Volume Title: The Volume of Mortgage Debt in the Postwar Decade

Volume Author/Editor: Saul B. Klaman

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Chapter Author: Saul B. Klaman

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1. PURPOSE AND SCOPE

This paper presents new estimates of important categories of mortgage debt. These estimates are included in a systematic account of comprehensive data on outstanding mortgage debt and net mortgage flows by type of property, mortgage,[1] and holder for the period 1945–1956, annually through 1952 and quarterly thereafter. Presented also in this paper are an appraisal of the quality of available mortgage debt statistics, a description of sources and methods of estimation, and recommendations for improvement of data.

The text is limited to a discussion of the basic data on outstanding mortgage debt, since the figures on net flows of mortgage funds are derived as first differences between outstanding balances. The net flow figures are presumed to be equal to the excess of mortgage credit extensions over reductions in mortgage indebtedness. For the period under review here, this presumption is in little danger of serious error because foreclosures, writedowns of mortgage debt, other revaluations, and mortgage adjustments of the bookkeeping variety generally have been negligible.

Interpretation or economic analysis of the mortgage statistics presented here, against the background of changing postwar institutional and market developments, is reserved for appropriate chapters in the forthcoming monograph on the postwar mortgage market. It was in the preparation of this monograph that the need arose for additional information, as well as for systematizing and appraising existing information, on mortgage holdings and on net flows of mortgage funds. The attempt to fill these needs has resulted in the preparation of this paper.

Pattern of Presentation

In the detailed tables, data have been arranged in a pattern designed to facilitate easy reference. Table 1, in a sense a summary table, includes estimates for all types of mortgage debt classified by type of property and

[1]Classification by type of mortgage throughout this paper uses three categories of mortgages: FHA-insured, VA-guaranteed, and conventional.

mortgage. Table 2 breaks down the total mortgage debt outstanding, and Tables 3 through 15 break down separately each type of mortgage debt included in Table 1 by type of mortgage holder.[2] Tables 16 through 21 show for each of the four main types of financial institutions and for federal agencies detailed mortgage holdings in the same classification by types of property and mortgage used in Table 1. Finally, the remaining Tables 22 through 42 on net flows of mortgage funds are based directly on Tables 1 through 21, Table 22 being the counterpart of Table 1, 23 the counterpart of 2, and so on.

Estimating techniques and sources of data are described in detailed notes accompanying the tables. A more general discussion of sources and methods of estimation is included in the body of the text. In all cases an effort has been made to identify primary sources from which the data originate.

Classification of Data

Among the many possible bases of classifying types of credit extended and the resulting varieties of debt outstanding, three widely used by lenders and supervisory authorities are type of borrower, nature of security, and purpose of borrowing. In few record-keeping and reporting systems, however, is any one of these bases used exclusively. As a result, classifications of debt are likely to be ambiguous to some degree. Mortgage debt statistics presented in this paper, and in general, are limited to that type of debt which is secured by real property, regardless of the purpose of the loan or the type of borrower. Construction loans, secured by the property to be constructed, as well as permanent real estate loans secured by existing real estate, are classified as mortgage debt. Conversely, credit used to finance real estate or construction, if not secured by the property, is not classified as a mortgage loan.

Within this framework, an important exception and possible ambiguity arises in classifying corporate indebtedness secured by mortgages on real estate. A loan to a corporation, secured by a mortgage, is usually (though not necessarily) classified by the lender as a real estate loan or a mortgage loan so long as only one note or bond is secured by the mortgage, or, if more than one, so long as the lender holds all the instruments secured by the mortgage. If the notes or bonds are sold to other investors, however, the debt is almost certain to be classified as a corporate bond issue with, perhaps, a memorandum that it is secured by a mortgage on real estate. Thus, depending on the terms of the indenture, the type of issuer, and the number or convenience of holders, similar debts may be classified dif-

[2]Table 2 includes holders such as mortgage companies, fire and casualty insurance companies, fraternal orders, credit unions, personal trust funds, etc., for which total but not more detailed data on mortgage holdings are available.

ferently in balance sheets – either as mortgages or as corporate bonds. In any event, it should be emphasized that the difference between mortgages and corporate bonds is not always absolute, but may be one of emphasis, convenience, or tradition.

The main classification used here for mortgage data does not originate in this paper but is based, with some refinements, on one which has gradually developed over the years, as mortgage debt statistics have been improved and as new instruments and terminology have evolved. The classification, as noted earlier, is threefold: by type of property securing the debt, by type of mortgage, and by type of mortgage holder. Unfortunately, little is known about classes of mortgage borrowers, and such information, therefore, has not been included in this paper.[3]

Within the three broad classifications, detailed breakdowns following current usage (although subject to the common arbitrariness of most statistical classifications) were adopted because: (1) they reflect broadly different types of markets in which transactions take place, and (2) they provide a framework within which the schematic arrangement and new estimates developed in this paper may be readily continued on a current basis. A complication of classifying mortgage debt by type of property is that, on occasion, one mortgage may be secured by mixed type properties, such as retail stores and apartments. In such an instance, classification is usually determined by major use of property. For example, the instructions for preparation of commercial bank call reports state that "housekeeping dwellings with commercial units combined where use is primarily residential" should be included under residential properties. In organizing detailed mortgage statistics by type of property, therefore, classification can never be completely "clean."

By type of property and mortgage

As shown in Table 1, nine property and mortgage classifications emerge: six property types,[4] nonfarm, residential, one- to four-family, multifamily, nonresidential, and farm; and three mortgage types, those insured by the Federal Housing Administration (FHA), those guaranteed by the Veterans Administration (VA), and those not insured or guaranteed (conventional). The classification by type of mortgage is subordinated to that

[3]Chapter 2 of the monograph on postwar mortgage markets will include summary tables and discussion of changes in mortgage debt owned by broad classes of borrowers. The presentation is based largely on annual data estimated by the staff of the Flow-of-Funds Unit of the Board of Governors of the Federal Reserve System. Quarterly estimates were not available as this paper was written nor was there enough detailed information on type of mortgage debt owed to be considered worthwhile for inclusion.

[4]Two of these (nonfarm and residential) are combinations of two or three of the basic four classifications (one- to four-family, multifamily, nonresidential, farm).

by type of property because the latter provides the chief basis upon which to distinguish markets. The distinction between FHA, VA, and conventional mortgages, relevant only in residential markets, is set forth under subdivisions of residential mortgages on one- to four-family and multifamily properties. The data are so arranged that users can easily subordinate the divisions one- to four-family and multifamily mortgage debt to the separation of federally underwritten and conventional mortgage debt if analysis requires it.

The widely used breakdown of residential mortgage debt into that secured by one- to four-family and multifamily properties is perhaps the most arbitrary one. Because one- to four-family mortgage debt is by far the largest category of mortgage debt outstanding, representing the bulk of the net flow of mortgage funds in the postwar decade, a brief account of the origin this debt classification is given.

In the Great Depression, the Home Owners' Loan Act of 1933 was passed "to provide emergency relief with respect to home mortgage indebtedness, to refinance home mortgages, [and] to extend relief to the owners of homes occupied by them and who are unable to amortize their debt elsewhere. . . ."[5] Clearly, to determine eligibility for aid under this act it was necessary to define the term "home mortgage" which appears throughout the act. The definition given was "a first mortgage on real estate in fee simple or on a leasehold . . . upon which there is located a *dwelling or dwellings for not more than four families*, which is used in whole or in part by the owner as a home or held by him as his homestead, and which has a value of not to exceed $20,000. . . ."[6] This definition was applied probably in recognition of the fact that four-family units were not uncommon in certain sections of the nation, predominantly in Eastern cities, and were generally the largest type structures in which the owner himself customarily occupied one unit.[7]

When the National Housing Act of 1934 was enacted,[8] the one- to four-family definition of home mortgage was adopted, and the Federal Housing Administration, created by this act, developed a whole new body of mortgage statistics on FHA-insured loans under this classification.

As part of its duties and powers, the Federal Home Loan Bank Board, created by the Federal Home Loan Bank Act of 1932, had been authorized

[5]Home Owners' Loan Act of 1933 as amended, Public Law 43, 73rd Congress, approved June 13, 1933.

[6]*Ibid.*, Section 2, subsection C, italics added.

[7]Earlier, the Federal Home Loan Bank Act of 1932 (Public Law 304, 72nd Congress, approved July 22, 1932) defined a home mortgage as one on a dwelling for not more than three families, but was later amended to conform with the 1933 Act.

[8]Public Law 479, 73rd Congress, approved June 27, 1934.

to "make studies of trends of home and other property values, methods of appraisals, and other subjects such as they may deem useful for the general guidance of their policies and operations and those of institutions authorized to secure advances."[9] Under this broad authority, and within the framework of the definition of home mortgages cited above, the staff of the Federal Home Loan Bank Board developed and began to publish in 1937 annual estimates of mortgage debt outstanding on one- to four-family nonfarm homes. Other data relating to home mortgage financing were also developed including the series on "nonfarm mortgage recordings of $20,000 or under," so limited in value because of the definition of home mortgage previously cited.

By type of holder

For the classification of mortgage debt by type of holder, three broad groups have been distinguished: main financial institutions, federal agencies, and "individuals and others," each broken down into several subgroups. The first group includes savings and loan associations, life insurance companies, commercial banks, and mutual savings banks. The second group is made up of the major current mortgage-holding federal agencies – Federal National Mortgage Association, Veterans Administration, Federal Housing Administration, Federal Land Banks, and Farmers Home Administration – as well as federal agencies no longer in existence, including the Home Owners' Loan Corporation, RFC Mortgage Company, Federal Farm Mortgage Corporation, and Joint Stock Land Banks. Mortgage holdings of the Public Housing Administration are not included here chiefly because a breakdown by type of property, necessary to the pattern of presentation in this paper, was not available from that agency. Total mortgage debt held by PHA was only $143 million at the end of 1956, a smaller amount than that held by each of the current mortgage-holding federal agencies. Conceptually, PHA mortgage holdings are included in the residual group, "other miscellaneous holders," mentioned below.

The third group includes all other mortgage holders, some not separately identifiable: (1) mortgage companies, (2) fire, casualty, and marine insurance companies, (3) fraternal orders, (4) credit unions, (5) self-administered pension funds, (6) face-amount investment companies, (7) personal trust funds, (8) educational and philanthropic institutions, (9) mortgage and real estate brokers, (10) domestic individuals, and (11) other miscellaneous holders. Data are reported or estimated in this paper only for the first seven types of holders listed and then only for total mortgage debt. Insufficient information is available on separate

[9] *Op. cit.*, Section 8.

categories of mortgage debt held by these lenders to prepare meaningful estimates -- past or current.

Only four types are included in the classification main financial institutions because these are the main types of financial intermediaries, and they are by far the chief sources of mortgage funds. On the negative side, detailed mortgage debt statistics are not available for other types of financial institutions, and, even if meaningful estimates for the postwar decade could be made, their maintenance on a current basis would be difficult. A major objective of this paper, to provide a systematic and comprehensive framework within which estimates of mortgage debt may be maintained currently, would be impeded by inclusion in the financial institution category of lenders, relatively unimportant individually or in total as holders of mortgage debt, for whom only meager data are available. At the end of 1955, miscellaneous financial institutions included in the third group, individuals and others, accounted for an estimated $4.2 billion, only about 3 per cent, of the total amount of mortgages then outstanding.

Geographic Coverage

Geographic coverage here is based primarily on residence of mortgage holder rather than location of property securing the mortgage, and the attempt was made to include data for holders in the United States and possessions, regardless of location of property. The chief of the unavoidable inconsistencies is that coverage of life insurance companies is limited to the continental United States, while commercial banks, mutual savings banks, and savings and loan associations located in U. S. possessions are included. But the amount of mortgages held by institutions in the possessions is so relatively small – between 1 and 2 per cent of the total in 1956 – that interpretation of data is little affected by the inclusion or exclusion of institutions in U. S. possessions. For other types of mortgage holders – mortgage companies, non-life insurance companies, trust funds, individuals, and so on – coverage is limited generally to the continental United States. Some of these undoubtedly hold mortgages secured by outside properties. The extent to which the mortgage data reflect holdings on properties located outside the continental United States is not known but may be considered quite small. An estimate for life insurance companies, the only private institutions for which such information is readily available, is, as of the end of 1955, $446 million in mortgages held on properties located outside the continental United States – a large portion in Canada – less than 1.5 per cent of their total mortgage holdings.[10]

[10]One minor inconsistency in geographic coverage of the data to be noted is exclusion of Federal Land Bank holdings of farm mortgages secured by properties in Puerto Rico. Limitation of coverage of the Bank's holdings to the continental United