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STRUCTURE OF URBAN MORTGAGE MARKETS

NONFARM real estate credit is supplied by a variety of lenders who may conveniently be grouped into two major categories: institutions and individuals; the former, in turn, may be divided into private and public lending institutions. In terms of volume, the principal institutional lenders have been the life insurance companies, the commercial banks, the mutual savings banks, and the savings and loan associations. A number of other lenders are known to have supplied the mortgage market with funds (for example, real estate and bond companies, fiduciaries, title and mortgage companies, construction companies, the Reconstruction Finance Corporation Mortgage Company, the Federal National Mortgage Association, and some philanthropic, educational, and fraternal organizations); but relatively their combined volume is very small.[1] In the present and following chapters, therefore, the term institutional lender will be limited to the following: legal reserve life insurance companies, commercial banks, mutual savings banks, and savings and loan associations. Institutionally held debt will refer to the nonfarm mortgage debt held by such lenders.

Trends in the Institutional Distribution of Urban Mortgage Debt

Institutional lenders hold a substantial part of the nation's aggregate nonfarm mortgage portfolio. By the end of 1953 over three-fourths of the entire urban mortgage debt was held by the four principal lenders, and the general tendency, observable over the thirty-odd years preceding 1953, was one of continuously increasing participation by these institutions in the country's urban mortgage holdings (Table 14). Within that slowly changing framework, however, the portfolios of the principal types of lender differed markedly in their behavior, with respect to both long-run and cyclical changes.

In long-run change, the spectacular feature of the period was the growth of life insurance company holdings (Chart 2, Panel A).

[1] For data on the importance of other private lenders in 1951 as compared with the four major lenders, see "Real Estate Loans of Registrants under Regulation X," by Doris P. Warner, *Federal Reserve Bulletin*, June 1952, Table 5, p. 626.

TABLE 14
Share of Nonfarm Mortgage Debt Institutionally Held, 1920-53
(*dollar figures in billions*)

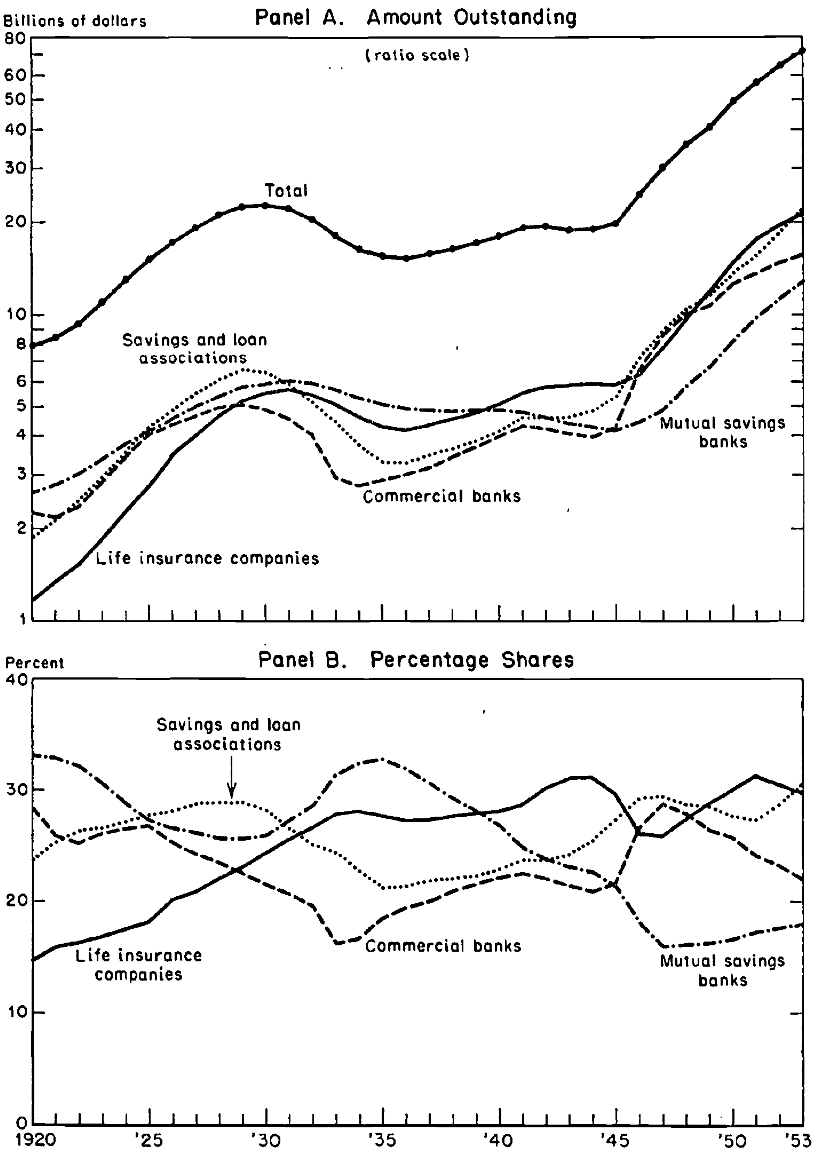
END OF YEAR	TOTAL NONFARM MORTGAGE DEBT[a]	INSTITUTIONALLY HELD[b]	
		Amount	*As Percent of Total*
1920	$15.3	$ 7.9	52%
1921	16.5	8.4	51
1922	17.9	9.4	53
1923	20.3	11.0	54
1924	22.8	13.0	57
1925	25.7	15.2	59
1926	28.6	17.2	60
1927	31.8	19.1	60
1928	34.7	21.1	61
1929	36.9	22.6	61
1930	37.7	22.7	60
1931	36.5	22.2	61
1932	34.4	20.6	60
1933	30.5	18.1	59
1934	29.5	16.4	55
1935	28.4	15.5	55
1936	28.0	15.4	55
1937	28.0	15.8	56
1938	28.2	16.4	58
1939	28.9	17.1	59
1940	30.0	18.0	60
1941	31.3	19.2	61
1942	30.8	19.3	63
1943	29.9	18.9	63
1944	29.7	18.9	64
1945	30.8	19.7	64
1946	36.9	24.4	66
1947	43.9	30.1	69
1948	50.9	35.9	71
1949	57.1	40.8	71
1950	66.7	49.3	74
1951	75.6	56.9	75
1952	84.0	64.0	76
1953	93.4	72.0	77

[a] From *Survey of Current Business* (Department of Commerce), September 1953, Tables 1 and 6, pp. 14 and 18, and October 1954, Tables 1 and 6, pp. 14 and 19. For 1920-28 the corporate nonfarm mortgage component was estimated; details are given in Table 1, note b.

[b] Includes holdings of life insurance companies, commercial banks, mutual savings banks, and savings and loan associations, from Table C-1.

CHART 2

Shares of Institutional Lenders in Nonfarm Mortgage Debt, 1920-53



From end-of-year data given in Table C-1.

While the total of institutionally held nonfarm mortgage debt increased by the end of 1953 to nine times its 1920 amount, the life companies' aggregate portfolio rose even more steeply, to eighteen times its 1920 size. Savings and loan associations, whose holdings increased especially during the twenties and from 1946 on, were second in long-run growth, with urban mortgage holdings in 1953 twelve times larger than in 1920. Commercial banks and mutual savings banks participated less in the secular trend; their nonfarm mortgage holdings were, respectively, seven and five times larger in 1953 than in 1920.

Cyclical fluctuations in urban mortgage holdings also differed among the several lenders. Cyclical expansions and contractions of holdings were expressed most sharply in the aggregate portfolios of savings and loan associations and commercial banks, and least so in the aggregate portfolio of mutual savings banks (Chart 2, Panel A). The vigorous entrance of insurance companies into the urban real estate market during the early twenties should be considered a structural rather than a cyclical phenomenon.

Considering the timing of cyclical reactions in the size of urban mortgage portfolios, we notice that the growth in the holdings of commercial banks began to slow down in 1926, earlier than for other institutional lenders; and that beginning with 1930, commercial bank portfolios—simultaneously with those of savings and loan associations, and about two years before those of life insurance companies and mutual savings banks—actually began to contract. More tempting investment opportunities elsewhere in the credit and capital markets may have accounted for the early decline in the rate of expansion for commercial banks; yet history repeated itself in 1935 when commercial bank portfolios led the postdepression upturn by about two years.

Insurance companies followed an opposite pattern. Their portfolios increased rapidly during the expansions of the twenties, reaching a peak (1931) only after the downturn in the holdings of commercial banks and savings and loan associations had begun. Moreover, insurance company portfolios continued to decline during the middle thirties, at a time when commercial banks had begun to show noticeable increases in their nonfarm mortgage holdings.

By and large, the cyclical resonance (the response to cyclical fluctuations) of the portfolio of mutual savings banks was weak, and that of commercial banks and savings and loan associations rather pronounced, with insurance companies taking an intermediate position. Differences among lenders in policy and in availability of investable funds, as well as in the composition of their portfolios and the characteristics of their outstanding mortgage loans, are likely to have contributed to the differences in cyclical patterns.

Such differences in the behavior of urban mortgage portfolios held by different institutional lenders become even more apparent if we observe, instead of changes in the absolute amounts, changes in their respective percentage shares of the combined holdings (Chart 2, Panel B). Again we find that savings and loan associations were usually the most important lending group during years of peak peacetime activity, holding nearly three-tenths of the combined institutional nonfarm mortgage portfolio, and that commercial banks anticipated the other lenders at the turning points. In addition, the data clearly reveal the rapidly growing importance of insurance companies, and the cyclically complementary behavior of commercial banks and savings and loan associations on the one hand and mutual savings banks on the other. That is, while the shares of commercial banks and savings and loan associations in the combined institutional mortgage portfolio moved in conformity with the ups and downs of the cycle, the pattern for mutual savings banks was opposite; the latter held their biggest shares during periods of greatest mortgage and real estate distress and their smallest shares in times of highest activity in the mortgage market.

Regional Distribution of Institutional Mortgage Holdings

A detailed study of the regional distribution of urban mortgage debt would require complete knowledge of the location of mortgaged properties throughout the country. While such information is not presently available except in the case of life insurance companies, reasonably satisfactory estimates of the geographic structure of the nonfarm mortgage debt can be made by using in other cases the location of the lender rather than of the real estate. Since commercial banks, mutual savings banks, and savings and loan associations are primarily short-distance lenders, the location of the institution should approximate the location of mortgaged properties rather closely when the unit areas observed are extensive.

Almost half of the institutionally held nonfarm mortgage debt in 1950 was concentrated in the Middle Atlantic and East North Central states, the first group accounting for three-tenths of the total and the second for nearly one-fifth (Table 15). The Pacific

TABLE 15
Regional Distribution of Institutionally
Held Nonfarm Mortgage Debt, 1928-50

Region and Census Division[a]	*1928*	*1933*	*1934*	*1939*	*1946*	*1950*
North	*79%*	*82%*	*81%*	*77%*	*70%*	*64%*
New England	27	15	15	14	11	9
Middle Atlantic	27	47	46	42	34	30
East North Central	21	16	16	16	19	19
West North Central	4	4	4	5	6	6
South	*10*	*10*	*10*	*13*	*17*	*20*
South Atlantic	5	5	6	8	10	11
East South Central	2	2	2	2	3	3
West South Central	3	3	2	3	4	6
West	*11*	*8*	*9*	*10*	*13*	*16*
Mountain	1	1	1	1	2	2
Pacific	10	7	8	9	11	14
Total debt	100%	100%	100%	100%	100%	100%

Refers to combined mortgage holdings of mutual savings banks, commercial banks, life insurance companies, and savings and loan associations. Regional distributions as compiled from sources cited in Table 24 were applied to estimates of each lender's holdings. Data of holdings for 1933-50 are from *Survey of Current Business* (Department of Commerce), September 1953, Table 6, p. 18, and October 1954, Table 6, p. 19. Data on holdings of commercial banks and mutual savings banks in 1928 are the author's estimates: in the first case, from total mortgage holdings as given in *Long-Term Debt in the United States*, by Donald C. Horton (pp. 111, 130), adjusted to exclude farm mortgage holdings as estimated by the Bureau of Agricultural Economics; in the second case, made by relating data on urban mortgage loans outstanding in 1931 (supplied by the National Association of Mutual Savings Banks) to total loans outstanding then (*Banking and Monetary Statistics*, p. 23) and applying that ratio to total outstandings in 1928, from the source last named. Other 1928 data are from the *Life Insurance Fact Book, 1954* (Institute of Life Insurance), p. 74, and from *Trends in the Savings and Loan Field, 1953* (Home Loan Bank Board), Table 1, p. 4.

[a] Refers to location of institution except in the case of life insurance companies, where reference is to the location of the mortgaged properties. For a listing of states included in the census divisions, see Table 3, note a.

states had about one-seventh, and the other census divisions still smaller shares. In terms of broader groupings, over 60 percent of the debt was located in the North; the South had somewhat more of the remainder than the West.

If attention is centered on time changes in the regional pattern, it is seen that the South and the West have been increasing in importance, whereas the North has been decreasing (Table 15). These long-range shifts are particularly noticeable if viewed in the light of the changes produced by the depression of the thirties, which had a sharp effect on the relative position of the New England states and an equally pronounced, though less lasting, effect on the Middle Atlantic region.

The relative importance of various types of lenders also varies in the different regional markets. Thus it appears that in the older market of the New England and Middle Atlantic states, mutual savings banks have remained the principal lender. As late as 1950, and after having given way gradually to the other three lenders, they held nearly one-half of the entire institutional urban mortgage debt in the New England states (Table 16).

In the comparatively new markets of the west coast, commercial banks, which from the late twenties on accounted for about one-half of the institutional debt, still ranked first among institutional lenders in 1950, although their share was declining under pressure from life insurance companies and savings and loan associations.

In the South, life insurance companies were the foremost lenders east of the Mississippi in the twenties, and throughout in the middle thirties. By 1950 they had acquired over one-half of the institutional debt of the two South Central divisions and had regained first rank in the South Atlantic states in successful competition with commercial banks and, especially, savings and loan associations.

In predepression days the two North Central divisions were markets served primarily by savings and loan associations. They are today. Although at one time exceeded by insurance companies, savings and loan associations have been able to maintain their regional supremacy in the North Central states.

All regional markets were deeply affected by the depression of the thirties. Comparison of the pre- with the postdepression period suggests that in spite of the pronounced features of the different regional markets, there has been a long-range tendency for differences both within and among the three major regions to become less pronounced. Differences as between lenders' shares have tended in general (though not without exception) to become smaller and more uniform, in the historically older markets of the North more so than in the South, and in the East more so than in the West.

Patterns which themselves are the result of a complex matrix of economic conditions, social development, and historical accident do not lend themselves to simple interpretations. It is noteworthy, however, that in most of the regions a tendency toward equalization among the various institutional lenders is clearly recognizable for

TABLE 16

Distribution of Institutionally Held Nonfarm Mortgage Debt within Region by Type of Lender, 1928-50

Type of Lender	*New England*	*Middle Atlantic*	*East North Central*	*West North Central*	*South Atlantic*	*East South Central*	*West South Central*	*Mountain*	*Pacific*	*United States*
1928										
Mutual savings banks	78%	12%	3%	..	3%	..	..	..	6%	26%
Commercial banks	12	19	34	11%	16	7%	15%	38%	59	23
Life insurance companies	2	32	23	42	43	58	28	21	19	22
Savings & loan associations	8	37	40	47	38	35	57	41	16	29
1933										
Mutual savings banks	67	44	1	..	8	..	..	..	4	31
Commercial banks	13	15	16	8	11	7	14	29	47	17
Life insurance companies	6	24	40	48	48	58	40	35	32	28
Savings & loan associations	15	18	42	44	34	35	46	36	17	24
1934										
Mutual savings banks	67	45	2	1	7	..	..	..	5	32
Commercial banks	14	13	18	17	18	21	15	20	52	18
Life insurance companies	5	25	41	46	43	48	46	38	30	28
Savings & loan associations	15	17	39	36	31	31	39	43	13	22
1939										
Mutual savings banks	60	45	1	2	3	..	..	..	2	28
Commercial banks	14	14	25	26	23	26	17	38	57	22
Life insurance companies	8	29	37	34	36	42	42	25	24	28
Savings & loan associations	18	12	37	38	38	32	41	37	17	22
1946										
Mutual savings banks	46	36	1	3	1	..	..	..	2	18
Commercial banks	16	17	31	37	25	32	21	45	53	27
Life insurance companies	11	30	25	22	32	34	42	17	20	26
Savings & loan associations	27	17	43	38	42	34	37	38	25	29
1950										
Mutual savings banks	47	39	1	2	2	..	..	..	1	17
Commercial banks	17	20	29	35	21	24	14	32	43	26
Life insurance companies	11	23	28	29	42	47	60	40	32	30
Savings & loan associations	25	18	42	34	35	29	26	28	23	28

(*notes on next page*)

Notes to Table 16

For sources of data see note under Table 15. Regional breakdown refers to location of institution except in the case of life insurance companies, where reference is to the location of the mortgaged properties. For a listing of states included in the census divisions, see Table 3, note a.

the period under review, pointing toward a debt more uniformly distributed among all the major lenders. Federal programs of loan insurance and guarantee doubtless have contributed to this result, having enforced a substantial uniformity in credit practices and promoted increased competition among lending institutions. Thus, taking each of the regional markets, we find that by 1946 all of them but one were supported by components of a more evenly articulated mortgage credit system than in earlier years. The exception is the West South Central region, where the vigorous entrance of life insurance companies at the expense of savings and loan associations resulted in a switch of relative positions but not in a more even distribution.

Distribution of Institutional Mortgage Holdings by Type of Property

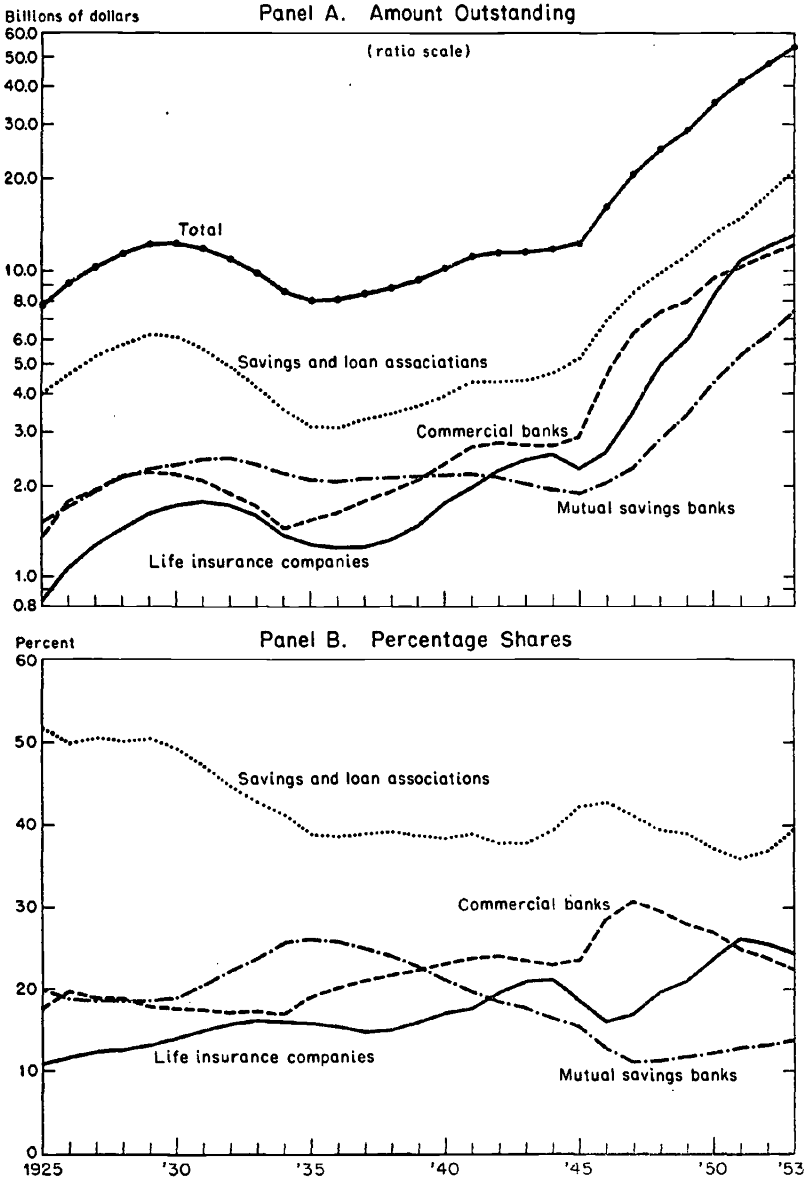
As has already been seen, over two-thirds of the country's nonfarm mortgage debt represents debt secured by family-sized homes and small residential properties. Institutional lenders play an important role in the financing of this debt. Their holdings of mortgages on one- to four-family homes increased from about $8 billion in 1925 to $53 billion at the end of 1953 (Chart 3, Panel A). The growth of institutional holdings was due in the main to the growth of the debt itself. Partly, however, it marks a relative change as well, since lending institutions have been absorbing an increasing portion of the growing home mortgage debt. By 1953 the major institutional lenders held four-fifths of the mortgage debt on one- to four-family nonfarm homes.[2]

Within the group of institutional lenders the behavior of the several types of institution has varied markedly. As holders of debt on one- to four-family homes, savings and loan associations held first place throughout the period from 1925 to 1953 (Chart 3, Panel B). Mutual savings banks, which ranked second at the beginning of the period, became the least important holder after 1941. Commercial banks and insurance companies expanded their shares over the years

[2] *Survey of Current Business* (Department of Commerce), October 1954, Table 6, p. 19.

CHART 3

Shares of Institutional Lenders in Mortgage Debt on Nonfarm Homes, 1925-53



From end-of-year data given in Table C-2. Refers to loans secured by one- to four-family homes.

preceding World War II. By 1940, commercial bank holdings were second in importance, and they remained so until 1951, when the share of life insurance companies, having increased sharply in the late forties, rose somewhat above that of commercial banks.

The impact of cyclical expansions and contractions on the volume of mortgages outstanding on one- to four-family homes was most pronounced for commercial banks and savings and loan associations, somewhat less for life insurance companies, and least for mutual savings banks. The volume of outstanding home loans both of commercial banks and of savings and loan associations reached a peak in 1929, and contracted sharply during the depression years; mutual savings banks and insurance companies reached the peak of their outstandings two to three years later and reduced their volume of outstanding home mortgages more gradually than did the other two lenders during the same period.

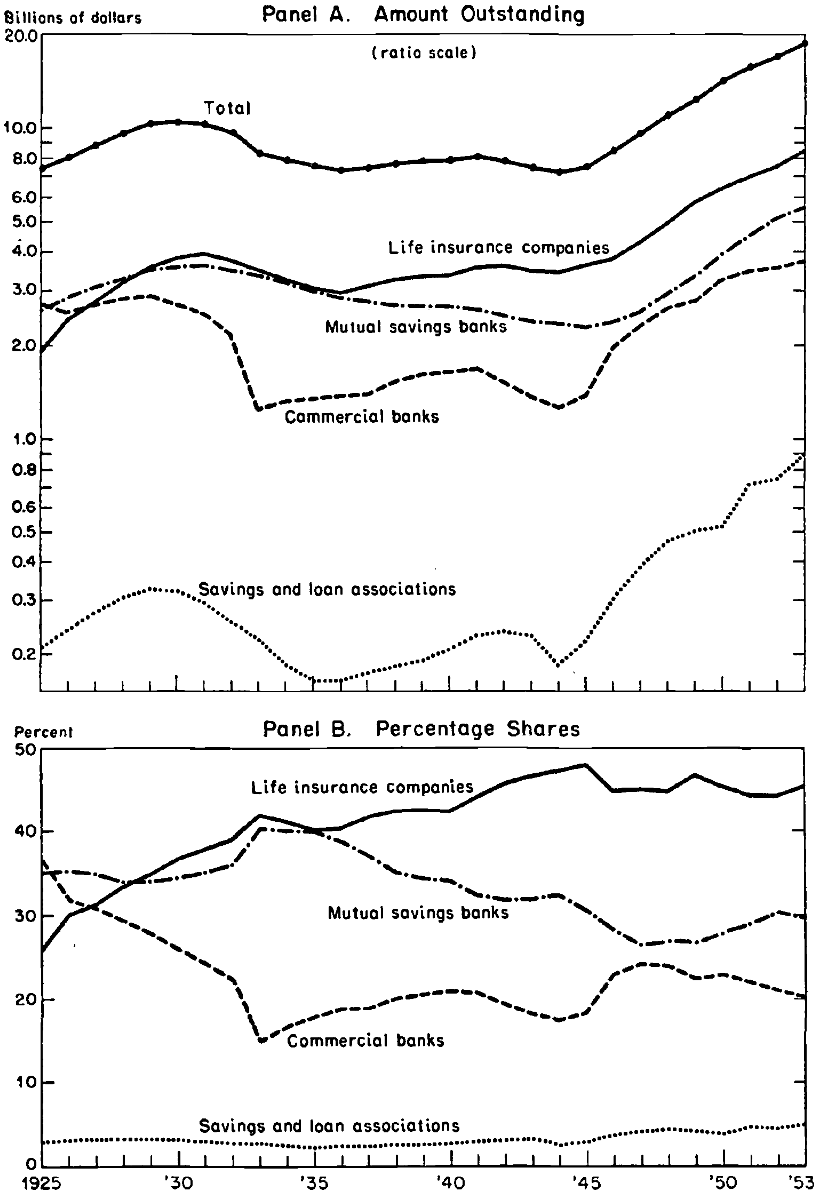
The data on mortgages on multifamily and commercial properties are less reliable, since they are residuals obtained by subtracting one estimate (one- to four-family home mortgage debt) from another (total urban real estate debt); but with that reservation in mind the major aspects of changes in institutionally held mortgage debt on income-producing properties can be traced.

Since 1929, life insurance companies have been the leading mortgage lender on nonfarm income-producing properties, with mutual savings banks and commercial banks following, and savings and loan associations the least important of all (Chart 4, Panel A). It is also apparent that both commercial banks and mutual savings banks steadily lost ground, the former contracting sharply during the depression and re-entering the market for commercial and large residential mortgages only gradually during the thirties and on a level substantially below that of the predepression years. Despite the forceful re-entry into this market—beginning with 1946—by both types of bank, neither was able to recapture its relative position as of the mid-twenties (Chart 4, Panel B).

In 1925, commercial banks and mutual savings banks each held over one-third, insurance companies one-fourth, and savings and loan associations less than one-twentieth of all institutionally held mortgage debt secured by nonfarm income-producing property (Chart 4, Panel B). By the end of 1940, life insurance companies had become by far the most important holder (42 percent); mutual savings banks and commercial banks came next (with about one-third and one-fifth, respectively); savings and loan associations still con-

CHART 4

Shares of Institutional Lenders in Mortgage Debt on Nonfarm Income-Producing Properties, 1925-53



From end-of-year data given in Table C-3. Refers to loans secured by properties other than one- to four-family homes.

centrated, as they had throughout the entire period, on one- to four-family home mortgages, having little or no impact on the market for nonresidential mortgages.

Summarizing, we find that during the period 1925-53 the relative importance of the major institutional lenders has undergone changes both in the market for small residential mortgages and in that concerned with income-producing properties. In the home mortgage market the tendency has been for the various lenders to become more nearly equal in importance. Insurance companies and commercial banks have tended to increase their shares; mutual savings banks and savings and loan associations have reduced theirs. Savings and loan associations have remained, throughout the period, however, clearly the most important holder of one- to four-family home mortgages.

In the market for mortgages on income-producing properties, life insurance companies have increased their shares; commercial banks and mutual savings banks have again contracted theirs. The result has been a tendency toward greater diversity: toward a wider spread in the relative positions of different types of lender at the end of the period than existed just before the depression.

In general, participation in the outstanding nonfarm mortgage debt by the principal institutional lenders has been increasing over time. Concurrently with the expansion of the institutional sector of the market, the relative dominance of the market by any one lender —especially of the market for home mortgages—has lessened. Some of the implications of this development, which may be expressed also as a decline in the importance of individuals as mortgage investors, may be a retreat from a more nearly speculative mortgage lending policy to one in which major emphasis is on safety, even at the cost of a somewhat lower investment return, and, correspondingly, a move toward greater uniformity in credit standards.