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5. FINANCIAL STRUCTURE

Perhaps the outstanding characteristic of the financial structure of mortgage companies is its relative simplicity. In originating and servicing mortgage loans for institutional investors, mortgage companies use funds principally for closing mortgages and carrying them temporarily in inventory. The chief source of funds to finance this activity is commercial bank loans. This financial pattern is typical for mortgage companies in all asset size classes, with a somewhat greater specialization of uses and sources of funds among larger than smaller companies. Moreover, the financial structure in its broad outline remained largely unchanged over most of a postwar decade of rapid and uneven growth in total mortgage company

TABLE 18

Distribution of Mortgage Companies and Assets by Asset-size Class in Selected Years, 1946-1954
(assets in millions of dollars)

| ASSET-SIZE CLASS | <i>Number of Companies</i> | | | <i>Amount of Assets</i> | | |
|--------------------|--------------------------------|------|------|-------------------------|------|-------|
| | 1946 | 1950 | 1954 | 1946 | 1950 | 1954 |
| <i>All classes</i> | 527 | 713 | 854 | 286 | 731 | 1,202 |
| Under 1 million | 435 | 506 | 556 | 95 | 164 | 217 |
| 1 - 2 | 49 | 105 | 141 | 65 | 142 | 201 |
| 2 - 5 | 42 | 79 | 106 | 118 | 237 | 333 |
| 5 - 10 | 1 | 15 | 39 | 8 | 97 | 248 |
| Over 10 | .. | 8 | 12 | .. | 91 | 204 |
| | <i>Percentage Distribution</i> | | | | | |
| <i>All classes</i> | 100 | 100 | 100 | 100 | 100 | 100 |
| Under 1 million | 83 | 71 | 65 | 33 | 23 | 18 |
| 1 - 2 | 9 | 15 | 17 | 23 | 20 | 17 |
| 2 - 5 | 8 | 11 | 12 | 41 | 32 | 28 |
| 5 - 10 | ^a | 2 | 5 | 3 | 13 | 21 |
| Over 10 | .. | 1 | 1 | .. | 12 | 17 |

^aLess than 0.5 per cent.

Source: Records of the FHA. Data for companies having less than \$1 million in assets are based on a 10 per cent sample.

resources. The asset-size distribution of the mortgage banking industry, however, has shown a marked upward shift as asset growth has more than offset the establishment of many small new companies since World War II.

Asset-size Distribution

The sharp upward trend in asset size of mortgage companies can be seen clearly from Table 18, which shows that the number of companies having under \$1 million in assets declined from over four-fifths of all companies in 1946 to under two-thirds in 1954. At the same time, while there was only one company with assets of over \$5 million in 1946, the number had risen to 51 and 6 per cent of the total by 1954.

Also indicated in Table 18 is the continuing unequal distribution of assets among mortgage companies which has accompanied the upward postwar shift in size distribution. For example, in 1946, the largest 8 per cent of the companies held 44 per cent of total assets, while in 1954 the largest 6 per cent held 38 per cent of the assets. This unequal distribution of mortgage company assets is measured graphically by Lorenz curves shown in Chart 4. The extent of inequality is measured by the size of the area between the curves and the diagonal line of equal distribution, compared to the entire triangular area traced by the diagonal line and the horizontal and vertical axes of the chart.²³

The chart indicates that there was very little change in the degree of asset concentration among mortgage companies over the postwar decade which witnessed such marked over-all asset growth and shifts within size groups. Compared with the asset-size distribution among other types of financial institutions, that of mortgage companies is far more even than that of insurance companies (both life and property), somewhat more even than that of commercial and mutual savings banks, and about the same as the asset-size distribution of savings and loan associations.²⁴

Uses and Sources of Funds

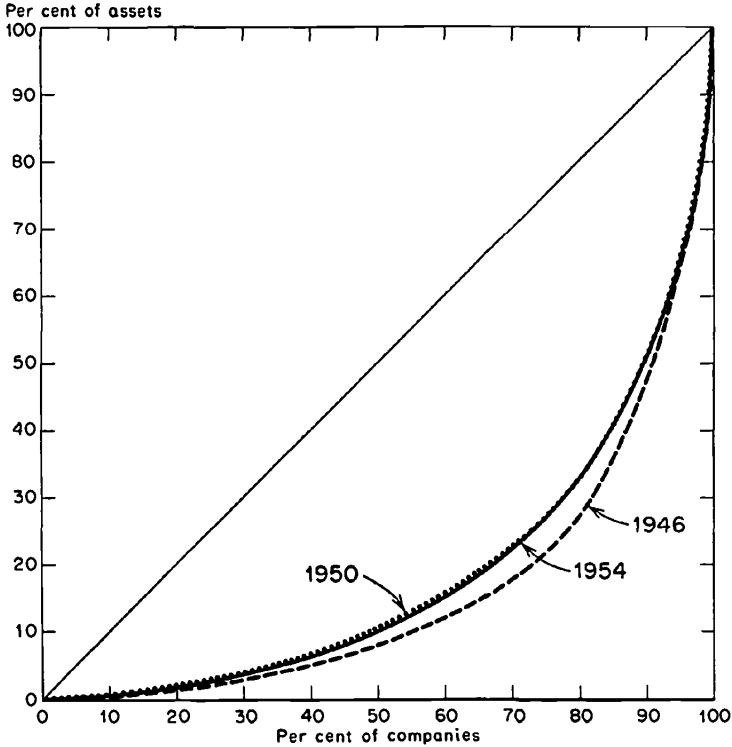
Mortgage company uses and sources of funds over the postwar decade, as reflected in assets and in liabilities and net worth, respectively, are shown in the combined balance sheets summarized in Tables 19 and 20. Additional combined balance sheets by asset-size class of company are given in the appendix, Tables A-1 through A-10.

²³For a fuller discussion of size distribution and measures among financial intermediaries, see R. W. Goldsmith, Appendix C in mimeographed Supplementary Appendixes (National Bureau of Economic Research, 1958) to *Financial Intermediaries in the American Economy since 1900*.

²⁴R. W. Goldsmith, *op. cit.*, Appendix C, Chart C-1.

CHART 4

Lorenz Curves of Assets of Mortgage Companies, 1946, 1950 and 1954
(Cumulative percentage distribution of number of companies
and of their assets, ranked by size of assets)



Source: Individual company summary records from FHA.

For the decade as a whole, growth in mortgage and construction loans was markedly greater than in other components or total assets, as suggested by Table 19. Mortgage and construction loans, therefore, increased their share in total assets between 1945 and 1955 from less than one-half to over three-fourths, as Table 20 indicates. This sharp growth reflects in part the unusual character of the first and last years of the decade, the first a year of transition from war to peace with little mortgage activity, the last a year of great prosperity and unusually rapid expansion in mortgage lending. Through most of the period under review, mortgage loans accounted for between two-thirds and three-fourths of mortgage company assets, shown by the middle line of Chart 5.

TABLE 19

Combined Balance Sheet of Mortgage Companies, 1945-1955
(millions of dollars)

| BALANCE SHEET ITEMS | 1945 | 1946 | 1947 | 1948 | 1949 | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------|-------|---------|---------|
| 1. Total assets | 159.9 | 285.8 | 354.7 | 346.5 | 472.2 | 730.8 | 692.6 | 861.1 | 955.9 | 1,202.3 | 1,822.3 |
| 2. Cash (inc. escrows) | 30.0 | 35.9 | 42.7 | 46.7 | 58.9 | 82.6 | 113.7 | 127.8 | 151.3 | 170.0 | 225.0 |
| 3. Mortgage & construction loans | 71.4 | 181.4 | 248.8 | 237.3 | 326.5 | 535.7 | 454.1 | 597.8 | 623.6 | 844.6 | 1,372.2 |
| 4. Mortgage loans | ^a | ^a | ^a | ^a | ^a | ^a | ^a | 490.5 | 501.0 | 643.0 | 1,113.8 |
| 5. Construction loans | ^a | ^a | ^a | ^a | ^a | ^a | ^a | 107.3 | 122.6 | 201.6 | 258.4 |
| 6. Notes & accounts receivable | 5.7 | 10.6 | 12.2 | 11.9 | 19.2 | 32.1 | 33.8 | 34.6 | 54.8 | 46.8 | 66.2 |
| 7. Title I & other small loans | 0.7 | 3.7 | 1.6 | 2.3 | 2.5 | 1.9 | 2.5 | 3.7 | 3.4 | 2.0 | 2.5 |
| 8. Other current assets | 25.4 | 18.6 | 16.4 | 13.9 | 15.9 | 17.1 | 17.8 | 18.1 | 20.0 | 23.2 | 25.3 |
| 9. Noncurrent assets | 26.7 | 35.6 | 33.0 | 34.4 | 49.3 | 61.4 | 70.7 | 79.1 | 102.8 | 115.7 | 131.1 |
| 10. Total liabilities & net worth | 159.9 | 285.8 | 354.7 | 346.5 | 472.2 | 730.8 | 692.6 | 861.1 | 955.9 | 1,202.3 | 1,822.3 |
| 11. Escrows | 16.9 | 17.4 | 22.2 | 27.3 | 32.6 | 51.0 | 69.3 | 82.0 | 95.5 | 108.7 | 142.9 |
| 12. Notes payable, total | 61.1 | 155.2 | 189.4 | 185.0 | 272.6 | 425.8 | 383.3 | 485.9 | 544.1 | 733.8 | 1,207.0 |
| 13. To banks | 58.0 | 147.4 | 179.9 | 175.8 | 259.0 | 404.5 | 364.1 | 466.5 | 522.3 | 711.8 | 1,170.7 |
| 14. To others | 3.1 | 7.8 | 9.5 | 9.2 | 13.6 | 21.3 | 19.2 | 19.4 | 21.8 | 22.0 | 36.3 |
| 15. Accounts payable | 9.0 | 15.5 | 19.3 | 11.8 | 14.2 | 22.1 | 20.5 | 19.7 | 20.5 | 24.4 | 31.1 |
| 16. Undisbursed mortgage loans | 5.0 | 14.5 | 29.2 | 21.0 | 25.1 | 66.7 | 25.5 | 53.7 | 52.2 | 61.1 | 115.8 |
| 17. Other current liabilities | 4.9 | 6.8 | 10.8 | 10.2 | 12.4 | 19.1 | 22.8 | 23.0 | 22.2 | 32.1 | 38.1 |
| 18. Noncurrent liabilities | 11.1 | 11.2 | 8.6 | 7.6 | 12.1 | 18.1 | 19.1 | 27.2 | 34.1 | 32.9 | 44.5 |
| 19. Net worth | 51.9 | 65.2 | 75.1 | 83.6 | 103.3 | 128.0 | 152.1 | 169.5 | 187.3 | 209.4 | 242.9 |

^aNot available.

All data are based on Federal Housing Administration records except the breakdown of mortgage and construction loans and notes payable (lines 4, 5, and 13, 14), which are based on relationships indicated by the special survey of mortgage companies. The breakdown of notes payable shown for years prior to 1952 is based on general knowledge that the bulk of mortgage company borrowing has always been from banks, and on the specific assumption that the ratio of bank to total borrowing was about the same as in 1952. The relationship between mortgage and construction loans, on the other hand, is subject to greater fluctuation, and in the absence of data for years prior to 1952, estimates were not attempted.

TABLE 20

Percentage Distribution: Combined Balance Sheet of Mortgage Companies, 1945-1955

| BALANCE SHEET ITEMS | 1945 | 1946 | 1947 | 1948 | 1949 | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------|-------|-------|-------|
| 1. Total assets | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 2. Cash (inc. escrows) | 18.8 | 12.5 | 12.0 | 13.5 | 12.5 | 11.3 | 16.4 | 14.8 | 15.8 | 14.1 | 12.4 |
| 3. Mortgage & construction loans | 44.7 | 63.5 | 70.2 | 68.5 | 69.1 | 73.3 | 65.5 | 69.5 | 65.2 | 70.3 | 75.3 |
| 4. Mortgage loans | ^a | ^a | ^a | ^a | ^a | ^a | ^a | 57.0 | 52.4 | 53.5 | 61.1 |
| 5. Construction loans | ^b | ^b | ^b | ^b | ^b | ^b | ^b | 12.5 | 12.8 | 16.8 | 14.2 |
| 6. Notes & accounts receivable | 3.6 | 3.7 | 3.4 | 3.4 | 4.1 | 4.4 | 4.9 | 4.0 | 5.7 | 3.9 | 3.6 |
| 7. Title I & other small loans | 0.4 | 1.3 | 0.5 | 0.7 | 0.5 | 0.3 | 0.4 | 0.4 | 0.4 | 0.2 | 0.1 |
| 8. Other current assets | 15.8 | 6.5 | 4.6 | 4.0 | 3.4 | 2.3 | 2.6 | 2.1 | 2.1 | 1.9 | 1.4 |
| 9. Noncurrent assets | 16.7 | 12.5 | 9.3 | 9.9 | 10.4 | 8.4 | 10.2 | 9.2 | 10.8 | 9.6 | 7.2 |
| 10. Total liabilities & net worth | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 11. Escrows | 10.6 | 6.1 | 6.3 | 7.9 | 6.9 | 7.0 | 10.0 | 9.5 | 10.0 | 9.0 | 7.9 |
| 12. Notes payable, total | 38.2 | 54.3 | 53.4 | 53.4 | 57.8 | 58.3 | 55.3 | 56.4 | 56.9 | 61.0 | 66.2 |
| 13. To banks | 36.3 | 51.6 | 50.7 | 50.7 | 54.8 | 55.4 | 52.6 | 54.2 | 54.6 | 59.2 | 64.2 |
| 14. To others | 1.9 | 2.7 | 2.7 | 2.7 | 3.0 | 2.9 | 2.7 | 2.2 | 2.3 | 1.8 | 2.0 |
| 15. Accounts payable | 5.6 | 5.4 | 5.4 | 3.4 | 3.0 | 3.0 | 3.0 | 2.3 | 2.1 | 2.0 | 1.7 |
| 16. Undisbursed mortgage loans | 3.1 | 5.1 | 8.2 | 6.0 | 5.3 | 9.1 | 3.7 | 6.2 | 5.5 | 5.1 | 6.4 |
| 17. Other current liabilities | 3.1 | 2.4 | 3.1 | 3.0 | 2.6 | 2.6 | 3.3 | 2.7 | 2.3 | 2.7 | 2.1 |
| 18. Noncurrent liabilities | 6.9 | 3.9 | 2.4 | 2.2 | 2.5 | 2.5 | 2.7 | 3.2 | 3.6 | 2.8 | 2.4 |
| 19. Net worth | 32.5 | 22.8 | 21.2 | 24.1 | 21.9 | 17.5 | 22.0 | 19.7 | 19.6 | 17.4 | 13.3 |

^aNot available.

Source: Table 19.

CHART 5

Relationships among Mortgage Loans, Notes Payable, and Total Assets of Mortgage Companies, 1945-1955



Source: Table 19.

^aTotal mortgage and construction loans adjusted by subtracting undisbursed loans.

^bTotal mortgage and construction loans, including undisbursed loans.

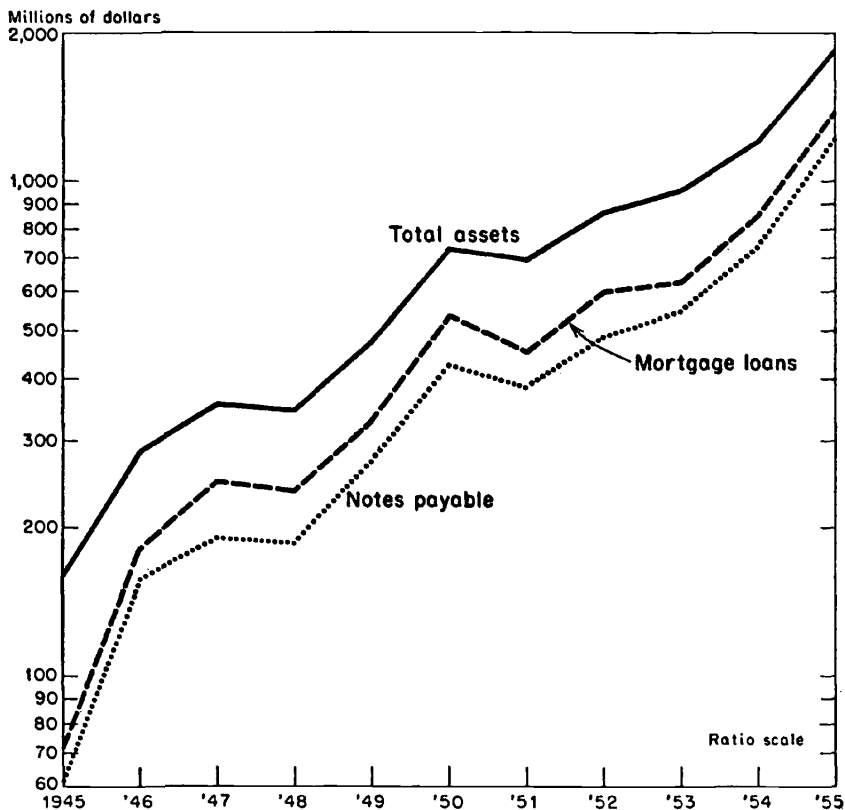
While mortgage companies are not engaged in the business of making mortgage loans as permanent investment of their own funds, their mortgage holdings rise in years of increased mortgage activity because of an increased volume of loan closings held in temporary inventory for ultimate sale. Without exception, sharp year-to-year gains in total assets have reflected even sharper relative gains in mortgage inventory, as shown in

Chart 6. In the three annual periods of most rapid asset growth — 1945-1946, 1949-1950, and 1954-1955 — the rise in mortgage inventory accounted for between four-fifths and nine-tenths of the increase in total assets. The relatively greater use of funds for mortgage inventory than for other purposes in these years is reflected clearly in Chart 5, which shows the rise in ratio of mortgage loans to total assets for each of these periods. Such increases have been fairly general among companies in all asset-size classes, as seen in Table 21.

The relative increase in mortgage inventory during the years of most rapid growth has been considerably less for larger than for smaller companies. This is clearly related to the fact that, in all postwar years, the larger companies have consistently used the bulk of their funds for mort-

CHART 6

Total Assets, Mortgage Loans, and Notes Payable of Mortgage Companies, 1945-1955



Source: Table 19.

TABLE 21

Ratios of Mortgage and Construction Loans to Total Assets, 1945-1955,
by 1954 Asset Size of Mortgage Companies

| YEAR | All companies | <i>Asset Size (in millions of dollars)</i> | | | | |
|------|------------------|--|------|------|------|------------|
| | | Under 1 | 1-2 | 2-5 | 5-10 | Over 10 |
| 1945 | 44.7 | 36.3 | 27.8 | 50.9 | 58.2 | 75.0 |
| 1946 | 63.5 | 32.1 | 50.2 | 71.2 | 75.6 | 85.3 |
| 1947 | 70.2 | 61.4 | 54.8 | 73.5 | 81.0 | 85.6 |
| 1948 | 68.5 | 67.1 | 52.6 | 70.9 | 76.6 | 81.0 |
| 1949 | 69.1 | 58.1 | 56.0 | 71.7 | 81.9 | 82.1 |
| 1950 | 73.3 | 68.2 | 63.4 | 72.3 | 82.7 | 83.6 |
| 1951 | 65.6 | 54.5 | 55.9 | 67.0 | 76.8 | 78.9 |
| 1952 | 69.4 | 60.6 | 60.7 | 70.8 | 78.2 | 82.6 |
| 1953 | 65.2 | 54.2 | 57.1 | 66.4 | 78.5 | 77.2 |
| 1954 | 70.2 | 42.6 | 62.1 | 74.3 | 84.2 | 84.1 |
| 1955 | 75.3 | 59.3 | 70.7 | 76.0 | 83.9 | 87.6 |

Source: Same as Table 18.

gage and construction loans, with consequently less room for sharp increases in inventory in any one year compared with smaller companies, which used a lower proportion of funds for mortgage inventory. As evident in Table 21, there is a direct relationship between size of company and proportion of assets in mortgage loans. In most years the very large companies (over \$10 million in assets, 1954) had well over four-fifths of their assets in mortgage loans, compared with a proportion of between one-half and two-thirds for the smallest companies (under \$2 million). This relationship is readily explainable by the fact that both relatively small and relatively large mortgage operations can be accommodated in minimum physical facilities. The small company consequently devotes a larger proportion of its assets to fixed plant and equipment than does the large company, a fact demonstrated in Tables A-6 through A-10 by the relatively large proportion of noncurrent assets held by companies with less than \$2 million. Further, smaller mortgage companies may choose to engage more extensively in mortgage related activities in order to use their facilities more effectively.

Several mortgage companies, moreover, although originating and servicing a large volume of loans, show little or no mortgages in their financial statements. These companies may be either FHA loan correspondents,²⁵ not privileged to close FHA-insured mortgages in their own names, or companies using accounting procedures in which mortgage inventory is not considered an asset. Among the latter are companies, technically without mortgage inventories, that prefer their loans, origi-

²⁵See first page of the appendix, below, for the distinction between loan correspondents and independent mortgagees.

nated for institutional investors, to be closed directly by commercial banks and held by them until ready for delivery to the permanent mortgagees. This procedure would, of course, eliminate mortgages and notes payable to banks from balance sheets. Companies operating in this manner are, however, in the distinct minority.

Variations among companies in mortgage inventory to asset ratios show up clearly when the data for 1954 are arranged in a frequency distribution as in Table 22. The greatest variation occurs among the smallest companies (under \$1 million) with the proportion holding less than 20 per cent of their assets in mortgage inventory about as large as that holding over 70 per cent. Among the largest companies (\$5 million or over), none had less than 50 per cent of their assets in mortgage and construction loans, and at least three-fourths of these companies had four-fifths or more of their assets in such loans. Except for those with assets of less than \$1 million, most companies in other size classes had more than two-thirds of their assets in mortgage inventory.

The operating procedure for the great majority of mortgage companies, as suggested earlier, is to close and hold mortgages with borrowed bank funds pending sale to investors. Thus, paralleling mortgage loans as the chief use of mortgage company funds, notes payable to banks constitute

TABLE 22

Percentage Distribution of Mortgage Companies by Percentage Ratio of Mortgage and Construction Loans to Total Assets, within Asset-size Class, 1954

| PERCENTAGE RATIO OF MORTGAGE AND CONSTRUCTION LOANS TO TOTAL ASSETS | All com- panies | <i>Asset Size (in millions of dollars)</i> | | | | |
|--|-----------------------|--|-------|-------|-------|------------|
| | | Under 1 | 1-2 | 2-5 | 5-10 | Over 10 |
| 0 - 9.9 | 15.0 | 21.0 | 7.1 | 1.9 | .. | .. |
| 10 - 19.9 | 6.7 | 8.8 | 4.3 | 1.9 | .. | .. |
| 20 - 29.9 | 8.8 | 12.3 | 4.3 | 0.9 | .. | .. |
| 30 - 39.9 | 4.8 | 5.3 | 8.1 | 1.9 | .. | .. |
| 40 - 49.9 | 8.8 | 10.5 | 9.2 | 2.8 | .. | .. |
| 50 - 59.9 | 9.8 | 10.5 | 9.2 | 8.5 | 5.1 | 8.3 |
| 60 - 69.9 | 5.3 | 3.5 | 7.8 | 11.3 | 2.6 | 8.3 |
| 70 - 79.9 | 18.9 | 19.3 | 16.3 | 23.6 | 15.4 | 8.4 |
| 80 - 89.9 | 14.5 | 7.0 | 24.8 | 23.6 | 48.7 | 50.0 |
| 90 - 99.9 | 7.4 | 1.8 | 9.9 | 23.6 | 28.2 | 25.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Median ratio | 56.0 | 42.5 | 70.6 | 78.8 | 85.5 | 85.0 |
| Number of companies | 854 | 556 | 141 | 106 | 39 | 12 |

Source: Same as Table 18.

TABLE 23
Increase in Assets and Liabilities of Mortgage Companies between
Selected Dates, 1945-1955

| BALANCE SHEET ITEMS | <i>Amount of Increase</i> | | | <i>Percentage Distribution of Increase</i> | | |
|----------------------------------|---------------------------|---------------|---------------|--|---------------|---------------|
| | 1945- 1950 | 1950- 1955 | 1945- 1955 | 1945- 1950 | 1950- 1955 | 1945- 1955 |
| Total assets | 570.9 | 1,091.5 | 1,662.4 | 100.0 | 100.0 | 100.0 |
| Cash | 52.6 | 142.4 | 195.0 | 9.2 | 13.0 | 11.7 |
| Mortgage loans | 464.3 | 836.5 | 1,300.8 | 81.3 | 76.6 | 78.2 |
| Title I loans | 1.2 | -0.6 | 1.8 | 0.2 | 0.1 | 0.1 |
| Notes & accounts receivable | 26.4 | 34.1 | 60.5 | 4.6 | 3.1 | 3.7 |
| Other current assets | -8.3 | 8.2 | -0.1 | -1.5 | 0.8 | ^a |
| Noncurrent assets | 34.7 | 69.7 | 104.4 | 6.0 | 6.4 | 6.3 |
| Total liabilities & net worth | 570.9 | 1,091.5 | 1,662.4 | 100.0 | 100.0 | 100.0 |
| Escrows | 34.1 | 91.9 | 126.0 | 6.0 | 8.4 | 7.6 |
| Notes payable, total | 364.7 | 781.2 | 1,145.9 | 63.9 | 71.6 | 68.9 |
| To banks | 346.5 | 766.2 | 1,112.7 | 60.7 | 70.2 | 66.9 |
| To others | 18.2 | 15.0 | 33.2 | 3.2 | 1.4 | 2.0 |
| Accounts payable | 13.1 | 9.0 | 22.1 | 2.3 | 0.8 | 1.3 |
| Undisbursed mortgage loans | 61.7 | 49.1 | 110.8 | 10.8 | 4.5 | 6.7 |
| Other current liabilities | 14.2 | 19.0 | 33.2 | 2.5 | 1.8 | 2.0 |
| Noncurrent liabilities | 7.0 | 26.4 | 33.4 | 1.2 | 2.4 | 2.0 |
| Net worth | 76.1 | 114.9 | 191.0 | 13.3 | 10.5 | 11.5 |

^aLess than 0.05.

Source: Same as Table 18.

the chief source of funds. Mortgage companies borrow small amounts from non-bank sources, but these have been typically less than 5 per cent of notes payable, as shown in Table 20. Total notes payable increased from \$61 million in 1945 to \$426 million in 1950 and to over \$1.2 billion in 1955 (Table 19). The increase in bank borrowing accounted for over two-thirds of the total sources of mortgage company funds over the post-war decade, as is evident in Table 23.

That bank borrowing²⁶ and mortgage inventory are closely related in amount and importance in the financial structure of mortgage companies irrespective of company size, is indicated in Charts 5 through 8. The fact that bank borrowing accounts for a somewhat smaller proportion of total assets than do mortgage loans is owing to two factors: (1) significant amounts of undisbursed loans included in the mortgage total and reported separately among liabilities but not included among notes payable; and (2) to the appreciable net worth of mortgage companies. When the

²⁶In the subsequent discussion, "bank borrowing" and "notes payable" will be used interchangeably; upwards of 95 per cent of notes payable are owed to banks.

TABLE 24

Percentage Ratios of Notes Payable to Total Assets, by 1954 Asset-size Class of Company, 1945-1955

| YEAR | 1954 Asset Size (in millions of dollars) | | | | | |
|------|--|---------|------|------|------|---------|
| | All companies | Under 1 | 1-2 | 2-5 | 5-10 | Over 10 |
| 1945 | 38.2 | 27.3 | 43.0 | 33.9 | 45.2 | 49.2 |
| 1946 | 54.3 | 28.6 | 52.7 | 53.5 | 60.0 | 82.9 |
| 1947 | 53.4 | 33.9 | 53.3 | 53.4 | 61.3 | 76.1 |
| 1948 | 53.4 | 49.6 | 46.7 | 50.5 | 60.2 | 71.4 |
| 1949 | 57.7 | 54.7 | 50.9 | 56.1 | 61.3 | 73.0 |
| 1950 | 58.3 | 41.0 | 56.2 | 61.8 | 64.8 | 73.3 |
| 1951 | 55.3 | 49.2 | 44.9 | 55.4 | 60.1 | 71.8 |
| 1952 | 56.4 | 39.6 | 52.7 | 59.2 | 64.3 | 75.2 |
| 1953 | 56.9 | 50.9 | 47.0 | 56.5 | 62.7 | 72.4 |
| 1954 | 61.0 | 38.9 | 55.6 | 63.4 | 69.2 | 76.1 |
| 1955 | 66.2 | 53.6 | 56.5 | 70.7 | 66.5 | 81.8 |

Source: Same as Table 18.

mortgage and construction loan total is adjusted for undisbursed loans, the ratio of notes payable to mortgage funds actually disbursed rises considerably, and for most postwar years comes to well over 90 per cent, as indicated in the top line of Chart 5. In no year does the ratio fall below 85 per cent.²⁷

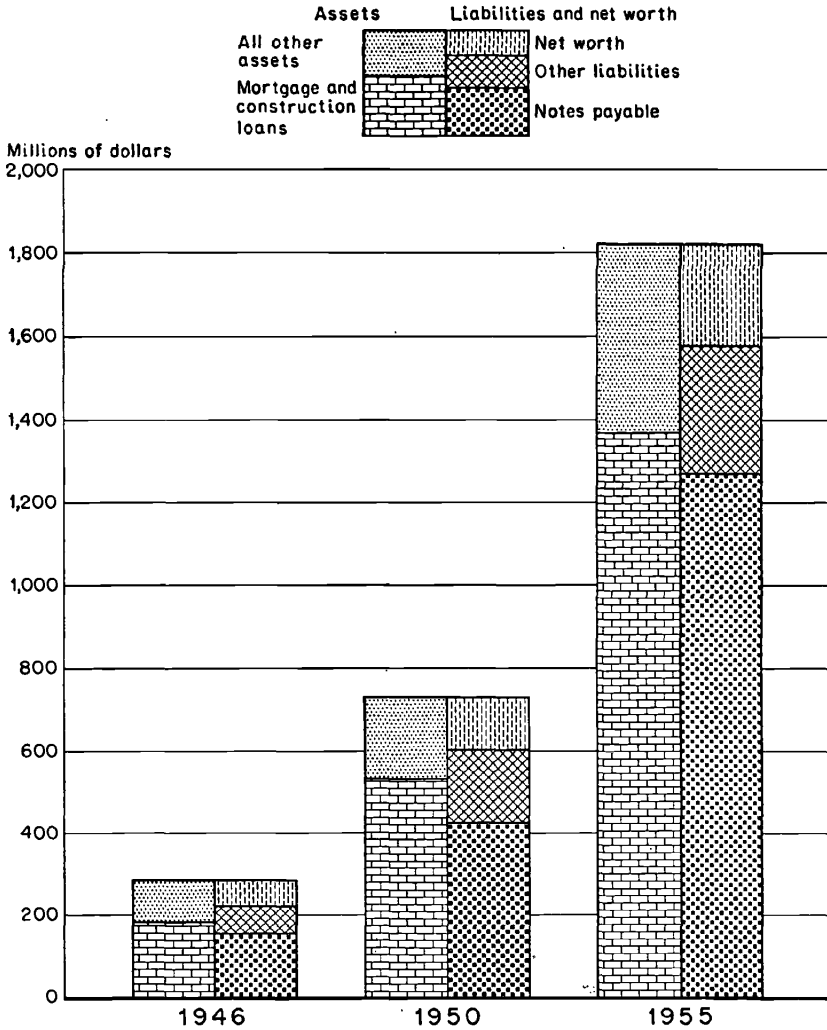
There is a direct relationship between size of company and the ratio of bank borrowing to total assets, just as there is a direct relationship between size of company and ratio of mortgage inventory to total assets. As shown in Table 24, the larger the company, the higher the ratio of bank borrowing to total assets. Variations in the ratios among companies are indicated by the frequency distribution shown in Table 25. Within asset-size classes the widest variation in the ratio of notes payable to total assets occurs among the smaller companies. While variations in this ratio are less marked among the larger companies, they are greater than variations in the ratio of mortgage inventory to total assets, shown in Table 22. This is so because of greater differences in the amounts of undisbursed mortgage loans among companies.

The rising importance of funds obtained by bank borrowing in the last two years of the postwar decade, closely paralleling the rising use of funds for mortgage inventory, stands out clearly in Chart 6. The rapid growth during 1954 and 1955 is of particular interest as a clear reflection

²⁷The somewhat lower relationship between mortgage loans and notes payable for companies in the 5 to 10 million dollar asset class compared to other classes, shown in Chart 8, is due entirely to a sharp rise in estimated undisbursed loans for this group during 1955. When adjusted for undisbursed loans, the ratio of notes payable to mortgage loans for the 5 to 10 million class falls in the same range as the ratios for the other classes.

CHART 7

Main Assets and Liabilities of Mortgage Companies, 1946, 1950, and 1955



Source: Table 19.

of the unusual mortgage market developments including widespread use of new market techniques, in those years. During 1954 and early 1955 funds for mortgage investment were readily available, and institutional investors made heavy commitments to acquire mortgages. As capital market conditions began to shift from ease to stringency later in 1955, mortgage funds and regular take-out commitments became progressively

TABLE 25

Percentage Distribution of Mortgage Companies by Percentage Ratio of Notes Payable to Total Assets, within Asset-size Class, 1954

| PERCENTAGE RATIO OF NOTES PAYABLE TO TOTAL ASSETS | All companies | <i>Asset Size (in millions of dollars)</i> | | | | | Over 10 |
|---|------------------|--|-------|-------|-------|-------|------------|
| | | Under 1 | 1-2 | 2-5 | 5-10 | | |
| 0 - 9.9 | 19.9 | 28.0 | 8.5 | 3.8 | .. | .. | |
| 10 - 19.9 | 11.6 | 15.8 | 5.7 | 1.9 | 2.6 | .. | |
| 20 - 29.9 | 7.3 | 8.8 | 7.8 | 1.9 | .. | .. | |
| 30 - 39.9 | 9.3 | 10.5 | 9.2 | 5.7 | 2.6 | .. | |
| 40 - 49.9 | 8.5 | 8.8 | 9.9 | 5.7 | 7.7 | 8.3 | |
| 50 - 59.9 | 10.9 | 8.8 | 11.4 | 17.0 | 20.5 | 16.7 | |
| 60 - 69.9 | 9.1 | 5.3 | 13.5 | 23.5 | 10.2 | 8.3 | |
| 70 - 79.9 | 13.3 | 10.5 | 18.4 | 16.0 | 23.1 | 25.0 | |
| 80 - 89.9 | 7.6 | 3.5 | 12.8 | 16.0 | 20.5 | 16.7 | |
| 99 - 99.9 | 2.5 | .. | 2.8 | 8.5 | 12.8 | 25.0 | |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | |
| Median ratio | 42.2 | 27.0 | 57.8 | 66.0 | 72.8 | 76.7 | |
| Number of companies | 854 | 556 | 141 | 106 | 39 | 12 | |

Source: Same as Table 18.

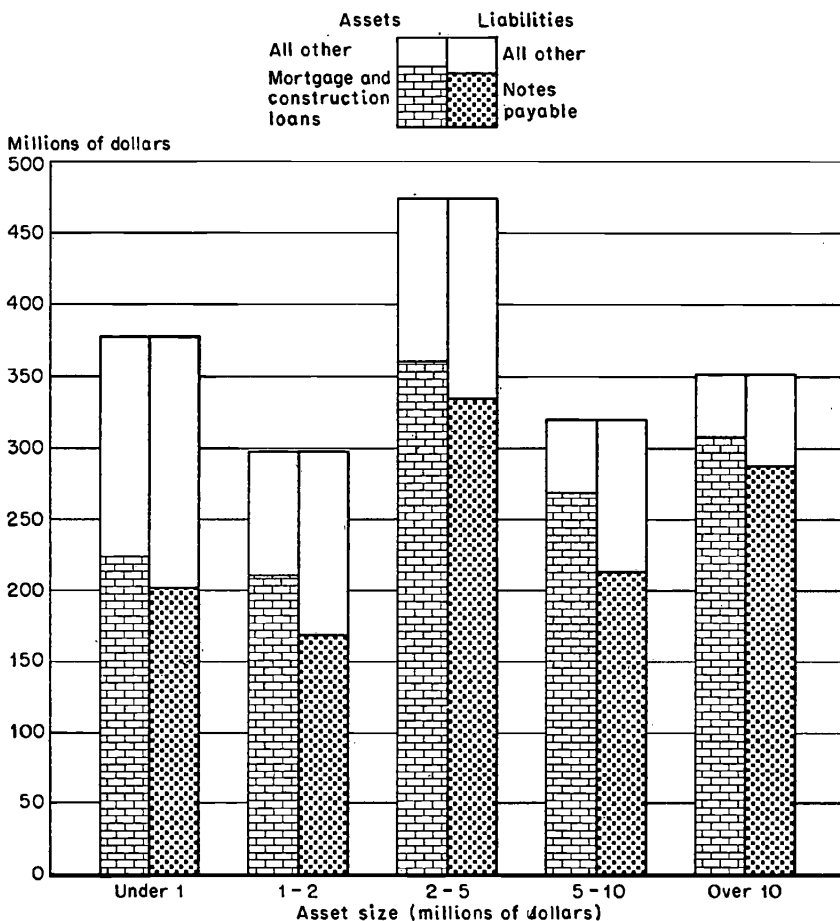
harder to obtain. In this setting new market techniques, including forward and standby commitments, described earlier in section 2 under *operating techniques and problems*, were widely adopted, together with a broadened use of interim commercial bank financing. These developments profoundly influenced the operations and financial structure of mortgage companies, testing, one might say, the adaptability of these institutions to changing conditions in the capital market.

From mortgage company balance sheets obtained for this study, it is not possible to measure the various types of bank borrowing or warehousing arrangements developed in recent years, although the inference is clear that without new arrangements the sharp rise in mortgage inventory and bank borrowing could not have been achieved. It would be illuminating, therefore, for both financial and mortgage market analysis, if in their financial statements mortgage companies would subdivide their notes payable to banks into at least three categories: (1) regular short-term loans to complete normal processing of mortgages (30 to 180 days) prior to delivery to investors; (2) longer-term loans necessary to carry mortgage inventory under forward commitment arrangements; and (3) loans necessary to finance mortgage inventory held either without commitment or under standby commitment, and for which permanent investors are sought.

Such a breakdown would be helpful in appraising the significance of

CHART 8

Main Assets and Liabilities of Mortgage Companies by Asset-size Class of Company, 1955



Source: Tables A-1 through A-5.

the high ratios of bank loans to total resources of mortgage companies under changing capital market conditions. In most instances, companies close mortgage loans only after receiving firm commitments from institutional investors to purchase them. Bank borrowing to finance mortgage closings principally by types of loans (1) and (2) above is, thus, typically secured not only by the mortgages themselves but also by the established credit of financial institutions. This unique financial arrangement makes it feasible, on the one hand, for mortgage companies to borrow large amounts relative to their own resources and, on the other hand, for banks

to grant broad credit lines with reduced risk. The third category of bank loans, however, increasingly sought under conditions of capital market stringency, is generally subject to elements of greater risk, since neither the ultimate sale price of mortgages nor the permanent investors are determined in advance. No information is at hand, unfortunately, on the recent experience of mortgage companies and commercial banks with various types of loan warehousing.

Among uses and sources of mortgage company funds other than mortgage loans and notes payable, cash and net worth are the most significant. The largest part of the cash account was, throughout the postwar decade, escrow funds, as shown in Tables 19 and 20, other cash constituting a limited use of mortgage company funds. The bulk of escrow funds represents payments received from mortgagors during the year and held in trust, pending ultimate disbursement for taxes, insurance premiums, and other purposes, usually in separate bank accounts where they are not available for general mortgage company operations. Administrative regulations of FHA specifically require FHA-approved mortgagees to maintain separate accounting for escrow funds collected on FHA loans, and prohibit their use in any way other than for the contracted purpose. VA regulations, however, make no similar requirements, and for conventional mortgage loan escrow funds there are no regulations on supervision and handling. Nevertheless, most mortgage companies, in accordance with requirements of institutional investors, handle all such funds as they do FHA escrow funds. Thus, while escrow accounts are a substantial item in the financial statements of mortgage companies, they are not utilized for financing the companies' activities.

Net worth of mortgage companies relative to total assets declined sharply over the postwar decade from nearly one-third in 1945 to less than one-seventh in 1955, reflecting the rapid postwar asset growth of these institutions (see Table 20). Year-to-year relative declines between 1945 and 1946, 1949 and 1950, and 1954 and 1955 were particularly marked, in line with the sharp increase in mortgage inventory in these periods. In absolute amount, however, net worth has increased almost fourfold in ten years from about \$50 million to \$240 million. Most of this increase undoubtedly reflects retained earnings rather than newly invested capital, although available data do not permit the separation of these two components of net worth changes.

Relative to their total assets, net worth of smaller companies is much greater than that of larger companies, as shown in Table 26, and Tables A-6 through A-10. There is also a much greater variation in ratios among smaller companies than larger ones. For companies with assets of less than \$1 million, the proportion having a net worth to assets ratio of less

TABLE 26

Percentage Distribution of Mortgage Companies by Percentage Ratio of Net Worth to Total Assets, within Asset-size Class, 1954

| PERCENTAGE RATIO OF NET WORTH TO TOTAL ASSETS | <i>Asset Size (in millions of dollars)</i> | | | | | |
|--|--|------------|-------|-------|-------|------------|
| | All companies | Under 1 | 1-2 | 2-5 | 5-10 | Over 10 |
| 0 - 4.9 | 3.6 | .. | 2.8 | 12.7 | 26.7 | 33.3 |
| 5 - 9.9 | 11.9 | 3.6 | 21.3 | 29.9 | 37.4 | 41.7 |
| 10 - 14.9 | 10.8 | 6.2 | 19.8 | 19.2 | 18.0 | 16.7 |
| 15 - 19.9 | 12.0 | 9.7 | 16.4 | 19.5 | 7.6 | 8.3 |
| 20 - 24.9 | 11.4 | 13.2 | 11.4 | 6.6 | 3.9 | .. |
| 25 - 29.9 | 4.2 | 4.4 | 4.9 | 2.8 | 1.3 | .. |
| 30 - 39.9 | 9.8 | 12.2 | 7.1 | 4.7 | 5.1 | .. |
| 40 - 49.9 | 9.0 | 12.2 | 5.7 | 1.9 | .. | .. |
| 50 - 59.9 | 6.6 | 8.8 | 5.0 | .. | .. | .. |
| 60 - 69.9 | 9.4 | 13.9 | 2.1 | .. | .. | .. |
| 70 - 79.9 | 4.8 | 7.0 | 0.7 | 0.9 | .. | .. |
| 80 - 89.9 | 1.5 | 1.8 | 1.4 | 0.9 | .. | .. |
| 90 - 100.0 | 5.0 | 7.0 | 1.4 | 0.9 | .. | .. |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Median ratio | 25.4 | 40.6 | 17.1 | 12.0 | 7.6 | 8.0 |
| Number of companies | 854 | 556 | 141 | 106 | 39 | 12 |

Source: Same as Table 18.

than 25 per cent and of over 60 per cent was not much different. For companies with over \$5 million in assets, on the other hand, none showed a net worth to assets ratio of over 40 per cent and for the bulk of companies the ratio was less than 10 per cent. Median ratios of net worth to assets, as indicated in Table 26, ranged from 40 per cent for the smallest companies to 8 per cent for the largest companies.

It is difficult to compare the significance of net worth in the financial structure of mortgage companies with that of other financial institutions because of the different nature of mortgage company operations. These companies earn most of their income from mortgage servicing fees rather than from interest on mortgage holdings or other assets, the chief income source for financial intermediaries. When net worth of mortgage companies is compared with the volume of mortgages they serviced in recent years the ratio drops sharply to between 1 and 2 per cent.²⁸ Relative to earnings, therefore, it is undoubtedly true that mortgage companies have and require a much smaller net worth than do other types of financial institutions.

²⁸See the discussion of relationships between loans closed, held, and serviced in section 4, and Table 5 for estimates of dollar volume of mortgages serviced by mortgage companies.