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APPENDIX

The data on mortgage companies presented in this study were developed from two basic sources: (1) confidential records of the Federal Housing Administration; and (2) a special questionnaire survey of selected companies. The first source yielded annual balance sheet data from 1945 through 1954 and partial figures for 1955. The second source supplied quarterly balance sheet data and annual data on outstanding balances, closings, servicing, and sales of mortgages from 1953 through 1955. This appendix describes the techniques used and adjustments made in developing the data for the study and includes supplementary and usually more detailed tables, not shown in the main body of the text. The tables are grouped at the end of this appendix.

Federal Housing Administration Records

Any institution wishing to originate, hold, or service FHA-insured mortgages must first obtain approval for such activity from the Federal Housing Administration.[31] Federal and state supervised institutions, once having obtained approval, automatically maintain it so long as they continue in good standing as supervised institutions. Nonsupervised institutions, however, as a condition for maintaining approved mortgagee status (either as independent mortgagees or loan correspondents), must file financial statements at least annually with the Audit Division of the FHA in Washington. The records of these balance sheets are, to my knowledge, the only existing source from which organized comprehensive data on the financial structure of mortgage companies in the United States can be derived for the postwar decade. With the full cooperation and through diligent efforts of FHA officials, therefore, summary records of unidentified companies were made available for this study. Thus the confidential nature of the files was preserved, and at the same time summary tabula-

[31]Among minimum requirements are, for federal and state supervised institutions, a net worth of $25,000, and for nonsupervised independent mortgagees, $100,000. However, loan correspondents – those limited to originating loans in the name of other principal institutions – are required to have a net worth of only $5,000.

tions of data were made possible. The following technique for selection of individual companies and transcription of data was used by FHA officials.

The FHA records disclosed that, as of the end of 1955, there were 1,066 nonsupervised institutions approved as independent mortgagees or loan correspondents. Of this number, some 865 were identified as mortgage companies. The remainder included a variety of organizations such as credit unions, fraternal orders, finance companies, private and state benefit funds, philanthropic organizations, educational institutions, religious societies, cemeteries, and the like, all of which were eliminated. A sample of records of the 865 mortgage companies was selected for transcription from a master list of companies prepared from a card index file maintained in alphabetical order by FHA zones, and by states within zones. From the mortgagee credit file, which includes annual financial statements or audit reports of statements for all FHA-approved mortgagees from the date of their approval, each company's total assets for 1954 and for the earliest year available back to 1945 were transcribed. The figures revealed that some 305 companies having assets of $1 million or more held a total of $1,047 million in assets, or 83 per cent of the total of $1,264 million held by all FHA-approved mortgage companies in that year. Further, the 305 companies also accounted for the bulk of all company assets at the beginning of the postwar decade.[32] Thus, selection for transcription of records of all companies with at least $1 million in assets assured adequate coverage and representation of the financial status of mortgage companies, not only in 1954 but in earlier postwar years as well. The 556 mortgage companies having assets of less than $1 million in 1954 (total, $217 million, or 17 per cent of the assets of all FHA-approved mortgage companies) were sampled on a 10 per cent basis. From the master list of such companies every tenth name in a state was selected for transcription from the mortgagee credit file, or, if not available, the file next in alphabetical order was substituted. This resulted in transcription of sampled data for 57 companies with a total of $24.6 million in assets.

The data were taken directly from company financial statements, when available, or from summary audit reports of these statements prepared by FHA officials, and maintained for each company by the Audit Division. For years prior to 1952, only audit reports were usually available, but they included all major asset and liability items. A separate tabulating sheet for each company was used for transcribing annual data from finan-

[32]There were actually 307 companies with assets of $1 million or more in 1954, but records of two companies were not available for transcription.

cial statements, including, in addition to the asset and liability items, the year of incorporation and the year of FHA-approval as independent mortgagee or loan correspondent. Neither the identity nor the location of individual companies was recorded on the tabulating sheets, a sample of which appears as Exhibit A-1.

Transcription of the basic data by FHA officials was carried out during the summer of 1956. For most companies, the last complete year for which balance sheets were available was 1954. Financial data for 1955 were available and transcribed for 121 companies, which in 1954 held almost one-third of all mortgage company assets. On the basis of these company data and relationships, together with information obtained from the separate questionnaire survey, the 1955 financial structure of mortgage companies was estimated.

The tabulating sheets (Exhibit A-1) on which individual company statements were transcribed were made available to the National Bureau where the task of summarizing was completed. For this, the number of asset and liability items to be shown separately was reduced to those most frequently used by companies, and the remaining items were combined in an "all other" category. On the basis of their 1954 assets, companies were coded and classified into five asset-size classes with assets, in millions of dollars, of 1–2, 2–5, 5–10, and over 10. Within these size classes, individual company balance sheet items were transcribed to summary sheets prepared for each selected asset and liability item. In the course of transcription, errors and inconsistencies in company statements were noted, checked, and corrected.

Reports of cash and escrow items entailed a recurring problem. Companies including escrow accounts in their balance sheets generally entered them with cash under assets and separately under liabilities; a few companies excluded escrow accounts entirely. Discrepancies in some balance sheets included the reporting of escrows with cash under assets but not under liabilities, and the reporting of cash including escrows as a smaller amount than escrows shown separately. In these cases discussion with FHA officials and availability of supplementary data usually led to adjustments. FHA officials, in transcribing data from earlier audit reports, and not always certain whether cash included or excluded escrows, decided against including escrows if none appeared separately in these reports under liabilities.[33]

[33]FHA auditors sometimes omitted escrows appearing on the financial statements from their original audit reports, an omission tending to understatement of the total volume of escrow accounts held by mortgage companies. In interpreting the summary balance sheets, therefore, the escrow accounts should be considered on the low side.

EXHIBIT A-1

Tabulating Sheet for Mortgage Companies

(thousands of dollars)

	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945
Assets											
1. Cash (including escrows)											
1a. Cash (excluding escrows)											
2. Mortgages or trust deeds											
3. Construction loans											
4. Title I loans											
5. Other small loans											
6. Notes receivable											
7. Accounts receivable											
8. Life insurance – CSV											
9. Securities											
10. Other current assets											
11.											
12.											
13.											
14. Total current assets (inc. escrows)											
14a. Total current assets (exc. escrows)											
15. Other assets											
16.											
17.											
18. Total assets											

EXHIBIT A-1, concluded

	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945
Liabilities and Net Warth											
19. Escrows											
20. Notes payable											
21. Due banks											
22. Accounts payable											
23. Undisbursed loans											
24. Debentures payable											
25. Income tax payable											
26. Other taxes payable											
27. Salaries and commissions											
28. Other current liabilities											
29.											
30.											
31.											
32. Tatal current liabilities (inc. escrows)											
32a. Total current liabilities (exc. escraws)											
33. Other liabilities											
34.											
35.											
36. Total liabilities											
37. Net worth											
38. Total liabilities and net worth:											
a. Including escrows											
b. Excluding escrows											

Of the 861 companies whose balance sheets were transcribed, 23 companies appeared unusual, either because of very small mortgage holdings relative to total assets, because of large amounts of asset or liability items not typically held or owed by mortgage companies (securities, small loans, etc.), or because of irreconcilable balance sheet inconsistencies. Of these 23 companies, 7 were eliminated from the statistics after consultation with FHA officials familiar with their operations. It was found that one acted principally as trustee for individual estates, one was a nonprofit institution, one a wholly-owned bank subsidiary originating and assigning loans to the bank before closing, two were large holding companies whose assets consisted largely of properties and stock of affiliated companies, one was a large-scale builder and real estate company occasionally originating mortgages, and one had filed a financial statement too confused to use. The combined assets of these 7 companies in 1954 were $75 million, but their mortgage holdings amounted to less than $4 million; three of them accounted for the bulk of the combined assets ($67 million) and mortgage holdings ($3.6 million).

Because they were active in the mortgage market, the remaining 16 unusual companies were retained in the study despite somewhat atypical operations. Many of them were real estate operators with most of their assets in undeveloped land and buildings; some bought land chiefly for development and sale to builders in order to generate mortgage business. One company, singled out because of a sudden increase in assets from under $1 million to almost $14 million in one year, was found to have acquired a large volume of FHA title VIII military housing loans through bank financing. Total 1954 assets of the 16 companies amounted to $38 million, and mortgage holdings to $16 million; if the last-mentioned company is eliminated, the assets of the remaining 15 totaled $24.1 million and mortgages only $2.4 million.

In the final analysis, any decision to eliminate or retain atypical companies must be arbitrary to some extent; the definition of the mortgage company is not precise enough to preclude borderline cases. For most purposes of analysis, neither the number of atypical companies singled out for special consideration, nor their assets and mortgage holdings were large enough to affect results seriously by inclusion or exclusion.

A considerably more important adjustment in the basic FHA mortgage company balance sheets related to companies for which data for one or more years were lacking, either because balance sheets were missing from the files or because the companies had not yet become FHA-approved mortgagees, chiefly the latter. As noted previously, for each company information was obtained on the year of incorporation and the year of FHA approval as an independent mortgagee or loan correspondent. The difference between the dates of incorporation and of FHA approval was thus assumed to represent the number of years the company had been in operation without FHA approval. Data were available in FHA files only for the years during which the company operated as an approved mortgagee, leaving to be estimated balance sheet items for the intervening years of operation beginning with 1945. The extent of the adjustments made is indicated in Table A-1. Clearly, adjustments were greatest for the earlier postwar years and for the smaller companies. The total adjustment for all companies for recent years was fairly modest, except for 1955 for which reports from companies with one-third of total 1954 assets were available.

The actual adjustment technique involved the use of link relatives or chain index numbers. The rate of growth of companies during the years for which data were lacking was assumed to be the same as the average rate for companies of the same size class for which data were available. Adjustments in total assets were made first for most recent years and then backward through the postwar period. The percentage distribution of asset and liability items based on the unadjusted total was then applied to the total adjusted assets figures to arrive at a final adjusted balance sheet for each year. All of these calculations were carried out separately for each asset-size class.

The finally adjusted balance sheets show the financial position of all mortgage companies, in operation during the postwar decade, that had become FHA-approved mortgagees by at least 1955 and for which balance sheet data were available for 1954. For mortgage companies that were not FHA-approved mortgagees by 1955 no financial data are available, either for those never approved or for those approved in earlier years but later deprived of approval. There were relatively few companies of the latter type, and, since most of them were dropped as approved mortgagees because of mortgage inactivity, the effect of their removal on the overall financial trend of mortgage companies during the decade was probably negligible. On the other hand, there is no information on the number or financial position of operating mortgage companies that have never been FHA-approved mortgagees. Discussion with officials of the Mortgage Bankers Association of America and reference to their membership directory revealed that the number of such companies in recent years is few and confined almost entirely to the smaller ones. No attempt was made to adjust the data for non-FHA-approved mortgagees, partly because arbitrary methods, used in the absence of empirical evidence as a basis for adjustment, might do more harm than good to the data, and partly because the suggested degree of undercoverage is very small. Indeed, various types of benchmark data that exist for a few years from other sources are strikingly comparable with the data developed in this study, as shown in Table A-12.

The dates to which the mortgage company balance sheets refer require brief explanation. Companies file their financial statements with FHA as of the end of a fiscal year period. When these statements were transcribed by FHA officials for this study, the various fiscal year periods for each company were not recorded. A later check revealed that over three-fifths of all company assets in 1954 related to the end of the year, about one-twelfth to September, with the small remainder fairly well spread through the year. Deviations from the December date indicate that, on the average, the data probably represent the combined financial conditions of mortgage companies as of the end of October, rather than as of the end of December. Lack of readily available information precluded adjustment of the data to represent more precisely a true end-of-year figure. The quarterly data obtained in the special survey, described below, suggest that year-to-year movements between 1953 and 1955 would be somewhat different if true December figures were available. This is probably because of the previously noted sharp changes during this two-year period. But it is not likely that the picture of financial growth and shift in resources over the whole postwar decade would be altered enough to effect interpretation of mortgage company developments in the decade.

Questionnaire Survey of Selected Mortgage Companies

The purpose of the special mail questionnaire survey of selected mortgage companies was two-fold: (1) to obtain quarterly financial data for recent years as a supplement to annual data obtained from the Federal Housing Administration; and (2) to obtain information on the nature of mortgage operations from data on types of mortgage loans held and closed, volume serviced, and sales to principal investors. The questionnaire and accompanying instructions are presented as Exhibit A-2.

No attempt was made to base the survey on a representative sample of all mortgage companies. It was clear from the beginning that the response would be too small and irregular to maintain the representativeness of any sample design. Further, it was unlikely that many of the smaller companies would have the facilities or inclination to respond to a fairly detailed questionnaire. The survey was, therefore, limited to larger companies (accounting for a major portion of the total business of the industry) selected by the Mortgage Bankers Association of America with whose full cooperation the entire survey was planned and conducted. Selection, based chiefly on estimated volume of mortgage servicing, resulted in a survey, in terms of total assets, of companies almost all in the over $1 million group. Questionnaires were sent, with the Association's endorsement, to some 300 mortgage companies in all areas of the country; 99 companies, or about one-third of the total number, responded with varying degrees of completeness. Of these, 6 were eliminated either because of irreconcilable misreporting not clarified after correspondence, or because respondents were not actually mortgage companies.[34] Of the remaining 93 companies 66, accounting for the bulk of all assets in the group, were able to provide quarterly balance sheet data for the period 1953-1955; and responses to other questions varied among a larger number.

Individual company financial statements were tabulated and summarized in the same manner as were the annual data obtained from FHA. Discrepancies or unusual items in balance sheets or other parts of the questionnaire were clarified generally through correspondence with individual companies. Minor adjustments to the data, clearly indicated from inspection of questionnaires, were made without confirmation by companies. Adjusted balance sheet totals and composition for companies reporting in all quarters are shown in Tables 18 and 19. The close agreement between the financial structure of the relatively small number of surveyed companies and that based on FHA records of the larger number of mortgage companies is evident from a comparison of Tables 28 and 20.

As indicated in Table A-16, respondent companies held about one-fourth of the total assets of all FHA-approved mortgagees on comparable dates of each year from 1952 to 1955. The year-to-year movements are in close agreement except for some divergence between 1954 and 1955. September 30 figures of survey companies were chosen for comparison with figures for FHA-approved companies because, as indicated above, financial data of the latter companies are more closely related, on the average, to the end of September than to the end of December. When December 31 figures are used as a base of comparison the year-to-year relationship is somewhat less consistent. Quarterly balance sheet figures obtained in the special survey appear large and consistent enough when related to broad industry totals to provide a reliable basis for analysis of the nature of intra-annual movements in sources and uses of mortgage company funds, as outlined in the second part of section 5 of the text.

In general, a larger number of companies were able to report annual mortgage activity data than quarterly balance sheet data. In making comparisons between years and between types of activity various adjustments were required to achieve comparable totals. For example, comparing the

(Text continued on page 84)

[34]Somehow, responses were received from a small insurance company, a bank conducting a mortgage company type of operation, and a trust and title company.

EXHIBIT A-2

Facsimile of Questionnnaire for Mortgage Companies

INSTRUCTIONS

This questionnaire consists of two sections, requesting related types of information. Information asked for in section 1 concerns your company statement of assets and liabilities, and in section 2 concerns more specifically your mortgage and construction loan activity. If you find that your records do not enable you to complete the questionnaire in the detail requested, please provide as much of the information as you can. We would be very appreciative if you could provide us with as much quarterly financial data as possible, but where they are lacking, semiannual or annual figures will also be useful.

Section 1

(1) The summary information requested in this section is modeled after the financial statements required annually by the Federal Housing Administration from all FHA-approved mortgagees. Three blank spaces (lines 6 to 8 and 15 to 17) have been provided on both the assets and liabilities side to permit you to add or substitute other items of importance in your financial statement.

(2) The term "escrows" as used here refers to funds held by the company in trust for others pending ultimate disbursement to a third party. These funds usually include advances on taxes, insurance, FHA premiums, etc. In some areas of the country, escrow accounts are referred to variously as "impounds," "reserves," "trust funds," or "unremitted payments." Provision has been made in the questionnaire for either including or excluding such accounts in your financial statement in accordance with your usual practice.

(3) Items 2 and 3 include all mortgage and construction loans on the books whether intended for permanent company investment, awaiting open sale in the secondary market, or not yet taken up by principals under earlier commitments. Do not include here loans being serviced for others. If, in accordance with your usual accounting practice, you include in items 2 and 3 the total amounts of loans closed, whether or not funds have actually been disbursed, then show the undisbursed portion in item 14, "undisbursed loans." If, on the other hand, only amounts actually disbursed are included in items 2 and 3, then you should ordinarily have no entry under item 14.

(4) No special explanation seems necessary for the remaining specific

N.B.E.R.
March 1956

SECTION 1

Financial Statement

(Please indicate approximate dollar amount of assets and liabilities at end of calendar year quarter, or as close to calendar year quarter as possible)

$000

	1955				1954				1953				Dec. 1952
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	
ASSETS													
1. Cash (inc. escrows)													
1a. Cash (exc. escrows)													
2. Mortgages													
3. Construction loans													
4. Notes receivable													
5. Accounts receivable													
6.													
7.													
8.													
9. Other assets													
10. Total assets (inc. escrows)													
10a. Total assets (exc. escrows)													
LIABILITIES AND NET WORTH													
11. Escrows													
12. Notes payable													
a. To banks													
b To others													
13. Accounts payable													
14. Undisbursed loans													
15.													
16.													
17.													
18. Other liabilities													
19. Net worth													
20. Total liabilities and net worth (inc. escrows)													
20a. Total liabilities and net worth (exc. escrows)													

items included in this request for balance sheet data. Treat these as you ordinarily do in your regular financial statement.

Section 2

(1) Total outstanding balances of construction loans and mortgage loans asked for in I-A and I-B respectively, should agree with the totals given in Section 1, items 2 and 3.

(2) If the breakdown for conventional loans requested in this section is more detailed than, or different from, the information you can readily provide, please indicate totals only or the breakdown which you can conveniently furnish. For example, you may be able to break conventional loans between residential and nonresidential properties only. If so, please provide the requested information for these categories.

(3) Report as FHA or VA loans outstanding or closed in items I and II only those mortgage loans which have already been insured or guaranteed by these agencies. This does not ordinarily include construction financing for houses on which FHA or VA have given commitments to underwrite the permanent mortgage loans. In the case of multifamily housing, however, FHA does insure construction advances and, if you have such loans, please include them with construction loans.

(4) In item II treat loans as closed for construction or permanent mortgages in accordance with your usual accounting practice. This may be either at the time you become obligated to make funds available to the borrower, when you have accepted the borrower's mortgage note, or not until funds have actually been disbursed.

SECTION 2

Mortgage and Construction Loan Activity

(Please indicate approximate dollar amounts for calendar year or as close to calendar year as possible)

$000

	1955	1954	1953	1950
I. OUTSTANDING BALANCES (end of year)				
A. Construction loans				
B. Mortgage loans				
1. FHA				
2. VA				
3. Conventional				
a. 1- to 4-family homes				
b. Multifamily properties				
c. Other				
II. LOANS CLOSED (during year)				
A. Construction loans				
B. Mortgage loans				
1. FHA				
2. VA				
3. Conventional				
a. 1- to 4-family homes				
b. Multifamily properties				
c. Other				

III. What was the approximate amount of loans that you were servicing for others on Dec. 31, 1955 $________; Dec. 31, 1954 $________; Dec. 31, 1953 $________?

IV. 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 ______%?

V. Of your total mortgage loans sales made in each of the past three years what was the approximate percentage distribution among the following types of institutions (please estimate if data are lacking)?

	1955	*1954*	*1953*
Total sales	100	100	100
Life insurance companies			
Savings banks			
Commercial banks			
Savings & loan associations			
FNMA			
Other (please specify)			

relationship between loans closed, held, and serviced in various years required reducing the number of companies to the lowest common denominator for valid comparison. Similarly, in computing totals for mortgage and construction loans, and FHA, VA, and conventional loans, and relationships between them, only companies reporting comparable data for all types of loans could be used. Thus, analysis of the various types of mortgage operations discussed in the text of this paper are based on varying numbers of companies holding varying amounts of mortgage loans. Most of the data on mortgage operations, however, are based on companies holding between one-fifth and over one-fourth of estimated mortgage loans held by all mortgage companies in 1955.

Because of the disproportionate weight of large companies among respondents relative to their numerical importance in the universe of mortgage companies, the analysis of mortgage operations is somewhat biased by the experience of the large companies. As indicated in Table A-16, reporting companies with over $5 million in assets in 1955 held over three-fourths of the mortgages held by all reporting companies, compared with not much more than two-fifths for companies of this size in the total of all mortgage companies. But the basic nature of mortgage operations is similar enough among companies of all sizes to preserve the broad usefulness of survey results. Nevertheless, to make possible observation of individual variations within and between size groups, much of the analysis is presented in terms of frequency distributions. Here again, the analysis of variations among the larger responding companies (those with over $2 million in assets), holding the bulk of the mortgage loans of such mortgage companies in 1955, is far more reliable than analysis of smaller companies holding a very small proportion of the total mortgage loans of small companies in the country (see column 3 of Table A-16 for percentage comparisons).