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CHAPTER 8

The Postwar Rise of Mortgage Companies

AMONG the most striking developments in the postwar mortgage market has been the extraordinary growth of mortgage companies. This growth has been closely associated with basic changes in the institutional framework of the market and with the development of new lending techniques and characteristics. The unique and increasingly important role of mortgage companies in the capital market has not been adequately recognized mainly because of the lack of information upon which to base a description and analysis of their activities. In an effort to fill this gap in our knowledge of financial institutions, a major segment of this study was devoted to an investigation of the operations and financial structure of mortgage companies, including the development of new data. This chapter summarizes the results of this investigation, being a shortened version of the more complete report, *The Postwar Rise of Mortgage Companies*. Most of the tables included in that publication have not been reproduced here and the reader interested in more detail may, therefore, prefer to read the Occasional Paper. The appendix of that paper includes a detailed description of sources of data, techniques of analysis, and several base tables.

Nature and Characteristics of Mortgage Companies

The modern mortgage company is typically a closely held, private corporation, whose principal activity is originating and servicing residential mortgage loans for institutional investors. It is subject to a minimum degree of federal or state supervision, has a comparatively small capital investment relative to its volume of business, and relies largely on commercial bank credit to finance its operations and mortgage inventory. Such inventory is usually held for a short interim between closing mortgage loans and their delivery to ultimate investors.

More than any other type of institution active in mortgage markets, mortgage companies owe their present structure and method of operation, as well as their extraordinarily rapid postwar growth, to the introduction and later expansion of federal mortgage insurance and guaranty. The Federal Housing Administration and Veterans Administration mortgage underwriting programs, with their standardized mortgage contracts, uniform and improved property and borrower appraisal techniques, and minimization of risk, have reduced geographic barriers to mortgage investment and enhanced negotiability of contracts. In the broadened national

mortgage market that developed, accompanying the marked postwar expansion in residential building and financing, mortgage companies grew rapidly in response to the increased need by out-of-state investors for local institutions to originate and service mortgages.

In its postwar operations and growth, the mortgage company has provided a bridge between primary and secondary mortgage markets and a channel for the flow of both short- and long-term funds, often from capital surplus to capital deficit areas. The mortgage company has been a key factor in the expanded use of short-term bank credit in mortgage operations, as it has adapted its operations to new commitment and lending techniques and used such credit more intensively to supplement long-term funds in periods of capital market stringency. Today's mortgage company differs radically from its predecessors, both in organization and operations.

In its various stages of development from the early nineteenth century to the 1930's, mortgage banking was represented by four distinct types of institutions and operations:

1. Mortgage banks originating mortgages and issuing to the public their own obligations secured by these mortgages
2. Mortgage guarantee companies originating mortgages and selling them and mortgage bonds, guaranteed for principal and interest to institutions and individuals
3. Mortgage loan companies originating and selling mortgages directly to investors
4. Mortgage brokers arranging transactions between borrowers and lenders without direct ownership of the mortgages

For all types of organization, the chief investor in mortgages was the individual. In the legal sense three parties had an interest in types 1 and 2 and two in types 3 and 4. Both the mortgage bank and mortgage guarantee company had direct obligations to the general public, either through debentures or guarantees, in addition to their relation to mortgage borrowers and lenders. Neither the mortgage loan company nor the broker, on the other hand, had direct obligations outstanding to anyone as a result of the transactions each arranged.

Introduction of the FHA mortgage insurance program in the midst of the depression in 1934 set the stage for the appearance of the modern mortgage company, whose further growth was sharply stimulated by the VA mortgage guarantee program established in 1944. These federal programs, providing for the underwriting of mortgages on very liberal terms to borrowers, minimizing risk to lenders, and facilitating mortgage arrangements for builders, were basic to the accelerated postwar demand for home

mortgage loans, to the flow of funds from institutional investors across state borders, and to the growth of large-scale home builders and mass merchandising programs. The profitable and specialized task of arranging for and channeling the flow of mortgage funds from investors to merchant builders and ultimately to home purchasers became the province of the mortgage company, and the process entailed marked changes in its structure and methods of operation.

Among institutional investors, life insurance companies, legally least bound to local investments, became strongly attracted to a national mortgage investment program. For most of these companies, the problem of acquiring and servicing out-of-state mortgage investments was resolved by appointment of locally owned and operated mortgage correspondents rather than by establishment of branch offices or subsidiaries of the parent company. The mortgage banking industry undoubtedly owes a large part of its growth and character to this basic decision of the life insurance companies. Later, when legal barriers to out-of-state investments in FHA and VA loans were removed for other institutions, the pattern of mortgage acquisitions established by insurance companies was followed, particularly by many mutual savings banks.

Because, at the beginning of the federal mortgage insurance program in the early thirties, there were few mortgage companies relative to the increased demand for their services, the life insurance companies selected as mortgage correspondents, real estate companies, brokers, attorneys, and others connected with the real estate industry. Thus many of today's mortgage companies have predecessors that operated for a shorter or longer period in one or another phase of the real estate business. The few pre-FHA mortgage companies shifted the focus of their activity from individuals to institutional investors because individuals are not permitted to hold FHA-insured mortgages and the long-term amortized mortgage is not well suited to their investment needs.

Thus, the FHA mortgage insurance and VA guaranty programs and the widespread adoption of the long-term amortized mortgage materially altered the organization and structure of the mortgage banking industry. At one and the same time the new type of mortgage instrument attracted large-scale institutional investors to a national mortgage market and discouraged the participation of the individual investor. Many mortgage companies, formerly engaged in initiating mortgage transactions largely on their own responsibility for sale to individuals, became the direct representatives of institutional investors in local markets. The bulk of the business of most mortgage companies shifted from conventional residential

and nonresidential mortgages, in the prefederal mortgage underwriting days, to federally underwritten home mortgages. Finally, a new type of profitable activity—mortgage servicing—required by the monthly amortization of mortgages and the escrow of funds for tax and insurance payments became the source of the basic and generally largest component of net income of mortgage companies.

Essentially, then, the business of the modern mortgage company (unlike that of mortgage lenders who originate or acquire mortgage loans with the intention of holding them in their own portfolios) is to originate and service mortgage loans for the accounts of institutional investors. Most mortgage companies, so defined, engaged in one or more related activities, including real estate management, brokerage, and insurance, construction, and land development. Conversely, many real estate firms also originate and service mortgage loans for principal investors. Some financial intermediaries, moreover, notably commercial banks, carry on this type of business, originating mortgages expressly for sale to other institutions. The distinguishing characteristic of the mortgage company, as classified for purposes of this study, and following criteria of the *Standard Industrial Classification* manual of the federal government, is that its *principal* activity is the origination and servicing of mortgages.

In relation to their volume of mortgage lending and servicing, present-day mortgage companies in the main are characterized by small capital investments, just as were those in earlier decades. According to one early writer, "The first feature of mortgage banking in America which strikes the observer is that the mortgage companies are many in number, the capital of each, with a few exceptions, being small."[1] Whether mortgage companies in operation in 1955 would be considered "many in number" is a relative matter. The number is, unfortunately, not precisely known but may be estimated closely enough for comparison with the numbers of other types of financial institutions. The membership of the Mortgage Bankers Association of America includes a little over 1,000 institutions classified as mortgage companies, but their number undoubtedly includes some organizations whose principal activity is not mortgage banking. Mortgage companies that were FHA-approved mortgagees[2] in 1955 numbered some 865. The true number probably lies somewhere between the

[1] D. M. Frederiksen, "Mortgage Banking in America," *Journal of Political Economy*, March 1894, p. 213.

[2] These are institutions approved by the Federal Housing Administration to deal in FHA-insured mortgages. For a discussion of requirements to qualify as an FHA-approved mortgagee, see the Appendix of Saul B. Klaman, *The Postwar Rise of Mortgage Companies*, Occasional Paper 60, New York, National Bureau of Economic Research, 1959.

two. Thus the number of mortgage companies is much smaller than that of commercial banks or savings and loan associations, but considerably more than mutual savings banks, and almost equal to that of life insurance companies.

REGULATION OF ACTIVITIES

Unlike other institutions in the mortgage market, mortgage companies are subject to little direct regulation or supervision. Most of them, as private corporations, are regulated only by the general corporation laws of the states in which they are incorporated. They are not subject to the rigorous supervision and control of state or federal financial authorities, as are banks, savings and loan associations, and insurance companies. FHA-approved mortgagees, however—the bulk of all mortgage companies—are liable to periodic examination and audit by the Federal Housing Administration. Following initial approval, such examination consists principally of an audit of financial statements filed annually with FHA, and irregular sight inspection of company records by FHA auditors. Within broad limitations of financial soundness, FHA-approved mortgage companies are not restricted to certain investments or assets. The Veterans Administration makes no special requirements of mortgage companies originating VA-guaranteed mortgage loans, which include practically all FHA-approved mortgage companies. The comparatively limited supervision of mortgage companies may perhaps be explained on the grounds that they do not hold deposits or other large reservoirs of funds of the general public as do financial intermediaries.

Mortgage companies are, also, far less restricted in geographic area of activity and branch office operation than most other types of financial institutions are. Here, again, restrictions are limited to FHA-approved mortgagees and are at present based on policy decisions of the Federal Housing Administration rather than on administrative or statutory requirements. Current FHA policy allows approved mortgage companies to originate and service loans anywhere in their states of residence and to originate loans in other states where they have servicing arrangements with local FHA-approved mortgagees. In order both to originate and service out-of-state loans, FHA-approved mortgage companies must establish branch offices in the chosen localities. All independent mortgagees[3] are permitted to establish such branch offices, subject to FHA approval, within their own and contiguous states. Only the larger approved independent

[3] Loan correspondents are not permitted to establish branch offices. (See *Ibid.*, Appendix footnote 31, for distinction between independent mortgagees and loan correspondents.)

mortgagees may establish offices in noncontiguous states since the minimum net worth requirement is $250,000 compared with $100,000 to qualify as an FHA-approved independent mortgagee.

But the typical mortgage company, small in size and volume of business, operates in a single office and confines the bulk of its activity to the metropolitan area in which it is located. In recent years, however, several of the larger companies have developed intercity branch office systems covering an entire state, and a few of the largest have expanded their operations beyond state lines. Within the broad limitations established by the Federal Housing Administration for out-of-state and branch office operations of its approved mortgagees, it is conceivable that a few mortgage companies may eventually establish nationwide mortgage operations.

SOURCES OF INCOME

The chief regular sources of gross income for mortgage companies are fees derived from their principal activities, mortgage origination and servicing. In recent years, fees for servicing mortgages secured by small residential properties have become fairly standardized at ½ of 1 per cent of the outstanding balance of the loan. For loans on large scale rental housing and commercial properties, however, servicing fees are far less standardized and considerably smaller, ranging usually from ⅛ to ⅜ of 1 per cent. The fee rate varies inversely with the amount of the loan because costs of servicing individual loans are similar, regardless of the amounts involved. Mortgage companies sometimes make concessions in fees in order to place large loans on their servicing accounts.

Maximum rates for origination fees on FHA and VA loans are fixed by the respective administrative agencies at between 1 and 2.5 per cent.[4] There are, of course, no established maximum fees for conventional loans. For conventional construction loans, origination fees have varied with market conditions but have seldom gone below 1 per cent or exceeded 2 per cent. For other conventional loans of good quality, origination fees have seldom been charged borrowers, but instead have been collected in the form of a premium price of around ½ of 1 per cent above par from principal investors anxious to acquire them.

Another important source of gross income for mortgage companies is interest earned on mortgages held in inventory. Such interest income is,

[4] Statutory and administrative regulations have varied, but in nearly all recent years origination fees for FHA home loans have been established at $20 or 1 per cent of the amount of the loan, whichever is greater; and for loans to lot owners to build homes, at $50 or 2.5 per cent, whichever is greater. On FHA multifamily loans, the maximum origination fee is 1.5 per cent; on VA loans the maximum origination fee is 1 per cent.

however, largely offset by interest payments to commercial banks on short-term loans necessary to finance mortgage inventory. On balance, therefore, net income attributable to interest on mortgage holdings is relatively small. Companies occasionally earn income from the sale of mortgages at prices above their origination or purchase price, but few engage in such speculative activity. Typically they originate mortgages under prior arrangements with investors at agreed prices, so that for the industry as a whole such gains on a net basis are relatively small. The participation of mortgage companies in related supplementary activities is reflected in earnings from insurance commissions, real estate brokerage and management, land acquisition and development, and occasionally from building operations.

There are no industry-wide data on the relative contributions to gross revenues of the various sources of income discussed above. Income statements for each of the three years—1951, 1953, and 1955—obtained by the author from a few mortgage companies of varying size in the Washington, D.C. area, however, are suggestive of the income composition. These statements indicate that income from servicing and origination fees accounted for between two-fifths and two-thirds of gross income in each of the three years. Servicing fees alone typically contributed between one-third and two-fifths of gross income. Relative income from origination fees varied, expectably, more widely between companies and between years, from a low of one-eighth to a high of one-third. Reflecting the varying participation of companies in related activities, income from other sources fluctuated widely, from 5 to 10 per cent in insurance commissions, 3 to 26 per cent in real estate sales and management fees, and 12 to 25 per cent in interest received on mortgage holdings.

The bulk of mortgage company expenses consists of employee and officer wages and salaries, and interest paid to banks, which, according to the few statements at hand, accounted for between one-half and over two-thirds of gross expenses in the years 1951, 1953, and 1955. Other important expense items include taxes, rent, and advertising.

RELATIONSHIP TO INVESTORS AND BORROWERS

Mortgage companies act as intermediaries between borrowers (both builders and home purchasers) and institutional investors, usually located in different parts of the country. In generating and holding business, therefore, mortgage companies must maintain close and continuing contacts with both potential sources of demand for and supply of mortgage funds.[5]

[5] For administrative details of mortgage company operations, see Robert H. Pease and Homer V. Cherrington, *Mortgage Banking*, New York, 1953, especially Chapters 14 to 18.

Because of their dependence on external short-term financing to operate successfully their business, they must also maintain a close relationship with commercial banks. This dependence on commercial bank credits is one of the main distinguishing features between modern mortgage companies and earlier mortgage banks and guarantee companies, which financed their operations through the issuance of debentures or mortgage participation certificates.

Mortgage companies in the postwar decade have tended to concentrate their activities in FHA and VA home mortgage loans, often in connection with new large-scale housing projects in metropolitan areas. They negotiate and close the bulk of these and of conventional mortgage loans on the basis of prior allocations of funds and advance commitments to buy mortgages from principal investors. Few loans in recent years have been originated by mortgage companies on their own responsibility for unknown investors (see section on "Loan closings and investor commitments"). On the basis of firm commitments from institutional investors to purchase completed mortgages (subject to the satisfaction of stated conditions), the mortgage company is able to arrange construction financing from a commercial bank for his builder customers and, at a later point, interim financing for itself. The latter type of financing is necessary to enable mortgage companies to close mortgages and carry them in inventory pending the processing of papers and delivery to ultimate investors.

Clearly, then, modern mortgage companies, unlike their predecessors, look chiefly to financial institutions rather than to individuals as outlets for mortgage loans and, among the institutions, depend most heavily upon life insurance companies. The policy of most insurance companies to acquire nonlocal loans through mortgage correspondents has been basic to the development and growth of the mortgage banking industry. In recent years, mutual savings banks have become an increasingly important outlet for mortgage company loans. Commercial banks and savings and loan associations, however, rarely acquire mortgages from mortgage companies. Some mortgage companies, reflecting their early background and history, continue to sell an important proportion of their loans to individuals. Sales of mortgages to individuals, however, amounted to much less than 5 per cent of all mortgage company sales in 1955.[6]

There are wide variations and gradations of arrangements, contractual and otherwise, existing between mortgage companies and institutional investors for the acquisition of mortgage loans. One common arrangement

[6] See section on "Principal purchasers of mortgage company loans" and Table 35 for information on types of purchasers of mortgage loans originated by mortgage companies.

is the contractual correspondent-investor relationship in which a mortgage company acts as the sole representative of a financial institution in the origination and servicing of mortgage loans in a designated area. The investor generally allocates funds or otherwise commits itself to purchase mortgages on a continuing basis from the correspondent, the amount varying with conditions in capital markets, portfolio needs, and volume of repayments on loans serviced for the investor. Mortgage companies generally maintain this kind of relationship with large life insurance companies and with some large savings banks.

Typically, under this arrangement, correspondents may receive allocations of funds from principals twice a year for six-month periods. The kinds of loans desired by investors under these allocations are generally indicated or known to the mortgage company through continuously close contact. Armed with a specified fund allocation and knowledge of investors' loan preferences, the correspondent proceeds to arrange for mortgage loans through builders, land developers, realtors, architects, other regular customers, or prospective new borrowers. The mortgage company will generally not firmly commit itself to make these loans, however, until it has submitted them to the principal investor for prior approval and received firm commitments to purchase them at a stated price and under other stated particulars. The investors' commitments may be either for immediate purchase of loans when completed and ready for delivery, or with some stated period in the future regardless of when the loans may be ready. Under the latter or forward type of commitment, described earlier, it is, of course, necessary for the mortgage correspondent to arrange for appropriate commercial bank warehousing credits. Some mortgage companies originate loans entirely for one investor, usually so large that the exclusive arrangement provides an advantageous volume of business for the correspondent. Other companies, dealing with investors of various types, perhaps have the advantage of somewhat greater flexibility in being able to negotiate a wider diversity of loans, each acceptable to at least one of their principal investors.

Another type of mortgage company-investor relationship is characterized, in effect, by the absence of a continuing contractual arrangement. Such a relationship is often preferred by smaller investors who come into the mortgage market from time to time as they desire mortgage investments. Such investors seldom make allocations of funds to correspondents; they may acquire loans from one or more mortgage companies in the same general area and enter into servicing contracts on the basis of individual transactions. In dealing with these investors, mortgage originators with

limited capital more commonly submit prospective loans for prior approval and commitment than originate them on their own financial responsibility.

AGE, GROWTH, AND GEOGRAPHIC DISTRIBUTION

Modern mortgage banking in this country, as it operates today, is a relatively young industry. It has had a spectacular growth in the postwar decade, far greater than that of other financial institutions active in the expanding real estate and mortgage markets. Growth in number and assets of mortgage companies has been greatest in those areas that have experienced a particularly sharp expansion in residential building and sales and are generally removed from financial centers. The greater growth of companies located in areas where other financing institutions are not numerous reflects the importance of one basic economic function the companies perform, that of channeling funds from capital surplus to capital deficit areas.

Age

The youth of the mortgage banking industry is affirmed by the fact that of 854 companies operating as FHA-approved mortgagees in 1954, 445, or more than one-half, were incorporated in the postwar decade. Nearly one-fourth of these, moreover, were incorporated in the five years beginning in 1950. The stimulus given to the mortgage banking industry by the FHA is indicated in part by the number of companies incorporated in the five-year period following that agency's organization in 1934, a larger percentage—15 per cent—than in any other five-year period before 1945; more of those now in the larger asset-size groups were incorporated from 1935 to 1939 than in any other period. The median age of FHA-approved mortgage companies in 1954 was less than nine years and less than one in five could trace their lineage from before the Great Depression.

Logically enough, there is a close relationship between asset size of company and year of incorporation, proportionately more of the smaller than larger companies having been incorporated in recent years. Of the 194 companies incorporated in the last half of the postwar decade, 156 or four-fifths still had assets of less than $1 million at the end of 1954. Further, three-fifths of these and about one-half of the $1 to $2 million asset-size companies were incorporated in the postwar decade, whereas less than one-third of the larger companies are of such recent origin. Above the $2 million assets line, the relationship between size and age is less direct suggesting that, at this point, factors more important than age—management, area of operation, and policies of principal associated investors—

influence growth. (For greater detail on age of mortgage companies by asset size, see Table 1 of *The Postwar Rise of Mortgage Companies.*)

Growth

For financial enterprises, as for other industries, increases in the number of institutions, in amount of assets, and in volume of business are common measures of growth. By any of these criteria, mortgage banking has had an extraordinarily rapid growth in the postwar decade. This period, in which federally underwritten mortgage lending expanded rapidly and large-scale institutional investors widened their mortgage horizons to areas not previously explored, was especially propitious for the establishment of many new mortgage companies, the number nearly doubling in ten years.[7] During this same period the number of commercial banks, savings banks, and savings and loan associations, each far greater than mortgage companies, was declining slightly. Although life insurance companies also doubled in number and were about as numerous as mortgage companies at the end of 1955, the newcomers in the postwar decade were much smaller in size compared with the old established companies than were the new crop of mortgage companies compared with the old.

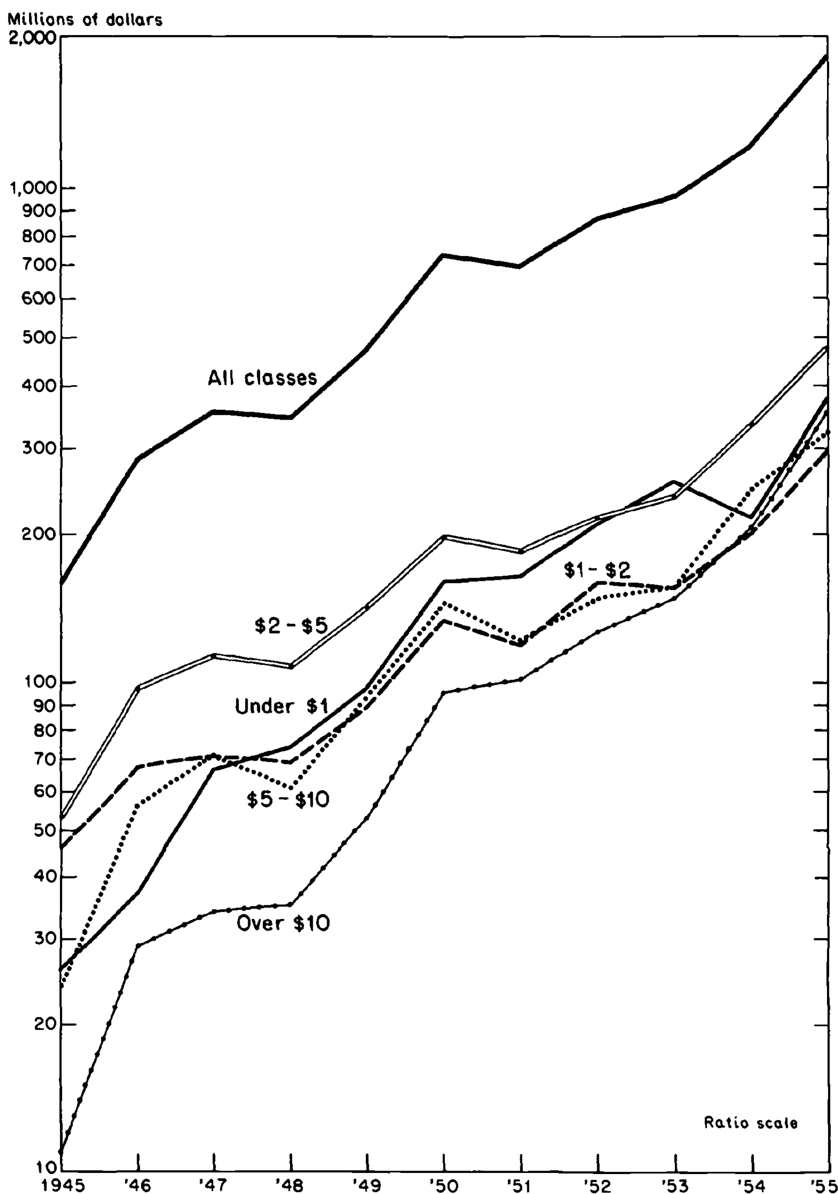
Far more spectacular than the doubling in number of mortgage companies was the tenfold increase in assets between 1945 and 1955, from an estimated $160 million to $1.8 billion. The much faster rate of growth in assets than in number of companies was reflected in the sharp rise in the average amount of asset holdings per company, from less than $350 thousand to over $2 million. The rate of growth was faster in the first half of the postwar decade, primarily because of the low starting point; the absolute increase in both total and average assets, however, was much greater after 1950 than before.

There have been substantial differences in the growth rate of mortgage companies in various asset-size classes, as suggested by Chart 29. The few companies having over $10 million in assets as of 1954 showed by far the greatest expansion in total assets during the postwar decade. The class ranking next in rate of growth was at the other extreme, the large number of companies with less than $1 million in assets, showing a slightly higher rate than companies in the $5 to $10 million class. For all sizes, the first

[7] The number of mortgage companies in earlier postwar years is probably understated slightly so that the rate of growth may be slightly overstated. Since the number is based on companies operating as FHA-approved mortgagees in 1954 or 1955, companies that existed in earlier years and subsequently went out of business are not included. Also excluded, of course, for all years are those mortgage companies not FHA-approved by 1954 or 1955. Both those groups are undoubtedly small parts of the total, however, and their omission should have little effect on the analysis.

CHART 29

Asset Growth of Mortgage Companies, by 1954 Asset-Size Class, 1945–1955



SOURCE: Klaman, *Postwar Rise of Mortgage Companies*, Tables 9 and A-1 through A-9.

half-decade's expansion rate was substantially greater than the second half-decade's, but the rates of growth were much more even among size classes in the second half of the decade than in the first. The sharp increase in total assets held by the smallest companies was, in part, the result of their more than doubling in number; but for the largest companies the great increase in total assets was due more to growth of individual companies than to the increase in their number.

TABLE 34

Mortgage Companies Classified by Asset Size in 1946 and 1954
(millions of dollars)

	1954 Asset Size											
1946 Asset Size	Under 1	1–2	2–3	3–4	4–5	5–6	6–7	7–8	8–10	10–15	Over 15	Total Companies
Under 1	302	80	24	13	7	5	2	1	1	—	—	435
1–2	—	13	8	11	3	5	4	3	—	2	—	49
2–3	—	4	5	—	6	2	4	1	1	2	1	26
3–4	—	3	—	4	1	1	—	—	1	—	3	13
4–5	—	—	—	—	1	—	1	—	1	—	—	3
5–9	—	—	—	—	—	—	—	—	—	—	1	1
Companies not in operation in 1946	254	41	15	4	4	4	—	2	—	2	1	327
Total companies	556	141	52	32	22	17	11	7	4	6	6	854

SOURCE: Records of the Federal Housing Administration. Data for companies having under $1 million in assets are based on a 10 per cent sample.

Another and perhaps more instructive way of looking at asset growth of mortgage companies in the postwar decade is by the extent of upward shift in asset holdings of individual companies. The sharp shift which occurred between 1946 and 1954 is shown graphically in Table 34. In the very small companies this upward shift in assets is much less pronounced than in the others. Of the 435 companies with less than $1 million in assets in 1946, over two-thirds were still in the same group in 1954—though, of course, the relative rate of asset growth of some must have been very high. By contrast only 23 or one-fourth of the 92 companies having assets of more than $1 million in 1946 were still in the same size class in 1954, and about half of them had at least doubled their assets.

Only a handful of companies moved counter to the trend, to higher asset-size classes in 1946 than in 1954. For example, of the 141 companies

holding between $1 and $2 million in 1954, 121, or 86 per cent, either had held less than $1 million or were not in operation during 1946. Of 22 companies having between $4 and $5 million of assets in 1954, half had less than $1 million or were not operating, and another two-fifths held between $1 and $3 million in 1946. In the top of the asset-size class, only 1 of the 12 companies holding more than $10 million in 1954 had approached this amount in 1946, while the remaining 11 companies had less than $4 million or were not in operation during 1946.

The postwar growth of mortgage companies is not adequately measured by their increasing number and assets alone. Consideration must especially be given to the volume of business done, which in the mortgage banking industry is generally measured by the amount of mortgage loans serviced for investors. Data on mortgage servicing, unfortunately, are available only for a few recent postwar years and are based chiefly on estimates developed in this study. These estimates rely on the special survey of mortgage companies made for this study and on data obtained earlier in registration statements under Regulation X when this selective real estate credit regulation was in effect.

According to these sources, the estimated volume of mortgages being serviced by mortgage companies had grown to $20 billion by the end of 1955, more than half again the estimated 1953 volume of about $12 billion, and more than three times the mid-1951 volume of $6 billion. This growth in servicing was considerably faster than in total home mortgage debt, so that by the end of 1955 mortgage companies were servicing between one-fifth and one-fourth of the one- to four-family mortgage debt compared with about one-eighth in 1951,[8] (see Table 5 of Klaman, *The Postwar Rise of Mortgage Companies*). The marked and increasing significance of mortgage companies in the home mortgage market reflects mainly their activity in federally underwritten mortgages. The estimated volume of FHA and VA loans being serviced by them was approaching one-half of the total outstanding by the end of 1955, compared with one-fourth in mid-1951. Finally, comparison of this volume with the home mortgage holdings of investors that are their chief servicing clients—life insurance companies, mutual savings banks, and the Federal National Mortgage Association—indicates that these institutions were having almost two-thirds of their total home mortgages and about four-fifths of those federally

[8] Comparison is made with one- to four-family mortgage debt rather than with total mortgage debt, because the bulk of all mortgage company activity is in the home mortgage market. Compared to total mortgage debt outstanding, the ratio of mortgage loans serviced by mortgage companies is, of course, smaller, but the relative growth is equally impressive, from less than 8 per cent in mid-1951 to 15 per cent dy the end of 1955.

underwritten serviced by mortgage companies, compared with one-third and two-fifths respectively in 1951.

The profitability of mortgage banking, reflected in the increasing volume of business, was undoubtedly a basic factor contributing to the attraction of new firms to the industry and the expansion of older firms, and hence to continued growth. Data on actual mortgage company earnings, either gross or net, are unfortunately not available. Some rough approximations may be suggested, however, from related information on volume of mortgage servicing and servicing fees and on income composition.

Gross income from mortgage servicing apparently increased from about $27 million in 1951 to $88 million in 1955, if we assume a weighted average servicing rate for the industry of about 0.45 per cent and apply this to estimates of servicing volume previously discussed. With the further assumption, on the basis of evidence from a few companies cited earlier, that servicing income contributed between one-third and two-fifths of total gross income of the mortgage banking business, it appears that gross income increased from between $68 and $83 million in 1951 to between $200 and $265 million in 1955, or more than threefold. During this same period the number of companies increased by only about 11 per cent so that gross income per company increased by more than 2½ times.

Because ratios of gross expense to gross income vary widely throughout the industry, it is possible to make only the roughest sort of guess about net income. A few companies in Washington, D.C., in special reports for this study, had ratios of gross expense to gross income between just under 80 to just over 90 per cent. If these ratios were representative, net income after taxes for the mortgage banking industry in 1955 would have been around $35 million, with a range of somewhere between $25 to $50 million, compared with a range of between $8 and $17 million in 1951. When related to average reported net worth in 1955 of about $226 million, the 1955 net income range suggests a rate of return for the industry in that year of between 11 and 22 per cent. At the lower boundary, this return is a little smaller than the 13.5 and 14.1 per cent returns reported in 1955 for sales finance and consumer finance companies, respectively. At the upper boundary, it is substantially greater than in these financial enterprises, or in commercial banking with an 8.1 per cent return.[9] In either case, the mortgage banking industry appears to rank among the more profitable groups of financial enterprises.

[9] *Consumer Instalment Credit,* Board of Governors of the Federal Reserve System, Part I, Vol. 2, *Growth and Import,* Chapter 1, "Financial Characteristics of Principal Consumer Lenders," 1957, Table 16, p. 31.

Geographic Distribution

Mortgage companies may be found in most states of the Union, but in number and amount of assets held there is a high degree of concentration in a few states and regions. In 1954, the last year for which comprehensive geographic data were available, well over one-half of mortgage company assets and two-fifths of the number of mortgage companies were located in the Pacific, East North Central, and West South Central states. Concentration was even more marked in 1945, but in different regions. Only the East North Central region maintained its leading ranking in 1954 but the proportion of mortgage companies and assets in this region was well under that of 1945. Partly, this reflected the great growth in mortgage companies in the Pacific and West South Central regions between 1945 and 1954, paralleling the marked expansion in population, residential building, and economic activity generally in these areas. Equally important perhaps, are the twin facts that these areas are far from the capital market centers of the East and that the local mortgage originating institutions, primarily commercial banks and savings and loan associations, were unable to supply all the funds needed. In this situation many new mortgage companies gained a foothold and rapidly expanded, together with older companies, as they placed and serviced an increasing volume of mortgage loans for large-scale eastern institutional investors entering these growing and profitable markets. In sharp contrast, the older industrialized New England region that experienced little increase in population and relatively modest gains in residential building and general economic activity, and is noted for its concentration of local thrift institutions having ample funds for local mortgages, offered no advantages for mortgage company location. The smallest fraction of all mortgage companies were located in New England—in Connecticut and Massachusetts only—and they held less than 1 per cent of all assets in both 1945 and 1954.

The great growth in mortgage companies in the Pacific and West South Central regions reflects principally developments in two leading states, California and Texas, where growth of assets in the postwar decade exceeded that of other important states by a wide margin. By 1954 one-seventh of all mortgage companies having nearly one-fourth of all industry assets were located in these two states alone.

Many of the states and regions that lead in mortgage company location are also among the most important in federally underwritten and total home mortgage lending. For example, three of the leading mortgage company regions—the East North Central, Pacific, and South Atlantic—have

similar proportions of mortgage company assets and of federally underwritten and total home mortgage activity. On the other hand, there is a wide divergence between the importance of mortgage companies and of mortgage lending activity in the Middle Atlantic and New England states. The former region is the most important in federally underwritten lending but is pulled down to fifth in mortgage company assets by New York State where few mortgage companies are located because of the concentration there of local lending institutions. Partly for the same reason, only a few mortgage companies are located in New England, although this region is more important than several others in VA and conventional mortgage lending especially.

Among the six leading mortgage company states, four—California, Pennsylvania, Texas, and Michigan (in that order)—rank among the first six in federally underwritten mortgage activity, and three—California, Illinois, and Pennsylvania—rank among the first six in total home mortgage lending activity.[10] For both federally underwritten and total home mortgage lending activity New York ranks second and third, respectively, but ranks nineteenth in total mortgage company assets. (See Tables 6, 7, A-13 and A-14 of Klaman, *The Postwar Rise of Mortgage Companies* for details of geographic distribution of mortgage companies and mortgage lending activity.)

Mortgage Operations

As outlined in preceding sections, the mortgage company's chief function is to originate and service mortgage loans for institutional investors, holding these loans in inventory for a short term in the period between mortgage origination and sale to institutions. Little quantitative information has been available, unfortunately, on the characteristics of mortgage company activities; on the types of mortgage loans they handle; on the distribution of mortgage sales among mortgage investors; or on the dependence of mortgage companies on investors' firm commitments or fund allocations. Some useful information on these activities, as well as quarterly balance sheet data, for the years 1953–1955 was obtained in the special survey of mortgage companies made for this study. In interpreting the findings of this survey, the limitations of the data should be borne in mind. These limitations, discussed in the appendix of Klaman, *The Postwar Rise of Mortgage Companies*, result chiefly from the small number of reporting companies relative to the universe, and from the disproportionate number of large companies included among respondents. The data are generally

[10] It is likely that Texas would also be a leading state in nonfarm mortgage recordings, but data are not available for this state.

of a lower order of dependability, therefore, than the data on financial structure obtained from FHA records which are discussed in the following section.

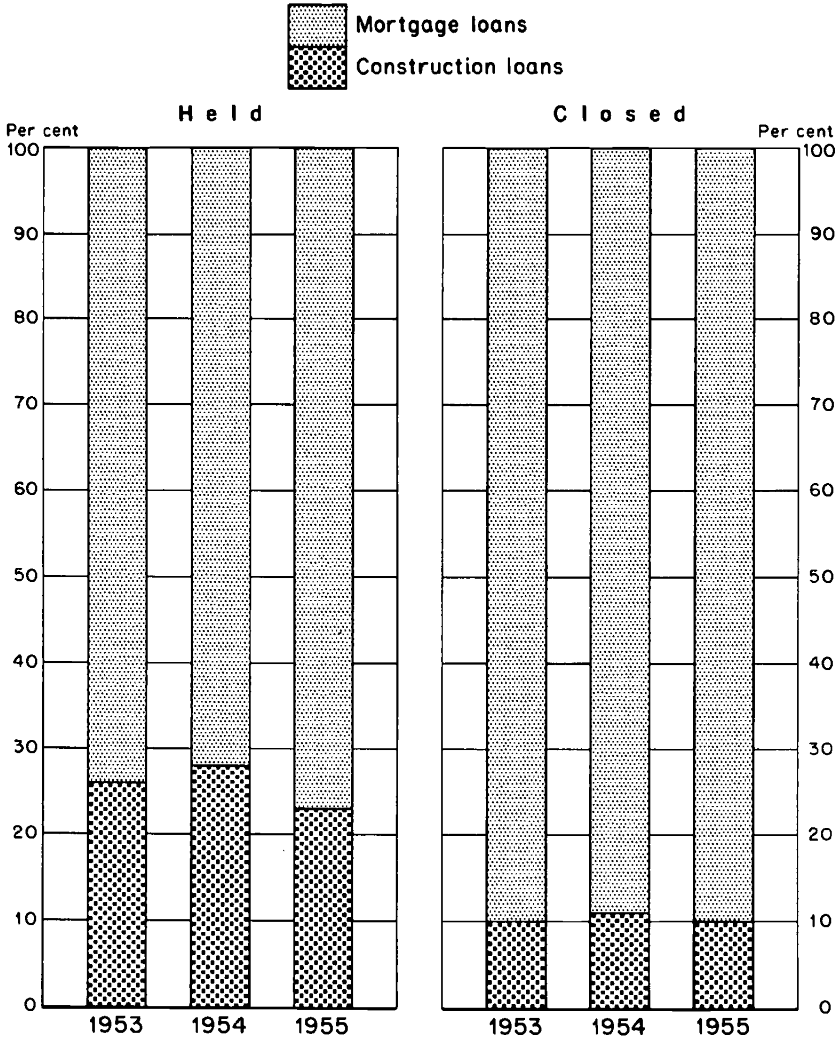
MORTGAGE AND CONSTRUCTION LOANS

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

According to survey data, only about 10 per cent of all mortgage loans closed during each of the years 1953 to 1955 were for construction purposes, while about one-fourth of mortgage holdings at the end of these years were construction loans, as shown in Chart 30. The larger proportion of construction loans held than closed by mortgage companies is a logical reflection of the fact that construction loans, involving separate advances over a period of months, generally stay on the books somewhat longer than regular loans. The latter require considerably less time for processing and closing and, except for unusually long periods of "warehousing" under some types of "standby" and "forward" commitments, pass from the closing stage to final sale to investors in from 60 to 180 days. The decline in the proportion of construction loans held at the end of 1955 while closings showed no change probably resulted from the longer period of regular mortgage loan holdings in 1955 under changing market conditions of that year.

Within the averages, wide differences in construction lending prevail among mortgage companies. Well over one-third of the 81 companies responding to this question in the survey held no construction loans at all in 1955, while one-fourth showed 40 per cent or more of their mortgage holdings to be construction loans. The median proportion of construction

CHART 30
Mortgage versus Construction Loans Held and Closed by Mortgage Companies, 1953–1955 (percentage distribution of dollar amounts)



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

loan holdings was one-seventh compared to a mean of nearly one-fourth. The data by size of company must be interpreted with caution because of the small number reporting, although it may be broadly indicative of differences among companies. In general a higher proportion of the largest companies (over $5 million in assets) make construction loans than of the smallest companies, but among the companies with over $1 million in assets making such loans there seems to be little relationship between size of company and proportion of construction loan holdings.

TYPES OF MORTGAGE LOANS

The concentration of mortgage company operations in federally underwritten mortgage loans, especially those guaranteed by the Veterans Administration, is shown in Chart 31. In each of the years 1953, 1954, and 1955, from three-fourths to well over four-fifths of loans closed and about nine-tenths of loans held were federally underwritten. In each case, a rising percentage of loans was VA-guaranteed, reflecting the increased desirability of such loans to institutional investors in the changing capital market situation of that period. The somewhat larger proportion of federally underwritten loans held than closed by mortgage companies (and conversely, the smaller proportion of conventional loans held than closed) is due largely to two factors: (1) the longer time required for processing and documenting of both FHA and VA loans than conventional loans; and (2) the virtual limitation of warehousing and other market techniques to federally underwritten loans, which makes it possible (or necessary) for mortgage companies to hold such loans in inventory longer than conventional loans.

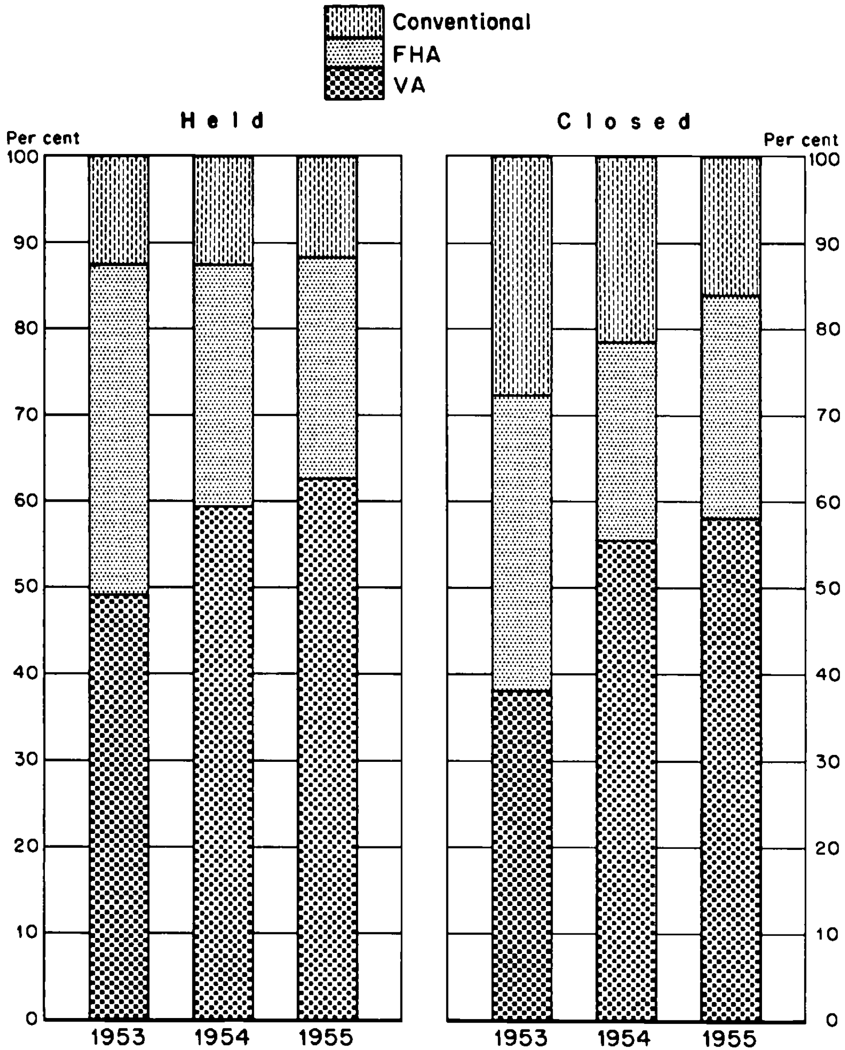
Among 66 responding companies holding about one-fifth of the total amount of mortgage loans held by all mortgage companies in 1955, more than two-thirds reported that less than 20 per cent of their loans closed were conventional mortgages. Almost three-fourths of the responding companies, on the other hand, reported that at least 40 per cent of their loans closed were VA-guaranteed and over 20 per cent were FHA-insured. A similar breakdown of activity characterized mortgage holdings. The largest companies, those having over $5 million in assets, showed by far a larger proportion of holdings in VA loans and a smaller proportion in conventional loans than the other companies. Most companies in each size group, however, reported that the bulk of their mortgage loans closed and held were federally underwritten.

Survey results tend to confirm the general impression that mortgage companies concentrate their activities on real estate loans secured by

CHART 31

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

(percentage distribution of dollar amounts)



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

one- to four-family properties. In addition to VA and FHA loans which are almost entirely on one- to four-family houses,[11] the bulk of conventional mortgage loans closed and held by mortgage companies are on such properties. But companies that reported a breakdown of their conventional loans were only about half as many as reported other data, and the resulting figures are too thin to present in detail. As a broad indication of the pattern of conventional loans handled by mortgage companies, however, over four-fifths of the conventional loans closed by 40 companies were on one- to four-family properties. One-half of the companies reporting indicated that their conventional mortgage lending activity in 1955—both loans closed and held—was limited exclusively to loans on one- to four-family properties. Most of the remaining companies showed, with little variation by size of company, well over one-half of their conventional loans to be on small homes.

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

PRINCIPAL PURCHASERS OF MORTGAGE COMPANY LOANS

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

As shown in Table 35, the proportion of reporting mortgage companies that depend exclusively on life insurance companies for their sales has declined from well over one-fourth in 1953 to somewhat over one-sixth in

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

TABLE 35

Distribution of Mortgage Loans Sold by Selected Mortgage Companies to Institutional and Other Investors, 1953–1955
(per cent of companies)

	1953			1954			1955		
Percentage of Mortgage Loans Sold	Life Insurance Companies	Mutual Savings Banks	All Others	Life Insurance Companies	Mutual Savings Banks	All Others	Life Insurance Companies	Mutual Savings Banks	All Others
0	2.5	46.7	41.8	1.2	39.5	34.8	1.1	35.1	31.9
1.0– 9.9	1.3	8.9	22.7	1.2	7.0	30.2	4.4	7.7	36.2
10.0–19.9	5.1	12.7	16.5	7.0	17.4	18.6	4.4	15.4	19.8
20.0–29.9	3.8	10.1	7.6	2.3	9.3	7.0	2.2	15.4	2.2
30.0–39.9	2.5	5.1	3.8	4.7	3.5	4.7	3.3	3.3	4.4
40.0–49.9	3.8	5.1	3.8	5.8	9.3	—	5.5	5.5	2.2
50.0–59.9	6.3	3.8	2.5	4.7	7.0	3.5	6.6	6.6	2.2
60.0–69.9	6.3	2.5	—	10.5	1.2	—	11.0	4.4	—
70.0–79.9	13.9	1.3	—	11.6	2.3	—	9.9	3.3	—
80.0–89.9	8.9	2.5	1.3	15.1	2.3	1.2	21.9	1.1	1.1
90.0–99.9	17.7	1.3	—	16.2	1.2	—	12.1	1.1	—
100.0	27.9	—	—	19.7	—	—	17.6	1.1	—
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Median %	85.0	3.6	3.6	80.8	12.0	5.0	80.8	14.6	5.0
Number of companies	79	79	79	86	86	86	91	91	91

SOURCE: Special survey of mortgage companies.

1955. A similarly proportionate reduction occurred in the share of companies selling over 90 per cent of their loans to life insurance companies. During these years mutual savings banks substantially increased their out-of-state mortgage activities, particularly in VA loans, providing an important supplementary outlet for mortgage company sales. Whereas in 1953 almost one-half of all reporting mortgage companies sold no mortgages at all to savings banks, by 1955 the comparable proportion was reduced to slightly over one-third. Moreover, one-sixth of the mortgage companies reported that at least 50 per cent of their sales went to savings banks in 1955, compared with one-ninth in 1953 (Table 35). More mortgage companies sold some mortgages to other investors, including savings and loan associations, commercial banks, and the Federal National Mortgage Association, in 1955 than in 1953 but the proportion of such sales to total sales continued to be very small and even decreased. The percentage of companies selling over 20 per cent of their loans to other investors declined sharply between 1953 and 1955, from almost one-fifth to one-eighth, as a reflection chiefly of decreased reliance on FNMA under changing market conditions.

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

LOAN CLOSINGS AND INVESTOR COMMITMENTS

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

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

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

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

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 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 36, which shows that the number of companies having under $1 million in assets declined from over four-fifths of all companies

TABLE 36
Distribution of Mortgage Companies and Assets, by Asset-Size Class in Selected Years, 1946–1954
(dollars in millions)

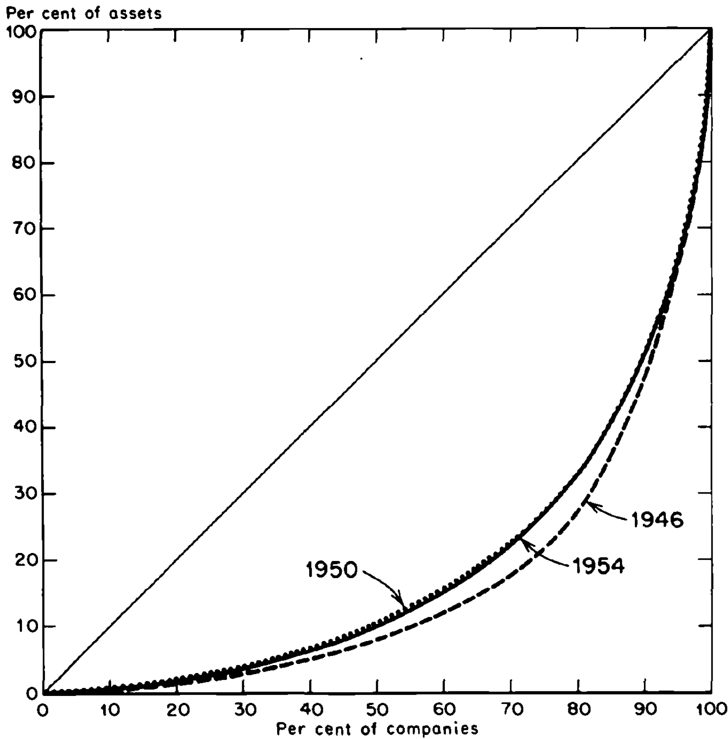
Asset Size Class	*Number of Companies*			*Amount of Assets*		
	1946	1950	1954	1946	1950	1954
All Classes	527	713	854	286	731	1,202
Under 1	435	506	556	95	164	217
1–2	49	105	141	65	142	201
2–5	42	79	106	118	237	333
5–10	1	15	39	8	97	248
Over 10	—	8	12	—	91	204
			PERCENTAGE DISTRIBUTION			
All classes	100	100	100	100	100	100
Under 1	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

SOURCE: Same as Table 34.
[a] Less than 0.5 per cent.

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.

CHART 32

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 Federal Housing Administration.

Also indicated in Table 36 is the continuing unequal distribution of assets among mortgage companies that 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 32. 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.[12]

The chart indicates that there was very little change in the degree of asset concentration among mortgage companies over the postwar decade although that decade 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.[13]

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 37 and 38. (Several additional combined balance sheets by asset-size class of company are given in Tables A-1 through A-10 of Klaman, *The Postwar Rise of Mortgage Companies.*)

For the decade as a whole, growth in mortgage and construction loans was markedly greater than in other components or total assets and increased as a proportion of total assets from less than one-half to over three-fourths between 1945 and 1955. This sharp growth reflects in part the unusual character of the beginning and terminal 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.

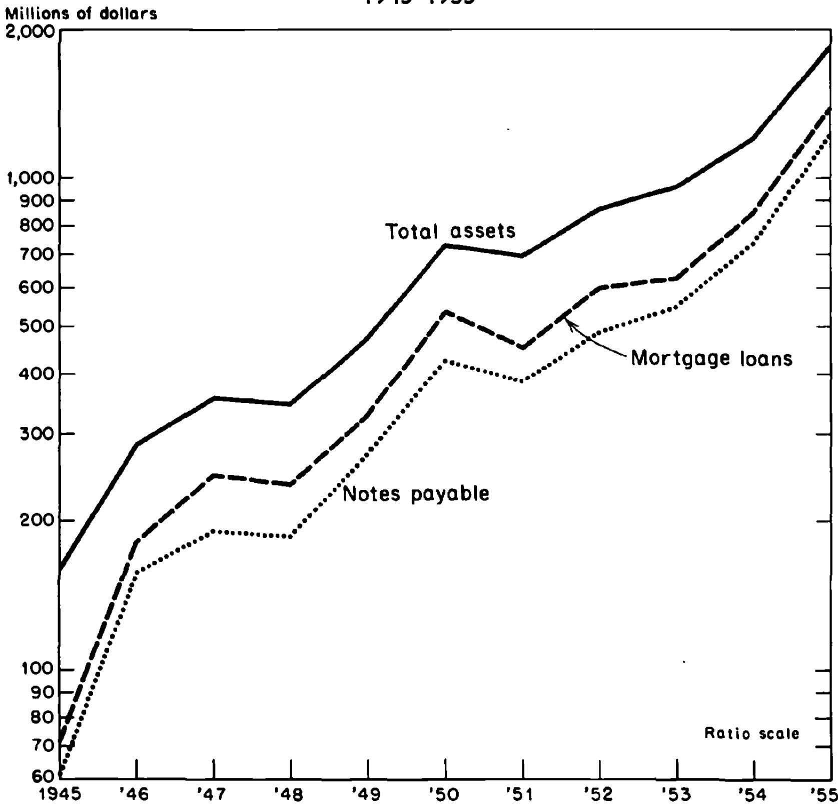
While mortgage companies are not engaged in the business of making mortgage loans as permanent investment of their own funds, their mortgage holdings rise in years of increased mortgage activity because of an increased volume of loan closings held in temporary inventory for ultimate sale. Without exception, sharp year-to-year gains in total assets have reflected even sharper relative gains in mortgage inventory, as shown in Chart 33. In the three annual periods of most rapid asset growth—1945–1946, 1949–1950, and 1954–1955—the rise in mortgage inventory accounted for

[12] For a fuller discussion of size distribution among financial intermediaries, see Raymond W. Goldsmith, Appendix C in mimeographed Supplementary Appendixes to *Financial Intermediaries in the American Economy since 1900*, New York, National Bureau of Economic Research, 1958 (available for reference in the NBER library).

[13] *Ibid.*, Appendix C, Chart C-1.

CHART 33

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



SOURCE: Table 37.

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 34, 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.

There appears to be 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 in 1954) had well over four-fifths of their assets in mortgage loans, compared to a proportion of between one-half and two-thirds for the smallest companies (under $2 million in assets). This relationship is readily explainable by the fact that both relatively

TABLE 37

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

	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955
Assets											
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 and 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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	490.5	501.0	643.0	1,113.8
5. Construction loans	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	107.3	122.6	201.6	258.4
6. Notes and 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 and 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
Liabilities and net worth											
10. Total liabilities and 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

SOURCE: All data are based on records of the FHA except the breakdown of mortgage and construction loans and notes payable (lines 4, 5, and 13, 14, respectively) 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.

n.a. = not available.

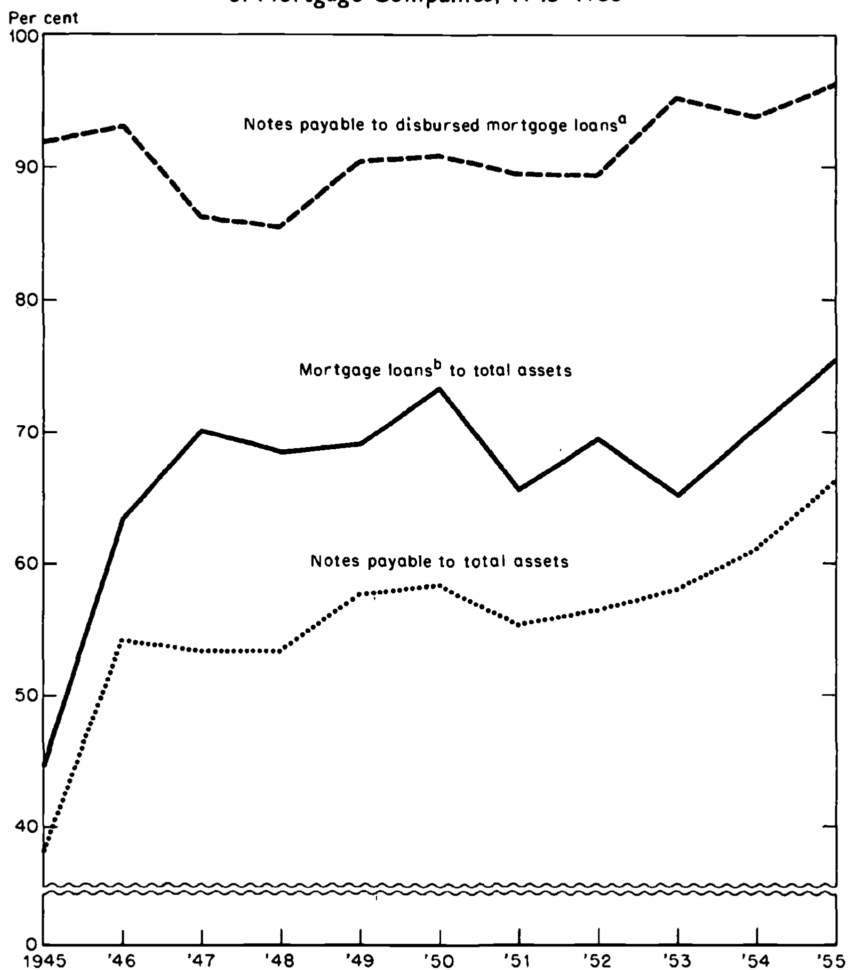
TABLE 38

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

	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955
Assets											
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 and 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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	57.0	52.4	53.5	61.1
5. Construction loans	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	12.5	12.8	16.8	14.2
6. Notes and 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 and 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
Liabilities and net worth											
10. Total liabilities and 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

SOURCE: Derived from Table 37.
n.a. = not available.

CHART 34
Relationships Among Mortgage Loans, Notes Payable, and Total Assets of Mortgage Companies, 1945–1955



SOURCE: Table 37.

[a] Total mortgage and construction loans adjusted by subtracting undisbursed loans.
[b] Includes construction loans.

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. 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[14] 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, originated 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.

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 the chief source of funds. Mortgage companies borrow small amounts from nonbank sources, but these have been typically less than 5 per cent of notes payable. Total notes payable increased from $61 million in 1945 to $426 million in 1950 and to over $1.2 billion in 1955. The increase in bank borrowing accounted for over two-thirds of the total sources of mortgage company funds over the postwar decade.

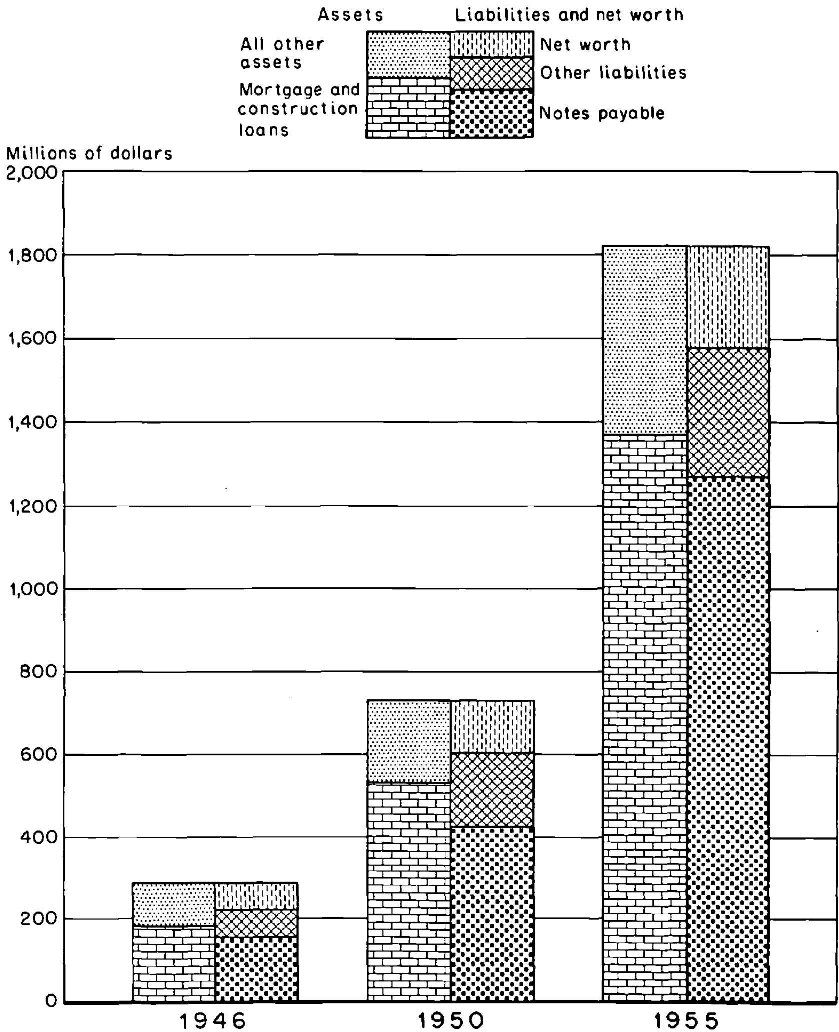
That bank borrowing[15] and mortgage inventory are closely related in amount and importance in the financial structure of mortgage companies, irrespective of company size, is indicated in Charts 33 through 35. The fact that bank borrowing accounts for a somewhat smaller proportion of total assets than do mortgage loans (Chart 35) 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.

[14] See the Appendix of Klaman, *The Postwar Rise of Mortgage Companies*, for the distinction between loan correspondents and independent mortagees.

[15] In the subsequent discussion, "bank borrowing" and "notes payable" will be used interchangeably, for, while not precisely the same, upwards of 95 per cent of notes payable are owed to banks.

CHART 35

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



When the 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 34. In no year does the ratio fall below 85 per cent.

Among uses and sources of mortgage company funds other than mortgage loans and notes payable, cash and net worth are most significant. The largest part of the cash amount was, throughout the postwar decade,

escrow funds as shown in Tables 37 and 38, 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. 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. 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 (see Tables A-6 through A-10 of Klaman, *The Postwar Rise of Mortgage Companies*). There is also a much greater variation in ratios among smaller companies than larger ones. For companies with assets of less than $1 million, for example, the proportion that had a net worth to assets of less 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 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. 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.

Short-Term Movements in Uses and Sources of Funds, 1953–1955

Quarterly data on the financial structure of selected mortgage companies were obtained in a special survey made for this study (see the second part of the Appendix to Klaman, *The Postwar Rise of Mortgage Companies*). While subject to some short-comings inevitable in a small questionnaire survey, the data are nonetheless useful as guideposts to short-run changes in uses and sources of funds during a period encompassing both stringency and ease in capital markets. The dollar volume and composition of assets and liabilities of responding mortgage companies is shown in Table 39. The substantial agreement in the composition of resources for corresponding dates between the selected mortgage companies that reported quarterly data and the much larger number reporting annual data to FHA is seen by comparing Tables 38 and 39.[16] The close relationship between mortgage loans, notes payable, and total assets for both groups of companies is apparent also from a comparison of Charts 33 and 36.

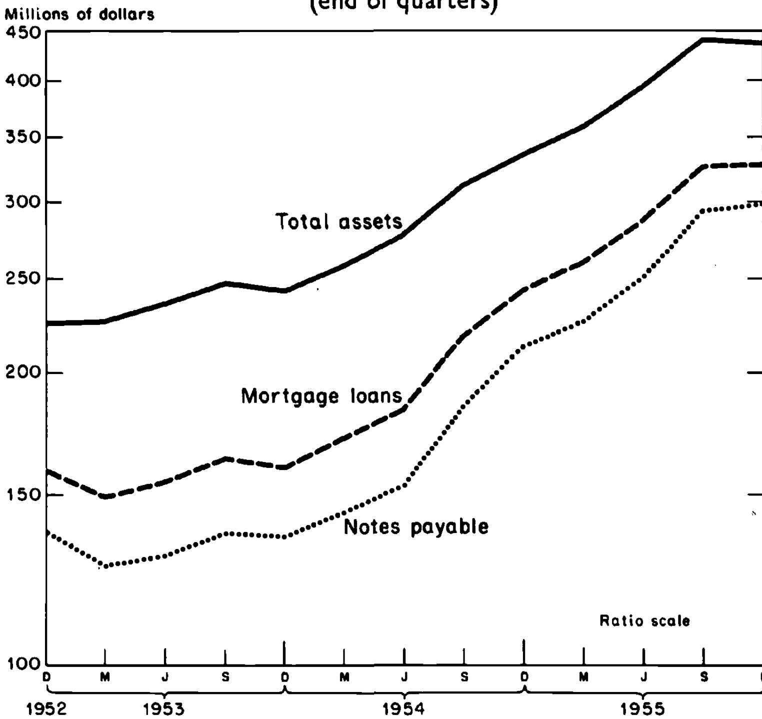
The quarterly movements shown in Chart 36 reflect both changes in capital market conditions and the basic nature of mortgage company operations. During the first two quarters of 1953, the volume of mortgage inventory changed little as capital markets were under strong pressure from Federal Reserve restrictive actions and from persistent private demands for capital. The level of holdings showed little further change in the second half of 1953, when the market eased slightly and interest rates generally declined. From the beginning of 1954 on, as investors became increasingly active in mortgage markets in a framework of continuing credit ease and declines in competitive interest rates, the growth in mortgage inventories held by companies was sharp and continued without interruption through the third quarter of 1955. The leveling off in the last quarter of 1955 reflected an earlier reduction in the rate of new investor commitments in a tightening capital market and the sale of completed mortgages from inventory.

[16] For reasons noted in the Appendix of Klaman, *The Postwar Rise of Mortgage Companies*, the most appropriate comparison is between the September 30th figures for each year in Table 39 with the corresponding annual figures shown in Table 38.

CHART 36

Total Assets, Mortgage Loans, and Notes Payable of Sixty-six Companies, Quarterly, December 31, 1952, through 1955

(end of quarters)



SOURCE: Special survey of mortgage companies.

These movements in mortgage holdings are suggestive of time lags in mortgage company activity following changes in capital market conditions. The most rapid rate of growth occurred after mid-1954, about a year after markets began to ease. In that period institutional investors were increasing their allocations of funds and commitments for mortgages to mortgage companies. Most of these arrangements did not result in completed mortgages until the third quarter of 1954, when mortgage inventory increased sharply together with bank borrowing to finance the loan closings. Mortgage inventories and bank loans continued to expand at a somewhat faster rate than total assets through the end of 1955. This trend can be seen from Chart 36 but is probably somewhat clearer in Table 39 which shows an increase in the ratio of mortgage loans to total assets from 66 to 70 per cent between June 30 and September 30, 1954, and to 75 per cent on December 31, 1955.

TABLE 39

Percentage Distribution: Combined Quarterly Balance Sheet of Sixty-six Selected Mortgage Companies, December 31, 1952 through 1955

	1952	*1953*				*1954*				*1955*				
	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Line
Assets														
1. Total assets ($ *millions*)	225.0	225.9	235.7	247.1	242.9	257.7	276.6	310.5	334.6	356.8	392.8	439.8	437.5	1.
2. Cash (inc. escrows)	14.7	16.7	16.7	17.1	17.3	17.9	18.4	15.6	14.1	15.0	14.6	14.1	12.0	2.
3. Mortgage and construction loans, total	70.2	66.1	65.4	65.9	65.8	66.5	66.0	70.2	72.8	72.7	72.9	73.9	74.8	3.
4. Mortgage loans	57.6	53.9	53.5	53.1	52.9	54.6	51.3	54.8	55.4	54.7	56.0	58.6	60.7	4.
5. Construction loans	12.6	12.2	11.9	12.8	12.9	11.9	14.7	15.4	17.4	18.0	16.9	15.3	14.1	5.
6. Notes receivable	1.4	1.6	2.1	1.9	2.1	2.4	2.5	2.3	2.6	2.2	2.4	2.1	2.4	6.
7. Accounts receivable	2.2	2.6	2.6	2.6	2.9	2.1	2.7	2.8	2.2	1.9	2.1	1.9	1.9	7.
8. Other assets	11.5	13.0	13.4	12.5	11.9	11.1	10.4	9.1	8.3	8.2	8.0	8.0	8.5	8.
Liabilities and Net Worth														
9. Total liabilities and net worth ($ *millions*)	225.0	225.9	235.7	247.1	242.9	257.7	276.6	310.5	334.6	356.8	392.8	439.8	437.5	9.
10. Escrows	9.5	12.3	13.4	13.6	11.5	13.2	14.5	12.7	9.9	11.0	11.7	11.2	9.0	10.
11. Notes payable, total	60.7	56.2	55.0	55.2	55.9	55.8	55.2	59.3	63.5	63.3	63.9	66.6	68.1	11.
12. To banks	58.1	54.5	52.7	52.2	53.7	53.5	52.8	57.3	61.9	61.6	62.3	64.7	66.3	12.
13. To others	2.6	1.7	2.3	3.0	2.2	2.3	2.4	2.0	1.6	1.7	1.6	1.9	1.8	13.
14. Accounts payable	2.5	2.0	2.4	2.2	3.0	2.5	2.7	2.2	1.7	2.0	1.7	1.5	1.7	14.
15. Undisbursed mortgage loans	4.5	3.8	4.9	5.4	6.0	5.5	6.0	6.3	6.7	6.0	6.0	4.8	4.1	15.
16. Other liabilities	6.6	8.3	7.7	7.3	7.0	6.7	5.8	5.2	5.2	4.7	4.9	4.6	5.6	16.
17. Net worth	16.3	17.4	16.6	16.3	16.6	16.3	15.8	14.3	13.0	13.0	11.8	11.3	11.5	17.

SOURCE: Table 27 of Klaman, *The Postwar Rise of Mortgage Companies.*

While the rates of change in mortgage company assets and mortgage inventories varied considerably between quarters, a rather definite seasonal pattern of operations is suggested by the data, with the rate of growth in total assets, mortgage loans, and notes payable successively larger through the first three quarters of each year and declining in the fourth quarter (see Table 29 of Klaman, *The Postwar Rise of Mortgage Companies*). The substantially greater rate of increase in the third quarter of 1954 compared with the other years is a reflection of the abrupt change in capital markets between mid-1953 and mid-1954, noted above. Further, the continued large increase in the fourth quarter of 1954 was undoubtedly the result of the usually heavy buildup of commitments in earlier months of that year.

The peaking of growth in mortgage inventory in the third quarter of each year results from the nature of the relationship between mortgage companies and institutional investors and from the seasonal nature of building activity. Financial institutions, especially life insurance companies dealing regularly with mortgage companies, usually make their allocations and commitments for mortgages early in each calendar year. Arrangements to finance residential construction and sales are then made by mortgage companies. The houses and permanent mortgages are not completed or delivered until several months later. As mortgages are closed on houses finished and sold, the temporary mortgage inventories held by mortgage companies increase at an accelerating rate to a peak rate in the third quarter. By the fourth quarter of the year, the rate of building and of completing new mortgages slows down, while mortgages already completed and processed are taken up by permanent investors, with a resulting decline or a slowing down in the rate of increase in mortgage companies' inventories. The close relationship between quarterly rates of growth in mortgage inventory and bank borrowing to finance such inventory is evident in Table 39.

There is little reason to expect any similarity of movement during the year or a consistent relationship between total home mortgage debt and mortgage debt held by mortgage companies, and none seems to be indicated by a comparison of columns 1 and 2 of Table 40. Changes in total home mortgage debt reflect the combined actions of several different types of institutions and of individuals acquiring mortgages generally for permanent investment rather than short-term inventory. As market conditions changed, the quarterly peak rate of growth in total home mortgage debt shifted from the second quarter in 1953 to the fourth quarter in 1954, and back to the second quarter in 1955; but this did not alter the seasonal pattern of mortgage companies' inventory holdings.

There does, however, appear to be a definite complementary relationship between growth in mortgage company inventories and in mortgage holdings of life insurance companies, which predominate in purchases of mortgage loans from mortgage companies. As indicated in columns 3 and 4 of Table 40, the greatest increase in life insurance company mortgage holding occurs consistently in the fourth quarter of each year, reflecting chiefly acquisitions of VA-guaranteed mortgages. The clear implication

TABLE 40

Percentage Changes in Mortgage Inventory of Mortgage Companies and One- to Four-Family Mortgage Debt Outstanding, 1953–1955

End of Quarter		Mortgage Holdings of Mortgage Companies (1)	1- TO 4-FAMILY MORTGAGE DEBT		
			Total	*Held by Life Insurance Companies*	
				Total	VA-guaranteed
			(2)	(3)	(4)
1953	Mar. 31	−5.4	2.7	2.9	0.7
	June 30	3.1	3.7	2.9	0.9
	Sept. 30	5.7	3.3	2.8	1.6
	Dec. 31	−1.9	2.7	3.2	3.2
1954	Mar. 31	7.2	2.2	2.7	3.6
	June 30	6.5	3.4	3.3	5.5
	Sept. 30	19.5	4.0	3.5	7.8
	Dec. 31	11.7	4.2	4.6	10.7
1955	Mar. 31	6.5	3.8	3.6	7.3
	June 30	10.5	4.7	3.5	6.3
	Sept. 30	13.5	4.1	3.5	5.2
	Dec. 31	0.7	3.3	5.4	9.0

SOURCE: Col. 1: From Klaman, *The Postwar Rise of Mortgage Companies*, Table 29.
Cols. 2, 3, and 4: Derived from quarterly figures shown in various issues of the *Federal Reserve Bulletin*, for example, May 1956, pp. 490 and 491.

is that the rate of growth in mortgage company inventories declines sharply in the fourth quarter of each year as life insurance companies increase the rate of their acquisitions of mortgages, especially federally underwritten mortgages, the chief market interest of mortgage companies.[17]

Concluding Comments

The modern mortgage company is a financial institution not quite like any other on the American capital market scene. Its functions are similar, in

[17] Figures on gross mortgage acquisitions by life insurance companies are, of course, a more direct measure of market activity but were not used in Table 40 because no comparable quarterly figures exist for other institutions. Actually, examination of the gross acquisitions figures for the years 1953–1955 indicates that the largest volume of mortgages was acquired by life insurance companies in the fourth quarter of each year, bearing out the above analysis based on net acquisitions data.

a way, to those of municipal bond dealers and securities underwriters who act as intermediaries between borrowers and lenders and carry temporary inventories with the help of short-term bank credit. They are similar, in other ways, to those of sales finance companies that rely heavily on commercial bank and other external financing to extend consumer credit and carry large inventories of net receivables. The mortgage company is unlike these institutions, however, in that it operates largely on the basis of prior commitments from financial intermediaries and originates loans primarily to obtain accounts for servicing mortgages. It thus maintains a close and continuing relationship with institutional investors that has no counterpart among other types of institutions.

The study establishes that the remarkably rapid postwar growth of mortgage companies has been associated with the introduction and expansion of federal mortgage insurance and guaranty programs. Between three-fourths and nine-tenths of mortgage loans closed by mortgage companies in each of the years 1953 through 1955 were VA-guaranteed or FHA-insured. Clearly, the future pattern of mortgage company development and growth will depend heavily on the future course of these federal credit aid programs. Efforts by mortgage companies to expand their conventional loan business might be blunted by legal restrictions on out-of-state operations by financial intermediaries, by competition from local lenders traditionally engaged in this type of operation, and by numerous problems in conducting a conventional loan business for investors at a distance and in attracting investors to it.

Among major types of financial intermediaries, only life insurance companies and mutual savings banks deal extensively with mortgage companies, and the banks are subject to geographic restrictions on their conventional mortgage lending activities. The already great dependence of mortgage companies on life insurance companies, therefore, would undoubtedly increase with an increased proportion of conventional lending. It is unlikely that mortgage companies could find increased outlets for conventional loans among commercial banks and savings and loan associations, which typically compete in origination of loans, instead of purchasing them from mortgage companies. In any case, savings and loan associations are also subject to geographic lending restrictions. Even among life insurance companies, many might be reluctant to expand their out-of-state conventional mortgage investments materially because of the lack of uniformity in mortgage contracts and in state statutes, the generally greater exposure to loss in case of default or foreclosure, and the need for closer examination and supervision of properties pledged. On the other hand, the experience and

techniques developed by mortgage bankers in the origination of federally underwritten mortgages may be successfully adapted to conventional mortgage lending. A few mortgage companies already carry on a large volume of conventional mortgage origination and servicing for investors. In the final analysis, any significant expansion of conventional mortgage business by mortgage companies will depend on the ability and willingness of investors to increase their activity in this area and of borrowers to adjust to the more restrictive conventional mortgage loan terms.

In any event, the likelihood that the role of the federal government in mortgage and housing markets will diminish significantly in the years ahead is not very great. Recent counter-cyclical policy has relied heavily on adjustments in federal housing and mortgage programs. Mortgage insurance under FHA is among the earliest and most basic federal aids in the field of real estate finance. It is now deeply entrenched in the American real estate scene and is likely to continue as a basic part of domestic economic policy independent of political events.

The more recently introduced VA-guaranty program for veterans of World War II has already been extended twice beyond its original expiration date of July 1957. When it may be allowed to terminate—if at all—will depend mainly upon prevailing economic and political conditions. Moreover, the Korean VA loan program is established until early 1965. Several million veterans remain eligible for loans under both programs.

While it is clear that the potential flow of mortgage funds under federally underwritten programs is large, it seems equally clear that this flow will continue to fluctuate widely so long as the federal government continues its policy of maintaining relatively inflexible interest rates on VA and FHA mortgages. The postwar record plainly indicates that alternate shifts between ease and stringency in Federal Reserve monetary policy and in capital market conditions have been accompanied by exaggerated swings in federally underwritten mortgage flows. These swings have been coincident with a widening and narrowing of the spread between relatively stringent interest rates of VA and FHA contracts and the flexible yields of corporate bonds. The flow of conventional mortgage funds, on the other hand, has fluctuated only narrowly as private lenders have been free to adjust interest rates to changing financial conditions.

So long, therefore, as mortgage companies continue to concentrate their activities in federally sponsored mortgages, they will be particularly vulnerable, compared with other types of financial institutions, to changing financial conditions and to unpredictable federal statutory and administrative changes.