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Volume Author/Editor: Saul B. Klaman

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4. MORTGAGE OPERATIONS

As outlined in preceding sections, the mortgage company's chief function is to originate and service mortgage loans for institutional investors, holding these loans in inventory for a short term in the period between mortgage origination and sale to institutions. Little quantitative information has been available, unfortunately, on the characteristics of mortgage company activities; on the types of mortgage loans they handle; on the relationships between loan originations, servicing, and holdings; on the distribution of mortgage sales among mortgage investors; or on the dependence of mortgage companies on investors' firm commitments or fund allocations. Some useful information on these activities, as well as quarterly balance sheet data, for the years 1953-1955 was obtained in the special survey of mortgage companies made for this study. In interpreting the findings of the survey, the limitations of the data should be constantly borne in mind. These limitations, discussed more fully in the Appendix, result chiefly from the small number of reporting companies relative to the universe, and from the disproportionate number of large companies included among respondents. The data are generally of a lower order of dependability, therefore, than the data on financial structure obtained from FHA records which are discussed in the following section.

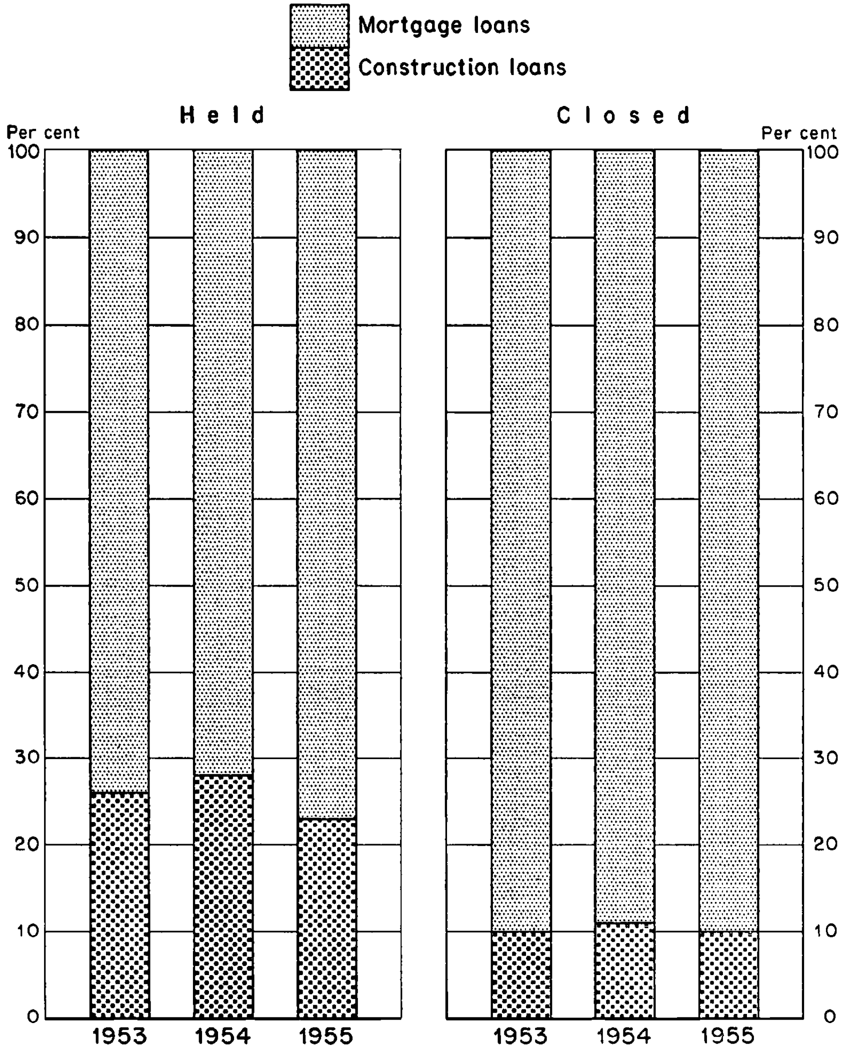
Mortgage and Construction Loans

In the postwar decade, mortgage companies typically were more active in arranging permanent financing for new than for existing properties. Arrangements for short-term financing of construction are also frequently made by mortgage companies for builder clients. Such financing is usually arranged directly through a commercial bank, but it is not uncommon for the mortgage company to advance the construction funds and to replenish its cash through a commercial bank loan. Either way, the ultimate source of construction funds is the commercial bank. The chief advantage to the mortgage company in making construction loans directly to builders is the fee (between 1 and 2 per cent of the loan amount depending on market conditions), but the many problems and risks entailed deter most companies from such direct financing. To attain and support

CHART 2

Mortgage vs. Construction Loans Held and Closed by Mortgage Companies, 1953-1955

(percentage distribution of dollar amounts)



Source: Special survey of mortgage companies. The 81 respondents supplying data on which this chart is based held one-fourth of the estimated amount of mortgage loans held by all FHA-approved mortgage companies in years shown.

a significant volume of activity, a highly trained staff is usually required to observe closely construction progress and minimize delays, to supervise loan payments at various stages of construction, and to guard against the establishment of prior liens.

According to survey data, only about 10 per cent of all mortgage loans closed during each of the years 1953 to 1955 were for construction purposes, while about one-fourth of mortgage holdings at the end of these years were construction loans, as shown in Chart 2. The larger proportion of construction loans held than closed by mortgage companies is a logical reflection of the fact that construction loans, involving separate advances over a period of months, generally stay on the books somewhat longer than regular mortgage loans. The latter require considerably less time for processing and closing and, except for unusually long periods of "warehousing" under some types of "standby" and "forward" commitments, pass from the closing stage to final sale to investors in from 60 to 180 days. The decline in the proportion of construction loans held at the end of 1955 while closings showed no change, probably resulted from the longer period of regular mortgage loan holdings in 1955 under changing market conditions of that year (see the last pages of section 4).

Within the averages, wide differences in construction lending prevail among mortgage companies, as seen in Table 8. Well over one-third of the 81 companies responding to this question in the survey held no construction loans at all in 1955, while one-fourth showed 40 per cent or more of their mortgage holdings to be construction loans. The median proportion of construction loan holdings was one-seventh compared to a mean of nearly one-fourth. The data by size of company must be interpreted with caution because of the small number reporting but may be broadly indicative of differences among companies. In general a higher proportion of the largest companies (over $5 million in assets) make construction loans than of the smallest companies, but among the companies with over $1 million in assets making such loans there seems to be little relationship between size of company and proportion of construction loan holdings.

Types of Mortgage Loans

The concentration of mortgage company operations in federally underwritten mortgage loans, especially those guaranteed by the Veterans Administration, is shown in Chart 3. In each of the years 1953, 1954, and 1955, from three-fourths to well over four-fifths of the amount of loans closed and close to nine-tenths of the amount held were federally underwritten. In each case, a rising percentage of loans were VA-guaranteed, reflecting the increased desirability of such loans to institutional

TABLE 8

Distribution of Eighty-one Mortgage Companies by Share of Construction Loans in Total Mortgage Loans Held, within Asset-size Class, 1955

PERCENTAGE SHARE, CONSTRUCTION LOANS	All companies	*Asset Size (in millions of dollars)* Under 1	1-2	2-5	Over 5
0	29	6	5	12	6
1 - 19.9	16	1	2	4	9
20 - 39.9	16	1	1	6	8
40 - 59.9	9	1	5	..	3
60 - 79.9	7	..	..	5	2
80 - 100	4	1	2	..	1
Total companies	81	10	15	27	29
Median % share	14.4	1.0	35.0	5.0	18.8

Source: Special survey of mortgage companies. The 81 respondents supplying data held one-fourth of the estimated amount of mortgage loan holdings of all FHA-approved mortgage companies in 1955.

investors in the changing capital market situation of that period. The somewhat larger proportion of federally underwritten loans held than closed by mortgage companies (and, conversely, the smaller proportion of conventional loans held than closed) is due largely to two factors: (1) the longer time required for processing and documenting of both FHA and VA loans than conventional loans; and (2) the virtual limitation of warehousing and other market techniques to federally underwritten loans making it possible (or necessary) for mortgage companies to hold such loans in inventory longer than conventional loans.

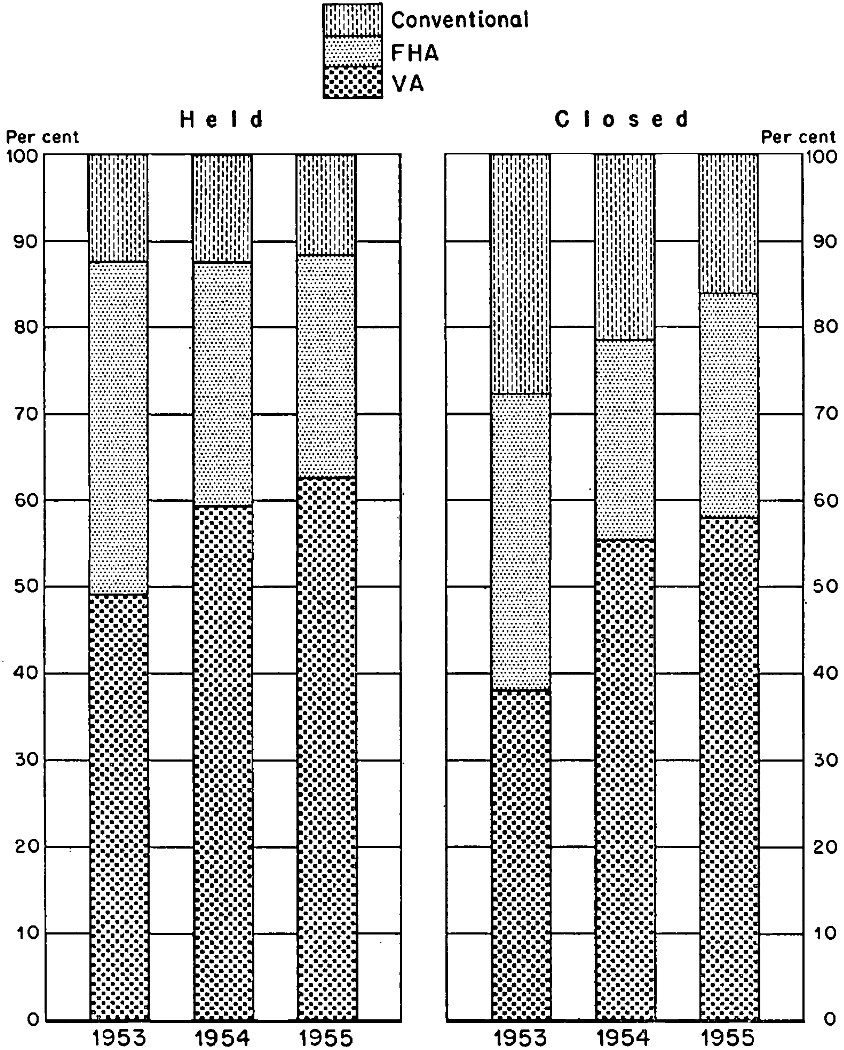
Variations among mortgage companies in types of mortgage loans handled in 1955 is indicated in the frequency distributions shown in Tables 9 and 10. In interpreting these tables, as well as other tables on frequency distributions in this section, it is important to bear in mind that only a fraction of all companies having under $2 million in assets are represented. More than one-half of all companies having assets of over $5 million are included, however, and one-fifth of those with assets of between 2 and 5 million. Conclusions drawn for the larger companies, therefore, have considerably more validity than those for the smaller companies, and to the extent that the experience of the former group differs from the latter, the distribution figures are affected.

Among 66 responding companies, holding about one-fifth of the total amount of mortgage loans held by all companies in 1955, more than two-thirds reported that less than 20 per cent of the dollar volume of their loans closed consisted of conventional mortgages, as shown in Table 9. Almost three-fourths of the responding companies, on the other hand,

CHART 3

Types of Mortgage Loans Held and Closed by Mortgage Companies, 1953-1955

(percentage distribution of dollar amounts)



Source: Special survey of mortgage companies. The 66 respondents supplying data on which this chart is based held over one-fifth of the estimated amount of mortgage loans held by all FHA-approved mortgage companies in the years shown.

TABLE 9

Percentage Distribution of Sixty-Six Mortgage Companies by Percentage Ratio of Amount of FHA, VA, and Conventional Loans to All Loans Closed or Held, 1955

PERCENTAGE RATIO TO ALL LOANS HELD OR CLOSED	*Loans Closed (during year)*			*Loans Held (end of year)*		
	FHA	VA	Conventional	FHA	VA	Conventional
0 - 19.9	29.6	5.6	69.1	39.4	16.7	65.2
20 - 39.9	49.3	21.1	15.5	31.9	18.2	16.7
40 - 59.9	28.3	33.9	9.8	19.7	27.3	10.6
60 - 79.9	2.8 (60 - 100)	33.8	5.7 (60 - 100)	9.0 (60 - 100)	22.7	7.5 (60 - 100)
80 - 100		5.6			15.1	
Median % ratio	29.1	55.8	12.1	24.4	52.7	10.0

Source: Special survey of mortgage companies. The 66 respondents includable here held over one-fifth of the estimated amount of mortgage loan holdings of all FHA-approved mortgage companies in 1955.

reported that at least 40 per cent of their loans closed were VA-guaranteed, and over 20 per cent were FHA-insured. Much the same breakdown characterized mortgage holdings, and median ratios for both loans closed and held were similar at well over one-half for VA loans, three-tenths and one-fourth respectively for FHA loans, and one-eighth and one-tenth respectively for conventional loans (Table 9).

The largest companies, those having over $5 million in assets, showed by far a larger proportion of their holdings in VA loans and a smaller proportion in conventional loans than the other companies (Table 10). The distribution of mortgage holdings is not very different for companies in each of the other three size classes shown. For example, about three-tenths in each size group reported that over 60 per cent of their holdings were VA-guaranteed, while three-fifths indicated that less than 20 per cent were conventional. Most companies in each size group reported that the bulk of their mortgage loans closed and held were federally underwritten.

Survey results tend to confirm the general impression that mortgage companies concentrate their activities on real estate loans secured by one- to four-family properties. Their VA and FHA loans are almost entirely on one- to four-family houses;[21] in addition, the bulk of conventional mortgage loans closed and held by mortgage companies are on

[21]Only a small fraction of all VA loans originated since the inception of the program are on multifamily properties, and data from the Federal Housing Administration indicate that the bulk of FHA loans closed by mortgage companies are on one- to four-family properties.

such properties. But companies that reported a breakdown of their conventional loans were only about half as many as those that reported other data, and the resulting figures are too thin to present in detail. As a broad indication of the pattern of conventional loans handled by mortgage companies, however, over four-fifths of the volume of conventional mortgage loans closed by forty companies financed one- to four-family properties. One-half of the companies reporting indicated that their conventional mortgage lending activity in 1955 – both loans closed and held – was limited exclusively to loans on one- to four-family properties. Most of the remaining companies showed with little variation by size of company, well over one-half of their conventional loans to be on small homes.

The small proportion of conventional loans made on income-producing

TABLE 10

Distribution of Sixty-Six Mortgage Companies by Percentage Ratio of Amount of VA, FHA, and Conventional Loans to All Mortgage Loans Held, within Asset-size Class, 1955

PERCENTAGE RATIO TO ALL LOANS HELD	All companies	*Asset Size (in millions of dollars)* Under 1	1-2	2-5	Over 5
		VA-Guaranteed Loans			
0 - 19.9	11	3	2	4	2
20 - 39.9	12	1	1	7	3
40 - 59.9	18	3	2	4	9
60 - 79.9	15	1	1	3	10
80 - 100	10	2	1	4	3
Median % ratio	52.7	50.0	45.0	40.0	59.3
		FHA-Insured Loans			
0 - 19.9	26	5	3	8	10
20 - 39.9	21	..	3	7	11
40 - 59.9	13	3	1	5	4
60 - 79.9	4	1	..	1	2
80 - 100	2	1	..	1	..
Median % ratio	24.4	30.0	21.7	27.5	23.9
		Conventional Loans			
0 - 19.9	43	6	4	13	20
20 - 39.9	11	2	..	5	4
40 - 59.9	7	1	2	2	2
60 - 79.9	1	..	..	1	..
80 - 100	4	1	1	1	1
Median % ratio	10.0	10.0	17.5	16.0	7.4
Total number of companies	66	10	7	22	27

Source: Same as Table 9.

properties by mortgage companies is readily explained by the fact that many institutional investors find it expedient to originate such loans directly. A large percentage of these loans are made on multifamily and commercial properties located in industrialized eastern cities, where life insurance companies and savings banks most active in this type of lending are. Moreover, most of these loans involve much larger sums of money than home mortgage loans, require specialized knowledge of appraisal and lending techniques, and justify the time and effort spent on direct negotiations by institutional lenders.

Relationship between Mortgage Loans Closed, Held, and Serviced

The data obtained in the special survey make possible a brief sketch of broad relationships between mortgage loans closed, held, and serviced by mortgage companies and of changes in those relationships. It appears from Table 11 that for every dollar of mortgage loans held at the end of 1955 the volume of mortgage loans being serviced was over $14.00, and the volume of loans closed during that year, over $3.00. These ratios were much higher in 1953, varying widely and, for the most part, directly with asset size of company. The relationship between loans closed and serviced has shown less change between the two years than that between loans held and serviced; and these relationships varied less by size of company, as shown in columns 5 and 6 of Table 11. The relatively greater increase between 1953 and 1955 in loans held than in loans closed was due mainly to the impact of changes in market conditions and techniques on mortgage company operations, discussed earlier in section 2. A large proportion of the sharply increased volume of loans originated by mortgage companies in the active 1955 mortgage market was carried in inventory longer than usual while institutional investors caught up with their large backlog of commitments.

This pattern of development was fairly typical among companies in all size classes, according to survey results, except for the companies with less than $1 million in assets. This group represents a rather special case, however. First, such a small number of these companies reported in the survey that one cannot be certain whether or not they may be considered typical of the group as a whole. Secondly, many of the small companies operate with little or no mortgage inventory and an increase in mortgage originations is quickly reflected in a rise in the ratio of loans closed to held. Finally, these and the other companies in the survey were selected on the basis of their estimated volume of mortgage servicing, in the absence of information on assets or mortgage holdings.

More than two-thirds of the companies with assets of over $1 million reported that their mortgage inventories increased faster than their loans

TABLE 11

Relationship between Dollar Volume of Mortgage Loans Closed, Held, and Serviced, by Asset Size, for Sixty-six Mortgage Companies, 1953 and 1955

ASSET SIZE	*Ratios of Mortgage Loans*					
	Closed to held		Serviced to held		Serviced to closed	
	1953 (1)	1955 (2)	1953 (3)	1955 (4)	1953 (5)	1955 (6)
All companies	4.2	3.2	19.7	14.3	4.8	4.2
Under						
$1 million	6.1	9.6	41.0	46.3	7.3	4.8
1 - 2	7.7	6.0	50.0	31.1	6.5	5.1
2 - 5	6.9	3.9	22.0	14.4	3.2	3.6
Over 5	3.3	2.7	17.0	11.6	5.2	4.3

Source: Special survey of mortgage companies. The 66 comparable companies included responded each year to all questions on these data, and held over one-fifth of estimated mortgage holdings of FHA-approved companies in 1955.

closed between 1953 and 1955. The wide range of ratios of loans closed to outstanding in 1955 for 80 mortgage companies reporting in the survey can be seen from the frequency distribution in Table 12. Reflecting the dominance of large companies in the survey, the most frequently reported ratios were between 2 and 4. While the data are not free from bias, the indicated inverse relationship between median ratio and size of company is consistent with general knowledge of mortgage company operations. For the larger companies (over $2 million in assets) the ratios should be quite representative; for the smaller companies, they are probably somewhat high.

Mortgage companies generally measure their size and growth by the dollar volume of mortgages serviced for principal investors. According to survey results, there was a more than 50 per cent increase in the volume of servicing between 1953 and 1955. This was substantially less than the increase in mortgage inventory, however, with a resulting sharp decline in the ratio of loans serviced to loans held, as Table 11 shows. Within a wide range of ratios, this decline was general for companies in all asset sizes, except for those under $1 million, for reasons noted above.

Most large companies serviced a volume of mortgage loans 5 to 15 times their mortgage holdings in 1955, while smaller companies serviced a much larger volume relative to holdings, as indicated in Table 13. Here again, as for loans closed and held, there is a consistently inverse relationship between ratio and size of company, which reflects the nature of mortgage company operations. There is, of course, a direct relationship between asset size of company and volume of mortgage servicing. For example, four-fifths of all reporting companies with over $5 million in

TABLE 12

Distribution of Eighty Mortgage Companies by Ratio of Volume of Mortgage Loans Closed to Those Outstanding, within Asset-size Class, 1955

RATIO OF VOLUME OF MORTGAGE LOANS CLOSED TO OUTSTANDING[a]	All companies	*Asset Size (in millions of dollars)* Under 1	1-2	2-5	Over 5
Under 1	5	..	4	..	1
1 - 1.99	8	..	..	3	5
2 - 2.99	18	1	..	4	13
3 - 3.99	15	..	2	7	6
4 - 4.99	4	..	..	4	..
5 - 5.99	5	3	..	2	..
6 - 6.99	8	2	2	1	3
7 - 7.99	6	1	2	3	..
8 - 9.99	4	..	1	2	1
10 - 14.99	4	4	..	..	..
15 and over	3	1	2	..	..
Total companies	80	12	13	26	29
Median ratio	3.6	7.0	6.3	3.9	2.7

Source: Same as Table 8.

[a]Mortgage loans closed during 1955; outstandings at end of 1955.

assets were servicing over $50 million of mortgage loans in 1955, and half of these were servicing over $100 million. All companies with assets of less than $2 million, on the other hand, were servicing less than $50 million in mortgages, and the bulk of companies with under $1 million in assets were servicing less than $25 million in mortgage loans.[22]

The estimated total volume of mortgages being serviced by the mortgage banking industry has already been indicated above to have grown remarkably from a little over $6 billion to almost $20 billion between 1951 and 1955. It is possible also to estimate roughly, from data obtained in the survey of mortgage companies and from related data available from

[22]In mid-1951, according to data received by the Federal Reserve in connection with registration under Regulation X, most mortgage companies were servicing less than $5 million of mortgage loans. Almost all companies were servicing under $25 million. Despite the marked expansion in mortgage company operations since 1951, it is undoubtedly still true that most companies are servicing well under $25 million. The relatively few companies servicing over $25 million of loans, however, accounted for three-fifths of the total volume of loans serviced by mortgage companies in that year. Comparable data for 1955 cannot be derived from the limited survey taken as part of this study, but there is little doubt, judging from the degree of asset concentration among mortgage companies, that a relatively small number of companies continue to account for the bulk of all mortgage servicing.

TABLE 13

Distribution of Eighty Mortgage Companies by Ratio of Volume of Loans Serviced to Those Held, within Asset-size Class, 1955

RATIO OF VOLUME OF MORTGAGE LOANS SERVICED TO HELD	All companies	*Asset Size (in millions of dollars)* Under 1	1-2	2-5	Over 5
1.0 - 4.99	1	..	..	..	1
5.0 - 9.99	19	..	..	8	11
10.0 - 14.99	20	2	3	6	9
15.0 - 19.99	11	..	2	5	4
20.0 - 24.99	10	1	3	5	1
25.0 - 29.99	6	1	1	2	2
30.0 - 34.99	3	1	1	..	1
35.0 - 50.0	5	4	1	..	..
Over 50.0	5	3	2	..	..
Total companies	80	12	13	26	29
Median ratio	15	38.8	22.5	14.2	11.4

Source: Same as Table 8.

other sources, the total volume of mortgage loans closed by mortgage companies.

Estimates of total mortgage loans closed, in the absence of any benchmark figures, are probably somewhat less reliable than estimates of loans serviced, considering that a fairly good mortgage servicing figure is available from the 1951 Regulation X registration statement. Three alternative estimates of total loans closed are presented in Table 14. The estimates fall within a fairly narrow range, tending to lend support to one another. In any event, the growth trend is clear. The total volume of mortgage loans closed by mortgage companies between 1953 and 1955 is suggested by each of the methods to have expanded by about two-thirds, considerably less than the expansion in mortgage servicing.

It seems likely that the absolute figures for 1953 and 1955 derived from method C, based on the relationship of loans closed to held revealed by the survey of mortgage companies made in this study, are somewhat closer to the facts than those derived from methods A and B, based on FHA loans originated and VA loans closed, respectively. Because FHA data do not include loans originated by mortgage companies in the name of principal investors, estimates based on these are probably too low; and, because VA data include loans closed by real estate companies as well as by mortgage companies, it is likely that estimates based on these are too high. Figures derived from method C for both 1953 and 1955 fall

TABLE 14

Alternative Estimates of Volume of Loans Closed by Mortgage Companies with Percentage Distribution by Type of Mortgage, 1953-1955

	AMOUNT OF LOANS CLOSED (billions of dollars)			PERCENTAGE DISTRIBUTION			
				Federally Underwritten			
END OF YEAR	Method A (1)	Method B (2)	Method C (3)	Total (5)	FHA (6)	VA (7)	*Conventional* (8)
1953	2.4	2.7	2.6	72.3	34.2	38.1	27.7
1954	3.2	3.6	3.1	78.5	23.1	55.4	21.5
1955	4.0	4.5	4.3	83.8	25.8	58.0	16.2

Method A: Figures were derived by blowing up the total volume of FHA loans reported as originated by mortgage companies in annual report of the FHA, by the percentage of FHA loans to total loans closed for companies reporting in survey, as shown in column 6.

Method B: Figures derived by blowing up the total volume of VA loans closed by "mortgage and real estate companies," as reported in the Veterans Administration's monthly summary, by the percentage of VA loans to total loans closed for companies reporting in survey, as shown in Column 7.

Method C: Figures derived by applying the ratios of mortgage loans closed to held, for mortgage companies reporting in the survey (Table 11), to total loans held by mortgage companies as summarized from FHA records and shown in line 3 of Table 19.

Columns 5 through 8 are based on relationships reported by mortgage companies in special survey.

between those derived from methods A and B. The low 1954 figure derived by method C, however, seems somewhat out of line with 1953 and 1955 figures and with 1954 figures by the other two methods. This seems to suggest that the 1954 ratio indicated for loans closed to held by companies reporting in the survey (3.4 times) may be somewhat too low and should in fact be closer to the 4.2 ratio indicated for 1953.

Principal Purchasers of Mortgage Company Loans

The growth of mortgage companies has been closely related to the increased participation of life insurance companies in the postwar mortgage market. Most life insurance companies acquire the bulk of their FHA and VA loans in out-of-state markets through mortgage company correspondents. Results of the special survey made in this study confirm the general impression that this type of institutional investor is the predominant purchaser of mortgage company loans, but they suggest also that this dominance has declined somewhat in recent years.

As shown in Table 15, the proportion of reporting mortgage companies that depend exclusively on life insurance companies for their sales has

declined from well over one-fourth in 1953 to somewhat over one-sixth in 1955. A similar proportionate reduction occurred in the share of companies selling over 90 per cent of their loans to life insurance companies. During these years mutual savings banks substantially increased their out-of-state mortgage activities, particularly in VA loans, providing an important supplementary outlet for mortgage company sales. Whereas in 1953 almost one-half of all reporting mortgage companies sold no mortgages at all to savings banks, by 1955 the comparable proportion was reduced to slightly over one-third. Moreover, one-sixth of the mortgage companies reported that at least 50 per cent of their volume of sales went to savings banks in 1955, compared with one-ninth in 1953 (Table 15). More mortgage companies sold some mortgages to other investors, including savings and loan associations, commercial banks, and the Federal National Mortgage Association, in 1955 than in 1953, but the proportion of such sales to total sales continued to be very small and even decreased. The percentage of companies selling over 20 per cent of their loans to other investors declined sharply between 1953 and 1955, from almost one-fifth to one-eighth, as a reflection chiefly of decreased reliance on FNMA under changing market conditions.

That the larger mortgage companies depend less on life insurance companies, or have more diversified sales outlets than smaller companies, is suggested by Table 16 in which the medians indicate a distinctly inverse relationship between size of company and percentage of mortgage sales to life insurance companies, for each of the years 1953 through 1955. The largest companies, in addition, show a wide variation in percentage volume of sales to life insurance companies, with about equal numbers selling over 80 per cent and less than 60 per cent to these investors. Over two-fifths of these large mortgage companies, compared with from one-eighth to one-fourth of all the others, sold less than 60 per cent of their loans to life insurance companies. It is not possible to determine from these data whether the large companies became large because of their ability to develop diversified sales outlets, or were able to attract new types of investors because they were already large. It is, of course, known that some of the country's largest mortgage companies are correspondents for only one investor, let alone one type of investor – but these are exceptional.

Loan Closings and Investor Commitments

As noted several times, few mortgage companies undertake to close and sell loans on their own financial responsibility. They are able to originate a volume of mortgage loans much larger than their own resources permit because loan closings are typically based on firm investor commitments to

TABLE 15

Percentage Distribution of Mortgage Companies by Proportion of Loan Volume Sold to Institutional and Other Investors, 1953-1955

PERCENTAGE OF MORTGAGE LOANS SOLD	1953 Life insurance companies	1953 Mutual savings banks	1953 All others	1954 Life insurance companies	1954 Mutual savings banks	1954 All others	1955 Life insurance companies	1955 Mutual savings banks	1955 All others
0	2.5	46.7	41.8	1.2	39.5	34.8	1.1	35.1	31.9
1.0 - 9.9	1.3	8.9	22.7	1.2	7.0	30.2	4.4	7.7	36.2
10.0 - 19.9	5.1	12.7	16.5	7.0	17.4	18.6	4.4	15.4	19.8
20.0 - 29.9	3.8	10.1	7.6	2.3	9.3	7.0	2.2	15.4	2.2
30.0 - 39.9	2.5	5.1	3.8	4.7	3.5	4.7	3.3	3.3	4.4
40.0 - 49.9	3.8	5.1	3.8	5.8	9.3	..	5.5	5.5	2.2
50.0 - 59.9	6.3	3.8	2.5	4.7	7.0	3.5	6.6	6.6	2.2
60.0 - 69.9	6.3	2.5	..	10.5	1.2	..	11.0	4.4	..
70.0 - 79.9	13.9	1.3	..	11.6	2.3	..	9.9	3.3	..
80.0 - 89.9	8.9	2.5	1.3	15.1	2.3	1.2	21.9	1.1	1.1
90.0 - 99.9	17.7	1.3	..	16.2	1.2	..	12.1	1.1	..
100	27.9	..	..	19.7	..	..	17.6	1.1	..
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Median percentage	85.0	3.6	3.6	80.8	12.0	5.0	80.8	14.6	5.0
Number of companies	79	79	79	86	86	86	91	91	91

Source: Same as Table 8.

TABLE 16

Distribution of Ninety-one Mortgage Companies by Percentage of Volume of Mortgage Loans Sold to Life Insurance Companies, within Asset-size Class, 1955

PERCENTAGE OF LOANS SOLD TO LIFE COMPANIES	All companies	Asset Size (in millions of dollars) Under 1	1-2	2-5	Over 5
0 - 19.9	9	..	2	4	3
20 - 39.9	5	..	..	..	5
40 - 59.9	11	2	..	3	6
60 - 79.9	19	3	5	6	5
80 - 99.9	31	4	4	13	10
100	16	6	5	2	3
Total companies	91	15	16	28	32
Median percentage	80.8	95.0	85.0	81.1	72.5

Source: Special survey of mortgage companies. The 91 respondents included here held close to one-third of the estimated amount of mortgage loan holdings of all FHA-approved mortgage companies in 1955.

purchase, and are financed by bank loans. In providing interim financing to mortgage companies, commercial banks prefer (and some insist) that mortgages offered as collateral be backed by investors' take-out commitments. In recent periods of tight credit the standby, rather than the regular take-out commitment, has frequently been the basis for mortgage company loan closings and for commercial bank interim financing.

An approximation of the degree of mortgage company dependence on investor commitments was determined from answers to a survey question which asked: "In the normal course of your business operations, about what percentage of your mortgage loans do you close only after receiving a firm commitment to purchase, or an allocation of funds, from an institutional investor, and what percentage do you close without a prior commitment or allocation of funds?" Of 90 companies responding to this question, 70 or nearly four-fifths closed 90 per cent or more of their loans (by dollar volume) only after receiving an allocation of funds or firm commitment from an institutional investor to purchase. Quite clearly, as shown in Table 17, only some of the largest companies, those having over $5 million in assets, were able and willing to close a significant proportion of loans on their own responsibility. These companies constituted one-third of all those reporting, yet they accounted for seven-tenths of the number closing less than 90 per cent of their loans on the basis of firm commitments. Even these large companies, however, closed the bulk of their loans on firm commitments.

TABLE 17

Distribution of Ninety Mortgage Companies by Percentage of Volume of Mortgage Loans Closed on the Basis of Firm Investor Commitments, within Asset-size Class, 1955

PERCENTAGE OF LOANS CLOSED ON FIRM COMMITMENTS	All companies	*Asset Size (in millions of dollars)* Under 1	1-2	2-5	Over 5
0 - 19.9	5	..	..	..	5
20 - 39.9	3	1	..	..	2
40 - 59.9	4	1	..	1	2
60 - 79.9	5	..	1	..	4
80 - 99.9	34	1	9	12	12
100	39	12	7	13	7
Total companies	90	15	17	26	32
Median percentage	98.1	100.0	98.1	100.0	91.8

Source: Same as Table 16.

The technique of originating mortgage loans on the basis of fund allocations or firm commitments came into wide use early in 1950. Prior to the war, operating on a much more limited scale, mortgage companies generally closed loans on their own responsibility, and financed a large portion of the loans so acquired through commercial bank lines of credit while seeking permanent buyers for their inventories. After the war until the spring of 1950, when institutional investors were actively seeking a greater volume of loans than was available, mortgage companies had little difficulty in marketing all the loans they could originate, and hence they operated extensively without prior commitments. The change in market conditions following the Federal Reserve–Treasury accord, and the intermittent stringency which has been a part of the capital market scene ever since have resulted in widespread adoption of the prior commitment technique. At the risk of oversimplification, the situation may be summarized: the tighter the capital market, the greater the dependence of mortgage company operations on investor commitments; the easier the market, the less the dependence.