 1939, continuing a trend of several decades. Within the nonfarm sector, mortgage debt secured by residential properties continued as a much greater proportion than that secured by nonresidential properties, reflecting chiefly the greater aggregate value of nonfarm residential real estate and the more widespread use of the mortgage instrument to finance construction and sale of residential than of nonresidential properties. Of the $35.5 billion mortgage debt outstanding at the end of 1945, two-thirds was on residential land and structures and one-half on one- to four-family dwellings, about the same proportions as in 1939 (Table 3). Nonresidential mortgage debt amounted to one-fifth of the total amount outstanding at the end of the war, somewhat more than before the war.[1]

In the market for residential mortgages, the conventional type of loan[2] was clearly predominant at the end of World War II, comprising four-fifths of the total residential mortgage debt outstanding (Table 4).

TABLE 4
Structure of Residential Mortgage Debt and Net Residential Mortgage Flows, 1946–1956
(amounts in billions of dollars)

Type of Residential Mortgage	*Outstanding at End of 1945* Amount	Per Cent Distribution	*Net Flows, 1946–1956* Amount	Per Cent Distribution	*Outstanding at End of 1956* Amount	Per Cent Distribution	Per Cent Increase from 1945
Total residential	23.3	100	88.8	100	112.1	100	381
FHA	4.3	18	15.1	17	19.4	17	351
VA	0.2	1	28.2	32	28.4	25	14,100
Conventional	18.8	80	45.4	51	64.2	57	241
1- to 4-family	18.6	100	80.4	100	99.0	100	432
FHA	4.1	22	11.4	14	15.5	16	278
VA	0.2	1	28.2	35	28.4	29	14,100
Conventional	14.3	77	40.8	51	55.1	56	285
Multifamily	4.7	100	8.4	100	13.1	100	179
FHA	0.2	4	3.7	44	3.9	30	1,850
Conventional	4.5	95	4.7	56	9.2	70	104

SOURCE: Same as Table 3.

Legislation[3] authorizing the Veterans Administration to guarantee mortgages on homes purchased by veterans for owner occupancy was enacted little more than one year before the end of hostilities, and in any event only a few veterans could take advantage of it before the end of 1945. VA-guaranteed mortgages thus comprised less than 1 per cent of residential mortgage debt at the beginning of the postwar decade. One year later the proportion had increased sharply to nearly 9 per cent.

The Federal Housing Administration (FHA) mortgage insurance program, created as an antidepression measure, had been in operation for

[1] The terms nonresidential and commercial mortgage debt are used interchangeably throughout. In mortgage credit statistics, "commercial mortgage debt," is commonly used to represent "nonresidential mortgage debt" on the assumption that the bulk of all nonresidential mortgage debt is secured by commercial properties.

[2] These are loans not insured or guaranteed by the federal government.

[3] Public Law 346, 78th Congress, June 22, 1944.

over eleven years by the end of 1945. Gradually finding favor with lenders during the late thirties, FHA-insured mortgages increased steadily in importance and were given further impetus during the war as a result of special programs of mortgage insurance for defense and military housing construction. By the end of 1945, FHA-insured loans were nearly one-fifth of residential mortgage debt—a proportion about as large as any reached before by that type of mortgage.

Mortgage debt at the war's end was owned chiefly by financial intermediaries, the four main types—life insurance companies, savings and loan associations, commercial banks, and mutual savings banks—holding three-fifths of the total, a somewhat larger proportion than before the war. Among these institutions, the importance of life insurance companies —the leading mortgage investors in 1945—and commercial banks had increased sharply over that of preceding years, largely owing to the introduction of federal mortgage insurance.[4] Financial institutions other than the four main types played minor roles as mortgage investors in 1945, most of the remainder of the mortgage debt being held by individuals and other miscellaneous nonfinancial investors (Table 5).

Because of widely varying needs and preferences of investors, significant differences are found in ownership of the various types of mortgages and in the composition of portfolios of mortgage holders. Differences exist at any point in time, though the pattern of differences tends to change with changing market conditions and investor decisions. For the beginning and end of the postwar decade, differences in the participation of financial institutions[5] in mortgage markets are summarized in Tables 6 and 7. At the end of 1945, for example, financial institutions owned almost two-thirds of the nonfarm mortgage debt but little more than one-fourth of the farm mortgage debt. The farm mortgages were owned largely by federal land banks and by individuals, who often acquired them as personal investments when selling their farms. As for the nonfarm mortgage market, the participation of financial institutions as a group was much greater in residential than in nonresidential mortgages in 1945. This was so partly because of the availability of federally underwritten

[4] For a discussion of long-term movements in the distribution of mortgage debt by type of holder see Leo Grebler, David M. Blank, and Louis Winnick, *Captial Formation in Residential Real Estate: Trends and Prospects*, Princeton University Press for the National Bureau of Economic Research, 1956, Chapter 13; and J. E. Morton, *Urban Mortgage Lending*, Princeton University Press for NBER, 1956, Chapter 2.

[5] In the interest of brevity, and because of the relative unimportance of other types of financial institutions as mortgage investors, the term financial institutions is used here to signify only the four major types (savings and loan associations, life insurance companies, commercial banks, and mutual savings banks).

TABLE 5

Structure of Mortgage Debt and Net Mortgage Flows, by Type of Holder, 1946–1956
(amounts in billions of dollars)

Type of Mortgage Holder	Outstanding at End of 1945		Net Flows, 1945–1956		Outstanding at End of 1956		
	Amount	Per Cent Distribution	Amount	Per Cent Distribution	Amount	Per Cent Distribution	Per Cent Increase from 1945
All mortgage holders	35.5	100	109.1	100	144.6	100	307
Main financial institutions	21.0	59	90.2	83	111.2	77	430
Savings and loan associations	5.4	15	30.3	28	35.7	25	561
Life insurance companies	6.6	19	26.4	24	33.0	23	400
Commercial banks	4.8	13	17.9	16	22.7	16	373
Mutual savings banks	4.2	12	15.5	14	19.7	14	369
Federal agencies	2.4	7	3.4	3	5.8	4	142
All other holders	12.1	34	15.5	14	27.6	19	128
Mortgage companies	0.1	[a]	1.3	1	1.4[b]	1	1,832
Non-life insurance companies	0.1	[a]	0.1	[a]	0.2	[a]	164
Fraternal orders	0.2	[a]	0.3	[a]	0.4[b]	[a]	160
Face amount investment companies	0.1	[a]	0.2	[a]	0.3	[a]	232
Credit unions	[a]	[a]	0.3	[a]	0.3	[a]	708
Self-administered pension funds	[a]	[a]	0.3	[a]	0.3	[a]	1,860
Personal trust funds	1.4	4	0.1	[a]	1.5[b]	1	7
Individuals and other holders	10.3	29	12.8	12	23.2[b]	16	124

SOURCE: Klaman, *Volume of Mortgage Debt*, Table 2.

[a] Less than $50 million or less than 0.5 per cent.

[b] Data are for end of 1955. Estimates for 1956 holdings were not available at the time of writing but are probably close to 1955 figures.

TABLE 6

Percentage Distribution: Ownership of Mortgage Debt, by Type of Property and Mortgage, 1945–1956

		Financial Institutions					All Other Holders		
Type of Property and Mortgage	*All Types*	Total	Savings and Loan Associations	Life Insurance Companies	Commercial Banks	Mutual Savings Banks	Total	Federal Agencies	Other Holders
					1945				
Total	100.0	59.1	15.2	18.7	13.4	11.8	40.9	6.8	34.1
Nonfarm	100.0	63.9	17.5	19.0	13.8	13.6	36.1	3.0	33.1
Residential	100.0	67.7	22.6	16.0	14.6	14.5	32.3	3.9	28.4
1- to 4-family	100.0	65.8	27.7	12.4	15.5	10.2	34.2	2.8	29.4
FHA	100.0	85.7	11.3	31.0	35.7	7.7	14.3	0.8	13.5
VA	100.0	78.0	41.0	—	30.0	7.0	22.0	—	22.0
Conventional	100.0	59.9	32.2	7.3	9.5	10.9	40.1	6.0	34.1
Multifamily	100.0	75.3	2.4	29.9	11.1	31.9	24.7	0.2	24.5
FHA	100.0	79.0	2.6	54.4	12.7	9.3	21.0	—	21.0
Conventional	100.0	75.1	2.4	28.6	11.0	33.1	24.9	0.2	24.7
Commercial	100.0	52.2	1.5	28.7	11.4	10.6	47.8	0.2	47.6
Farm	100.0	27.8	—	16.3	10.9	0.5	72.2	31.6	40.6
					1956				
Total	100.0	76.9	24.7	22.8	15.7	13.6	23.2	4.0	19.1
Nonfarm	100.0	79.7	26.5	22.6	15.9	14.6	20.3	2.8	17.5
Residential	100.0	83.4	31.2	21.1	15.2	15.8	16.6	3.4	13.2
1- to 4-family	100.0	84.2	34.3	20.3	16.4	13.1	15.8	3.5	12.2
FHA	100.0	92.3	9.7	34.8	29.0	18.7	7.7	5.2	2.6
VA	100.0	88.0	23.6	25.7	13.7	25.0	12.0	7.4	4.6
Conventional	100.0	80.2	47.0	13.4	14.2	5.4	19.8	1.1	18.7
Multifamily	100.0	77.1	7.6	27.5	6.1	35.9	22.9	2.3	20.6
FHA	100.0	77.7	0.4	31.6	7.3	38.5	23.0	5.1	17.9
Conventional	100.0	76.5	10.5	25.9	5.1	35.0	23.9	2.2	21.7
Commercial	100.0	61.0	3.2	29.8	19.3	8.7	38.8	—	38.8
Farm	100.0	39.4	—	25.3	14.1	0.6	60.6	20.2	40.4

SOURCE: Klaman, *Volume of Mortgage Debt,* Tables 2 to 8, 10 to 12, 14, and 15.

TABLE 7

Percentage Distribution: Composition of Mortgage Portfolios of Main Types of Financial Institutions, 1945–1956

Type of Property and Mortgage	*Selected Financial Institutions*		*Savings and Loan Associations*		*Life Insurance Companies*		*Commercial Banks*		*Mutual Savings Banks*	
	1945	1956	1945	1956	1945	1956	1945	1956	1945	1956
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Nonfarm	93.7	96.5	100.0	100.0	88.3	92.5	89.1	94.1	99.4	99.7
Residential	75.1	84.1	98.0	98.0	55.8	72.0	71.1	74.8	80.5	89.7
1- to 4-family	58.3	75.0	95.9	95.3	34.7	61.0	60.2	71.5	45.0	65.8
FHA	16.7	12.8	8.6	4.1	19.0	16.3	30.4	19.9	7.4	14.7
VA	0.7	22.5	1.5	18.6	—	22.1	1.3	17.2	0.3	36.2
Conventional	40.9	39.7	85.8	72.6	15.7	22.6	28.5	34.5	37.3	15.0
Multifamily	16.8	9.0	2.1	2.7	21.1	11.0	10.9	3.3	35.5	23.9
FHA	0.9	2.8	0.1	[a]	1.9	3.8	0.6	1.3	0.5	7.7
Conventional	15.9	6.3	2.0	2.7	19.2	7.2	10.3	2.1	35.0	16.2
Commercial	18.6	12.4	2.0	2.0	32.5	20.5	18.0	19.3	18.9	10.0
Farm	6.3	3.5	—	—	11.7	7.5	10.9	5.9	0.6	0.3

SOURCE: Klaman, *Volume of Mortgage Debt*, Tables 16 to 19.

[a] Less than 0.5 per cent.

mortgages not eligible or suitable for investments by individuals, and partly because one of the major savings institutions—savings and loan associations—is legally and traditionally limited almost exclusively to home mortgages.

Aggregating the degrees of participation of financial institutions in the various mortgage markets obscures the wide differences that persist among them, seen in Table 6. The leading position of life insurance companies in 1945 reflected mainly their dominance in the market for nonresidential mortgages, both nonfarm and farm, and their activity in the market for multifamily residential mortgages, particularly those insured by FHA. Savings and loan associations confined their activity almost exclusively to the home mortgage market, in which they were by far the leading investor. Mutual savings banks, on the other hand, were most active as investors in multifamily mortgages, which reflected their location mainly in the East where multifamily structures are situated. In 1945, commercial banks were participating about equally in mortgages secured by all types of property but most heavily in markets for federally underwritten home mortgages.

Differences in mortgage market participation of major investors at the beginning of the decade under review are reflected in their varying portfolio composition, shown in Table 7. The specialization of savings and loan associations as conventional home mortgage lenders is clearly indicated. Commercial banks tended also to invest the bulk of their mortgage funds in one- to four-family houses, but unlike savings and loan associations divided their holdings between FHA-insured and conventional mortgages. The FHA mortgage-insurance program was, as suggested earlier, a major element in the growing importance of commercial banks as mortgage lenders. Savings and loan associations, on the other hand, opposed the FHA program from the beginning, and as a group they continue to invest only a small proportion of funds in FHA-insured mortgages.[6] Life insurance companies and mutual savings banks divided their holdings more evenly than the others among mortgages secured by all major types of nonfarm properties, the former tending to favor mortgages on one- to four-family and commercial properties and the latter on one- to four-family and multifamily dwellings.

Analysis of the structure of mortgage debt by type of borrower, and hence of the demand side of the market, is hampered by the inadequacy of data on the subject. The only data available are from the Board of

[6] For a discussion of lending policies of savings and loan associations as well as of other financial institutions, see Chapter 6.

Governors of the Federal Reserve System on broad sectors of borrower groups. According to these admittedly rough estimates, at the end of World War II nonfarm businesses owed the largest proportion of mortgage

TABLE 8
Structure of Mortgage Debt and Net Mortgage Flows, by Type of Borrower, 1945–1956
(amounts in billions of dollars)

Type of Borrower	*Outstanding at End of 1945* Amount	Per Cent Distribution	*Net Flows, 1946–1956* Amount	Per Cent Distribution	*Outstanding at End of 1956* Amount	Per Cent Distribution	Per Cent Increase from 1945
All borrowers	35.5	100	109.1	100	144.6	100	307
Consumers	14.4	41	78.2	72	92.6	64	543
Nonfarm business	16.1	45	25.3	23	41.4	29	158
Corporate	7.8	22	17.0	16	24.8	17	218
Noncorporate	8.3	23	8.2	8	16.6	12	101
Farm business	4.8	14	5.1	5	9.9	7	106
Nonprofit organizations	0.2	[a]	0.5	[a]	0.7	[a]	250

SOURCE: Based on estimates of Board of Governors of the Federal Reserve System, *Flow of Funds in the United States, 1939–1953*, December 1955, and on internal data available at the Federal Reserve.

[a] Less than 0.5 per cent.

debt then outstanding, followed closely by consumers (Table 8). Farm businesses and nonprofit organizations owed only $5 billion on mortgages, or one-seventh of the total outstanding at the end of 1945.

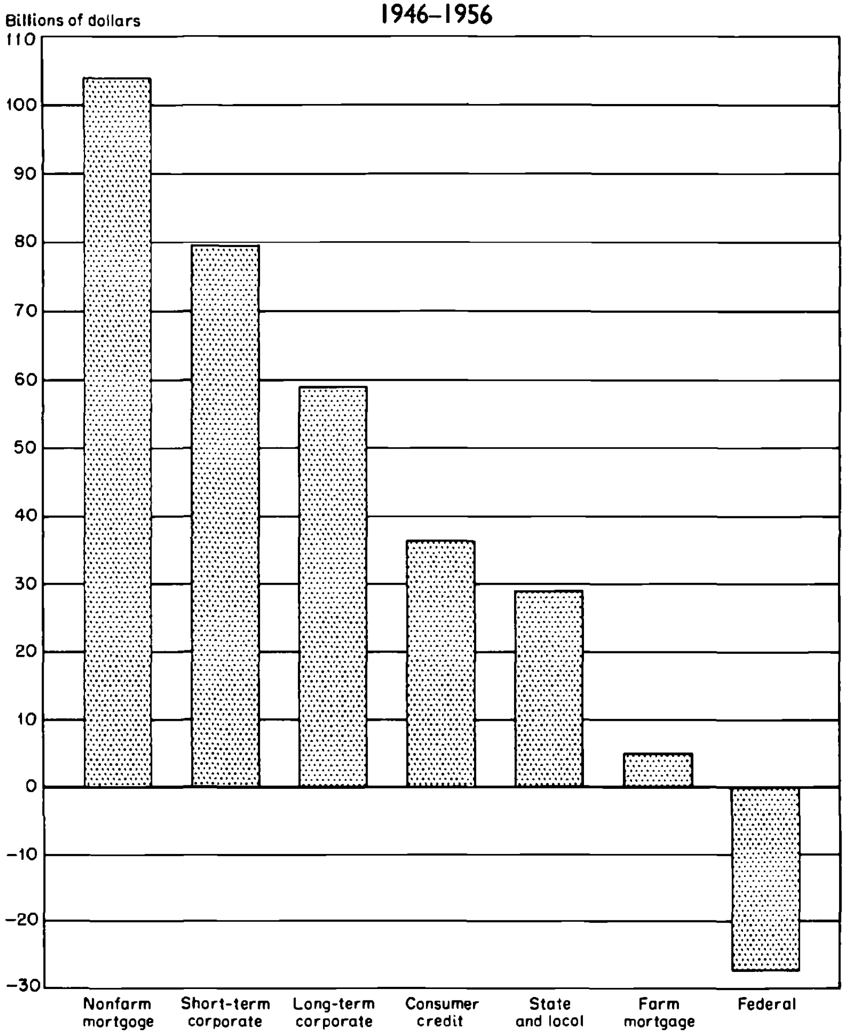
Net Flow of Mortgage Funds in Postwar Decade

From the end of World War II through 1956, the net flow of funds into nonfarm mortgages amounted to a record $104 billion, substantially larger than the flow into any other single type of debt instrument during that period (Chart 4). The net increase in long-term corporate debt during that period, for example, was little more than half the net nonfarm mortgage flow, though both types of debt were at equally low levels at the war's end. In terms of rate of expansion, only the remarkable growth of short-term consumer credit—over 600 per cent from an exceptionally low postwar base—exceeded that of nonfarm mortgage debt.

The unusually large net nonfarm mortgage flow during the 1946–1956 period reflected in the main strong demands from consumers to finance one- to four-family houses and, during most of the period, ready availability of funds from financial intermediaries together with active market

CHART 4

Net Flow of Funds into Main Capital and Money Market Sectors, 1946–1956

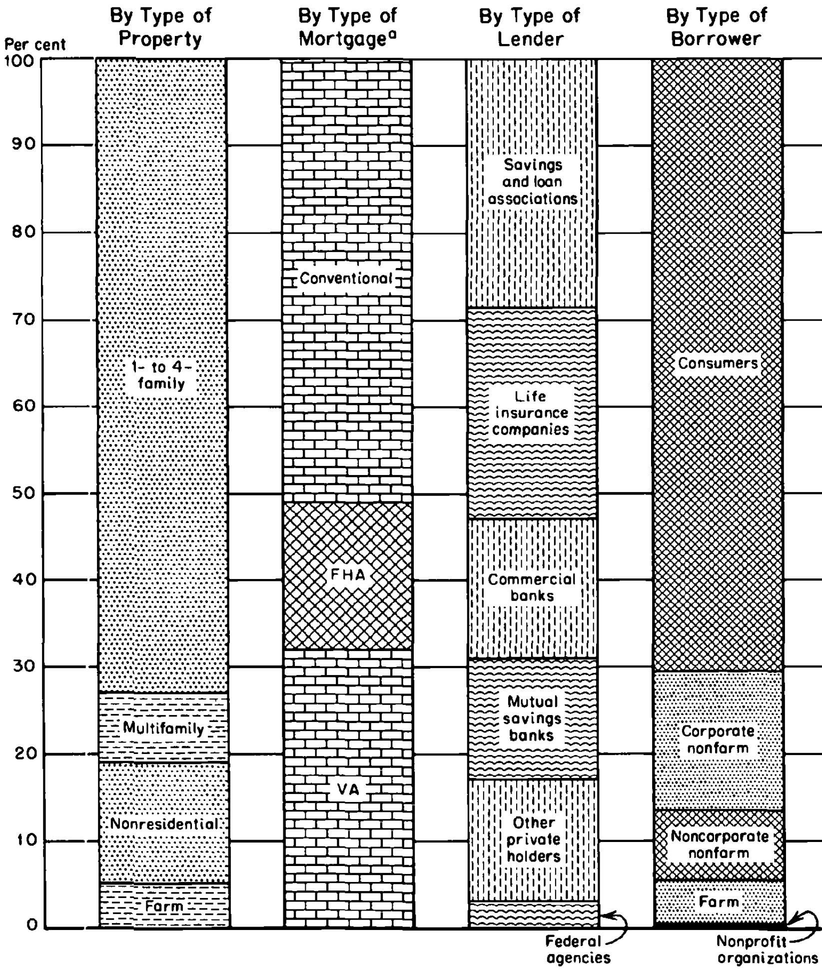


SOURCE: Data from *Survey of Current Business*, May 1957 and May 1958.

stimuli or support from federal mortgage programs and policies (see Chapter 3). Summary statistical evidence is assembled in the net flows portion of Tables 3 and 4 and in Chart 5. The $80 billion of net funds that flowed into home mortgages during 1946–1956 was ten times the net flow into multifamily mortgages and more than five times that into nonresidential mortgages (Table 3). It represented nearly three-fourths of

CHART 5

Net Flow of Mortgage Funds, 1946–1956



SOURCE: Data in first three bars from Klaman, *Volume of Mortgage Debt*, Tables 1 and 2. Data in last bar from Board of Governors of the Federal Reserve System, *Flow of Funds in the United States, 1939–1953*, December 1955; and internal data available at the Federal Reserve.

[a] Residential mortgages only.

the entire net mortgage flow in the decade and an increase of 375 per cent, more than double that for other nonfarm properties.

The record net flow of funds into home mortgages was almost equally divided between conventional and federally underwritten loans. The largest absolute net flow—over $40 billion—into any single mortgage sector went into conventional home mortgage loans, followed by $28 billion into VA-guaranteed mortgages. In terms of rate of expansion during the postwar decade, the highest by far was in VA-guaranteed loans, reflecting in large part the extremely low level at the end of 1945. Even so, the rate of increase from the end of 1946, following a ten-fold rise during the year, was still considerably greater than the entire decade's rate of growth for all but one of the other mortgage debt sectors.[7]

In view of the increased channeling of savings into financial institutions, it is not surprising that the bulk of postwar net mortgage flows—$90 billion or five-sixths—was supplied by the four main types of financial intermediaries (Chart 5 and Table 5). By far in the lead were savings and loan associations and life insurance companies, which together accounted for more than one-half of the total net mortgage flow. None of the sources of funds listed in Table 5, other than the four main types of financial intermediaries, accounted for more than 1 per cent of net mortgage lending in the years 1946–1956, although some showed a marked increase in mortgage market participation. This was true especially for mortgage companies and pension funds. Mortgage companies are, of course, fundamentally originators and servicers of mortgages rather than investors, and loans held in their portfolios represent chiefly unsold but largely committed inventory not yet taken up by final investors. The increasingly important and changing role of mortgage companies, as revealed by newly developed data, is the subject of Chapter 8 of this monograph.[8] As an ultimate investor in mortgages, pension funds were a relatively new and still insignificant source during the postwar decade. However, judging by their sharply increased mortgage activity, it is possible that pension funds will become an increasingly important lender, a possibility discussed further in the last section of Chapter 6.

Important differences in sources of funds within specific mortgage sectors were a characteristic of the postwar decade, to be observed in Table 9. Savings and loan associations, continuing in the postwar years their traditional specialized role as conventional home mortgage lenders, supplied more than half of the total funds for this type of mortgage, by far the largest proportion by any one lender in any one sector of the market. These institutions were also the most active of the participants in the market for VA-guaranteed mortgages, supplying a slightly larger proportion

[7] The exception is that of FHA-insured multifamily residential mortgages, which began its postwar rise from a 1945 level as low as that of VA-guaranteed mortgages.

[8] For a more detailed report of that study, see Saul B. Klaman, *The Postwar Rise of Mortgage Companies*, Occasional Paper 60, New York, National Bureau of Economic Research, 1959.

TABLE 9

Percentage Distribution: Net Flow of Mortgage Funds from Lenders, by Type of Property and Mortgage, 1946–1956

Type of Property and Mortgage	*All Types*	*Financial Institutions* Total	Savings and Loan Associations	Life Insurance Companies	Commercial Banks	Mutual Savings Banks	*All Other Lenders* Total	Federal Agencies	Other Lenders
Total	100.0	83.1	27.8	24.2	17.2	14.0	16.9	2.8	14.2
Nonfarm	100.0	84.6	29.1	23.6	17.2	14.7	15.4	2.7	12.8
Residential	100.0	87.7	33.2	22.6	16.1	15.8	12.3	3.1	9.2
1- to 4-family	100.0	88.5	35.8	22.1	17.5	13.2	11.5	3.0	8.5
FHA	100.0	94.1	8.8	35.3	27.5	22.5	5.9	6.9	−1.0
VA	100.0	87.7	27.1	25.0	15.2	23.8	12.3	7.0	5.3
Conventional	100.0	87.5	52.0	16.2	16.2	3.1	12.5	−0.9	13.4
Multifamily	100.0	78.9	7.9	27.7	3.9	39.5	21.1	3.9	17.1
FHA	100.0	78.9	[a]	31.6	5.3	42.1	21.1	5.3	15.8
Conventional	100.0	79.5	15.4	23.1	2.6	38.5	20.5	2.6	17.9
Commercial	100.0	65.4	3.9	29.9	23.6	7.9	34.6	[a]	34.6
Farm	100.0	53.5	—	34.9	18.6	[a]	46.5	4.7	41.9

SOURCE: Klaman, *Volume of Mortgage Debt*, Tables 23 to 29, 31 to 33, 35, and 36.

[a] Less than 0.05 per cent.

than life insurance companies and savings banks of such mortgage funds.

Closest to savings and loan associations as a predominant source of funds in one sector of the mortgage market were mutual savings banks, which supplied two-fifths of the net flow of mortgage funds into multi-family residential mortgages, both FHA-insured and conventional. The active participation of savings banks as investors in VA-guaranteed mortgages reflected chiefly lending after 1949–1950, when savings banks in most states were permitted to invest in out-of-state insured and guaranteed mortgages. In the last five years of the postwar decade, mutual savings banks were the largest net investor in VA-guaranteed loans.[9]

Life insurance companies and commercial banks, financial intermediaries with entirely different purposes and functions, were the only important institutional sources of funds for nonresidential and farm mortgages. They were also the most important ultimate sources for FHA-insured home mortgages. Not only are the characteristics of the two institutions dissimilar, but so are their roles (in the aggregate) in the mortgage market. The role of commercial banks has shifted in emphasis during the postwar years from a permanent source of mortgage funds to a temporary or interim one.[10] In this respect, the role of commercial banks in the mortgage market differs not only from that of life insurance companies but also from the roles of all other savings institutions.

Investors other than the four main types of financial institutions were a major source of funds, as noted earlier, for only mortgages on farm and commercial properties. Individuals provided the bulk of the farm mortgage funds and nonfinancial corporations a large share of the nonresidential mortgage funds.

The bulk of mortgage funds supplied by financial intermediaries and others during the 1946–1956 period were borrowed by consumers to finance home purchases, a net of $78 billion. This amount was close to three-fourths of that borrowed by all economic groups in the decade and was three times the amount borrowed on mortgages by all nonfarm business. Stated differently, the net flow of mortgage funds to consumers was more than 500 per cent of their total mortgage indebtedness at the end of 1945, compared with a little over 200 per cent for nonfarm corporate business and 100 per cent for nonfarm noncorporate business. Relatively small amounts of mortgage funds were borrowed by other economic groups (Table 8 and Chart 5).

[9] The increased importance of mutual savings banks in mortgage markets following changes in out-of-state lending regulations is discussed more fully in Chapters 5 and 6.

[10] See Chapter 6 for a discussion of the mortgage lending policies and techniques of life insurance companies and commercial banks.

Structure of Mortgage Debt at End of Postwar Decade

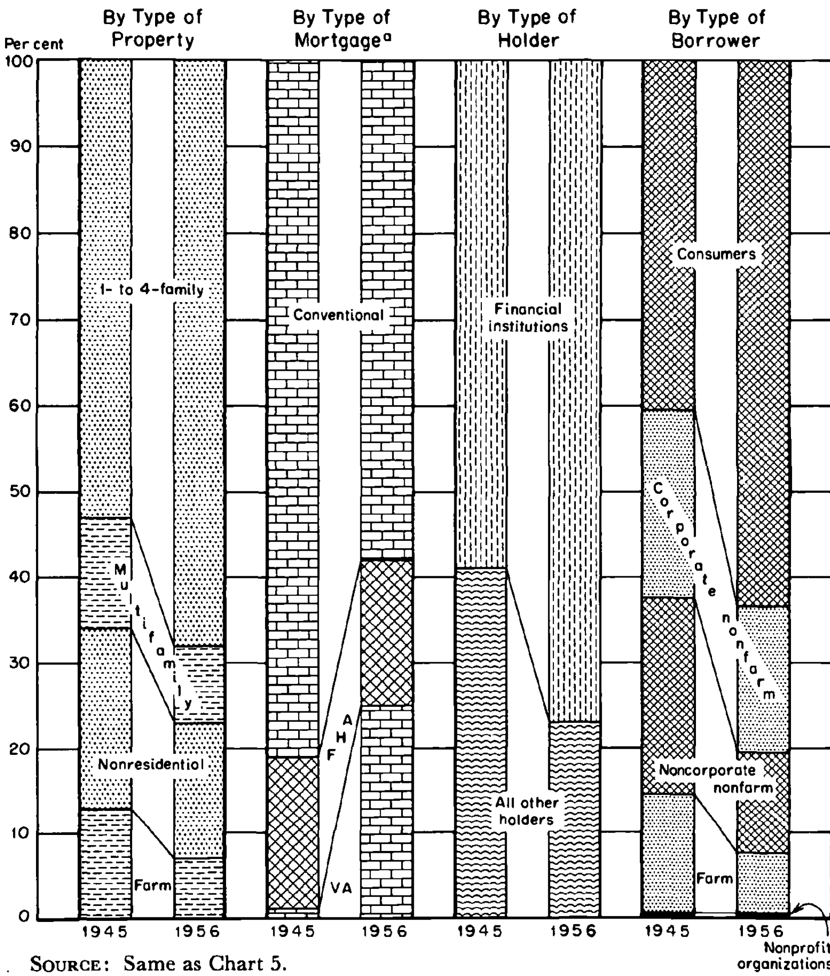
More than a decade of sharp but uneven growth in the various mortgage debt sectors necessarily wrought changes in the structural organization of mortgage markets. By the end of 1956 differences had become marked in the relative importance of properties underlying mortgage indebtedness, of types of mortgages, of market participants, and of the portfolio composition of major lenders. Summary changes shown in Chart 6 outline the detailed changes given in Tables 3 through 9.

Following the much larger flow of mortgage funds for financing home construction and transfer than for other types of construction and real estate activities, one- to four-family mortgage debt increased from just over one-half to well over two-thirds of the total mortgage debt outstanding between end of 1945 and end of 1956. Such an increase in relative importance was naturally accompanied by relative declines in debt secured by all other major types of property, the sharpest decline occurring in farm mortgage debt (Table 3).

Within the one- to four-family sector, shifts in the positions of FHA-insured, VA-guaranteed, and conventional mortgages reflected in large part the attraction of VA mortgage guarantees—scarcely a market factor at the end of 1945. Little over a decade later, the amount of such home mortgage indebtedness was not far from twice that of FHA-insured home mortgage debt and more than one-half that of conventional debt. The increase in VA-guaranteed loans from less than 1 to 29 per cent of total home mortgage debt in the postwar decade compares with declines in FHA-insured one- to four-family loans from 22 to 16 per cent, and in conventional one- to four-family mortgage loans from 77 to 56 per cent (Table 4). In the financing of multifamily properties, a sharp relative increase in the use of FHA-insured loans was associated with a consonant relative decline in conventional mortgages.

Ownership of mortgage debt had become more concentrated by the end of the postwar decade, $111 billion or over three-fourths being held by the four main types of financial intermediaries compared with their holdings of $21 billion or less than three-fifths at the beginning of the period (Table 5). Each of the four types of financial institutions had increased their relative participation in mortgage markets by the end of the decade, savings and loan associations considerably more than the others. Among other market participants whose mortgage holdings can be identified, only mortgage companies had reached a position of significance by the end of the decade, owing in part to their larger than usual

CHART 6
Comparison of the Structure of Postwar Mortgage Debt, December 31, 1945, and December 31, 1956



SOURCE: Same as Chart 5.
[a] Residential Mortgages only.

mortgage inventories relative to mortgage originations during 1955.[11]

Leading mortgage participants within the major property categories in 1945 generally maintained their positions in 1956, though there were inevitable changes in the relative degree of participation (Table 6). The more important shifts between 1945 and 1956 occurred in FHA, VA, and

[11] This situation resulted from conditions in the mortgage market in 1954 and 1955, described in Klaman, *Postwar Rise of Mortgage Companies*, pp. 55–57.

conventional residential mortgage markets and may be summarized as follows:

Sharp relative declines in

- VA-guaranteed loans by savings and loan associations and commercial banks
- FHA-insured multifamily loans by life insurance companies, and all FHA-insured loans by commercial banks
- Conventional one- to four-family loans by savings banks, and multifamily loans by commercial banks

Sharp relative increases in

- VA-guaranteed loans by savings banks and life insurance companies
- FHA-insured loans by savings banks
- Conventional one- to four-family loans by savings and loan associations and commercial banks

For most major types of financial institutions, postwar changes in demands made upon them for funds and in the structural organization of capital and mortgage markets led to significant changes in the composition of their portfolios during the period under study. The mounting importance of mortgage holdings relative to other assets of financial institutions, noted previously, resulted by the end of 1956 in a higher proportion of mortgages to total assets than in most preceding years for all major lenders, except savings and loan associations. Savings and loan associations also, alone among the major types of financial institutions, maintained the composition of their mortgage portfolios essentially the same in 1956 as in 1945—all but 5 per cent in one- to four-family mortgages (Table 7). The introduction of the VA mortgage guarantee program, however, reduced to some extent the concentration of their portfolios in conventional mortgage loans and cut further into the small proportion of funds invested in FHA-insured mortgages.

The most marked changes in mortgage portfolio composition occurred among life insurance companies and mutual savings banks, both shifting heavily towards one- to four-family mortgage loans. Declines in other types of mortgage holdings of the two intermediaries were distinct; the proportions of life insurance company portfolios devoted to nonresidential mortgage loans and of savings bank portfolios devoted to multifamily mortgage loans were considerably larger than those proportions for other types of financial institutions. The unusually strong attraction of VA-guaranteed loans to savings banks during the latter half of the postwar decade is manifest in their much larger proportionate investment in such loans in 1956 compared with other types of financial institutions.

Following the record flow of mortgage funds to consumers during the postwar decade, this group of borrowers owed nearly two-thirds of the total mortgage debt outstanding at the end of 1956—well over twice the amount owed by nonfarm businesses (Table 8). A decade earlier, both groups were carrying close to the same amount of mortgage debt. Other types of mortgage borrowers were indebted for an even smaller share of the total at the end than at the beginning of the postwar decade.