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Volume Author/Editor: Carl F. Behrens

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Chapter Author: Carl F. Behrens

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CHAPTER 2

# Role of Commercial Banks in the Urban Mortgage Market

THE market in which urban real estate mortgage financing is conducted is far from homogeneous. On the demand side are borrowers ranging from the individual whose credit requirements are small, and possibly of a short-term character, to the large corporation seeking a loan that may run to millions of dollars and be repaid over several decades. Suppliers of funds include, on the one hand, individuals with but a few hundred dollars to be loaned for a short period, and, on the other hand, large banks and insurance companies with, in some cases, millions of dollars committed on individual projects for a long time.

The major financial institutions—life insurance companies, savings and loan associations, mutual savings banks, and commercial banks—are the main sources of urban real estate mortgage credit, but individuals and miscellaneous private lenders also constitute an important source. How important are commercial banks as a source of urban mortgage credit? How do banks of different size and location compare with regard to their holdings of mortgage loan assets? How does the volume of urban real estate mortgage assets of commercial banks compare with that of other types of assets and with their time deposit liabilities? It is with these and related questions that the present chapter deals.

## Urban Mortgage Credit Outstanding in Commercial Banks, 1949

At the end of 1949, after several years of extensive private building activity, the urban mortgage loans carried as earning assets by insured commercial banks amounted to $10.5 billion of which $8.5 billion were loans on residential properties and $2.0 billion were loans on other types of property (Table 1). The distribution of the $10.5 billion total among the three types of banks was as follows:

TABLE 1 — INSURED COMMERCIAL BANK URBAN MORTGAGE LOANS, CLASSIFIED BY TYPE OF PROPERTY AND TYPE OF BANK, DECEMBER 31, 1949 [a]

(*dollar figures in millions*)

| *Type of Bank* | *All Urban Mortgage Loans* | *Loans Secured by* Residential Properties | Other Properties |
|---|---|---|---|
| | | *Distribution of Amount* | |
| National | $5,563 | $4,532 | $1,031 |
| State member | 2,770 | 2,224 | 547 |
| State nonmember | 2,194 | 1,757 | 437 |
| *All Banks* | *$10,527* | *$8,513* | *$2,014* |
| | *Percentage Distribution by Type of Property* | | |
| National | 100.0% | 81.5% | 18.5% |
| State member | 100.0 | 80.3 | 19.7 |
| State nonmember | 100.0 | 80.1 | 19.9 |
| *All Banks* | *100.0%* | *80.9%* | *19.1%* |
| | *Percentage Distribution by Type of Bank* | | |
| National | 52.8% | 53.2% | 51.2% |
| State member | 26.3 | 26.1 | 27.1 |
| State nonmember | 20.9 | 20.6 | 21.7 |
| *All Banks* | *100.0%* | *100.0%* | *100.0%* |

[a] Federal Deposit Insurance Corporation, *Assets and Liabilities, December 31, 1949, Operating Insured Commercial and Mutual Savings Banks,* Report No. 32, p. 10. Amounts do not always add to totals shown due to rounding.

national banks about $5.6 billion; state member banks, $2.8 billion; and state nonmember banks, $2.2 billion. For each of these types of banks, about 80 percent of the urban mortgage loans were secured by residential properties and the remaining 20 percent were secured by commercial properties. National banks accounted for more than half of each type of loan. At the same time life insurance companies held $11.8 billion of urban real estate mortgages, savings and loan associations $11.6 billion, mutual savings banks $6.7 billion, and individuals and other private lenders $17.4 billion.[1]

[1] Bureau of Foreign and Domestic Commerce, *Survey of Current Business,* October 1950, Table 6, p. 15.

### Commercial Bank Size and the Amount of Urban Residential Mortgage Investment [2]

The 13,436 operating insured commercial banks of this country reported total deposits of $143,194 million at the end of 1949, averaging a little more than $10 million each. However, the distribution of banks by deposit size is very uneven with a large number of very small institutions and a few very large ones. Nearly one-third of all banks have deposits of between $2 million and $5 million; 44 percent have deposits of less than $2 million, and 25 percent have deposits of $5 million and over (Table 2). It will be noted that banks with deposits of under $2 million held only 5 percent of all commercial bank mortgages on residential properties at the end of 1949, while banks with deposits of $5 million or more held slightly more than four-fifths of all such loans. Banks with deposits of from $2 to $5 million held 13 percent of the total. Finally, as can be seen, the few very large banks held most of the mortgages secured by residential properties. Banks having $100 million or more in deposits account for 1.3 percent of all insured commercial banks, and about 40 percent of all time deposits and outstanding bank mortgage loan balances.

For commercial banks considered as a whole, residential real estate mortgage loans amounted to 5.5 percent of total assets (Table 2). The percentage was largest for banks of intermediate size; institutions with deposits of from $2 to $25 million had somewhat larger percentages of their assets in the form of urban residential mortgages than did smaller or larger banks. The relationship of banks' holdings of residential mortgages to the amount of their time deposits is much more stable, varying only very little from one size-group of banks to another and with no systematic difference between small and large banks. For insured commercial banks as a whole the ratio of residential mortgage holdings to time deposits averaged 24.7 percent at the end of 1949 and varied among classes of banks within the narrow range of 21.6 and 26.0 percent. This suggests that bank managements may, as a matter of policy, set limits on their mortgage holdings by reference to the amount of their time deposits.

The relation between banks' holdings of residential mortgage loans and the amount of their capital varies considerably, and on the whole systematically, with bank size. For all banks, urban residential

[2] Data on commercial bank holdings of urban nonresidential mortgage loans are not available by size of bank.

TABLE 2 — LOANS SECURED BY RESIDENTIAL PROPERTIES AS A PERCENTAGE OF TOTAL ASSETS, TIME DEPOSITS, AND TOTAL CAPITAL OF INSURED COMMERCIAL BANKS, CLASSIFIED BY DEPOSIT SIZE OF BANK, DECEMBER 31, 1949[a]

*(dollar figures in millions)*

| *Deposit Size of Bank* (000,000) | *Insured Commercial Banks* | | *Time Deposits*[b] | | *Loans Secured by Residential Properties* | | *Loans Secured by Residential Properties as a Percentage of* | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number | Percent | Amount | Percent | Amount | Percent | Total Assets | Time Deposits[b] | Total Capital[c] |
| Less than $1 | 2,534 | 18.9% | $391 | 1.1% | $96 | 1.1% | 5.1% | 24.6% | 51.6% |
| 1.0 – 1.9 | 3,312 | 24.7 | 1,343 | 3.9 | 323 | 3.8 | 6.1 | 24.1 | 79.2 |
| 2.0 – 4.9 | 4,182 | 31.1 | 4,159 | 12.1 | 1,081 | 12.7 | 7.6 | 26.0 | 106.1 |
| 5.0 – 9.9 | 1,797 | 13.4 | 4,274 | 12.4 | 1,109 | 13.0 | 8.2 | 25.9 | 122.5 |
| 10.0 – 24.9 | 974 | 7.2 | 5,043 | 14.6 | 1,228 | 14.4 | 7.7 | 24.4 | 119.3 |
| 25.0 – 49.9 | 299 | 2.2 | 3,024 | 8.8 | 654 | 7.7 | 5.9 | 21.6 | 95.8 |
| 50.0 – 99.9 | 157 | 1.2 | 2,712 | 7.9 | 615 | 7.2 | 5.2 | 22.7 | 85.4 |
| 100 and over | 181 | 1.3 | 13,516 | 39.2 | 3,407 | 40.0 | 4.2 | 25.2 | 59.8 |
| *Total* | *13,436* | *100.0%* | *$34,462* | *100.0%* | *$8,513* | *100.0%* | *5.5%* | *24.7%* | *79.9%* |

[a] Data compiled by the Federal Deposit Insurance Corporation.
[b] Excludes government and interbank time deposits.
[c] Total capital includes the book value of capital notes, debentures, preferred and common stocks, surplus, undivided profits, and reserves other than for expenses.

mortgage loans amounted to 79.9 percent of total capital but banks in each of the three deposit-size groups—$2 to $5 million, $5 to $10 million, and $10 to $25 million—reported an amount of outstanding mortgage loans that was greater than their capital (Table 2). The ratio decreased with bank size to the point where banks with less than $1 million deposits had urban residential mortgage loans equivalent to but half of their total capital resources. The ratio of urban residential mortgage loans to capital also decreased as the size of the banks increased above $25 million, falling to 59.8 percent for banks with deposits of $100 million or more. In interpreting these data it should be borne in mind that the smaller banks are in the main in agricultural communities and hold considerable amounts of farm mortgage assets in addition to their residential loans, and that the larger, money-market banks participate in urban real estate financing indirectly in ways—e.g., through construction lending and loans to mortgage loan companies—that are not revealed by data on mortgage holdings alone.

## State Distribution of Commercial Bank Urban Mortgage Investment

Nearly three-fourths of the $10.5 billion of urban mortgage loans held by insured commercial banks as of December 31, 1949 were reported by banks located in twelve states which accounted for only one-half of all banking offices and three-fourths of all time deposits (Table 3). Striking differences will be noted as regards the relative importance of urban mortgage loans among bank assets in these states. Such loans amounted to 16.9 percent of total bank assets in California, but only 2.7 percent in New York. The ratio to time deposits, on the other hand, showed less regional variation in these leading states, clustering for most of them around the average of 30 percent, though there were sharp deviations in three states—California, Illinois and Missouri. This would suggest that in a number of states, at least, the relatively high proportion of bank resources obtained through the acceptance of time deposits accounts for the relatively heavy holdings of urban mortgages. Missouri, however, is an exception. The greatest variation was in the relation of urban mortgage loans to capital. In California such loans amounted to more than three times bank capital, whereas in New York they were less than a third.

TABLE 3 — LOANS SECURED BY URBAN PROPERTIES AS A PERCENTAGE OF TOTAL ASSETS, TIME DEPOSITS, AND TOTAL CAPITAL OF INSURED COMMERCIAL BANKS, CLASSIFIED BY LOCATION OF BANK, DECEMBER 31, 1949 [a]

*(dollar figures in millions)*

| *Location of Bank* | *Number of* | | *Time Deposits* [b] | *Loans Secured by Urban Properties* [c] | *Loans Secured by Urban Properties as a Percentage of* | | |
|---|---|---|---|---|---|---|---|
| | Banks | Offices | | | Total Assets | Time Deposits [b] | Total Capital [d] |
| 12 States with Greatest Mortgage Outstandings | 6,135 | 9,130 | $25,832 | $7,761 | 7.2% | 30.0% | 100.8% |
| California | 195 | 1,143 | 5,380 | 2,390 | 16.9 | 44.4 | 313.6 |
| New York | 633 | 1,389 | 3,911 | 930 | 2.7 | 23.8 | 32.7 |
| Pennsylvania | 960 | 1,137 | 2,885 | 841 | 7.6 | 29.2 | 77.7 |
| Ohio | 649 | 864 | 2,488 | 677 | 8.7 | 27.2 | 142.8 |
| New Jersey | 328 | 479 | 1,987 | 545 | 11.1 | 27.4 | 167.7 |
| Michigan | 418 | 637 | 2,119 | 607 | 11.2 | 28.6 | 205.8 |
| Illinois | 874 | 877 | 2,968 | 416 | 3.1 | 14.0 | 54.5 |
| Missouri | 571 | 571 | 679 | 369 | 8.3 | 54.3 | 141.4 |
| Wisconsin | 543 | 693 | 1,241 | 286 | 9.1 | 23.0 | 150.5 |
| Indiana | 477 | 576 | 871 | 260 | 8.0 | 29.9 | 136.8 |
| Massachusetts | 175 | 343 | 740 | 229 | 5.2 | 30.9 | 63.1 |
| Virginia | 312 | 421 | 563 | 211 | 10.4 | 37.5 | 141.6 |
| Other States, D.C., and U. S. Possessions | 7,301 | 8,836 | 8,630 | 2,766 | 5.8 | 32.1 | 93.9 |
| *United States* | *13,436* | *17,966* | *$34,462* | *$10,527* | *6.8%* | *30.5%* | *98.9%* |

[a] Data on number of banking offices supplied by the Federal Deposit Insurance Corporation; other data are from Federal Deposit Insurance Corporation, *Assets and Liabilities, December 31, 1949, Operating Insured Commercial and Mutual Savings Banks,* Report No. 32.

[b] Excludes government and interbank time deposits.

[c] Includes both residential and other urban mortgage loans.

[d] Total capital includes the book value of capital notes, debentures, preferred and common stocks, surplus, undivided profits, and reserves other than for expenses.

## Trends in Commercial Bank Urban Mortgage Lending, 1929–49

Total farm and nonfarm mortgage debt held by all commercial banks at the end of 1949 was $11.6 billion, or 18 percent of all mortgage debt outstanding in the United States (Table 4). Banks held 16 percent of all loans secured by farm properties and by one- to four-family dwellings and a larger proportion—22 percent—of the loans secured by multi-family and commercial properties. In other years for which data are available, commercial banks also held a larger proportion of all loans outstanding on multi-family and commercial properties than of those outstanding on other property types, though since 1941 they have held a slightly larger dollar amount in loans secured by one- to four-family dwellings than in loans secured by multi-family and commercial properties.

The relative importance of commercial banks in the mortgage market has varied considerably during the period 1929–49. During periods of mortgage credit expansion, commercial banks have in general, but not without exception, tended to increase their investment in mortgage loans more rapidly than other financial institutions and individuals and to withdraw from the mortgage market more rapidly than other investors during periods of contraction. For example, when total mortgage debt on one- to four-family dwellings declined from $19.5 billion in 1929 to $16.7 billion in 1936 and then increased to $37.3 billion in 1949, the proportion of this debt held by commercial banks declined from 10.1 percent in 1929 to 8.2 percent in 1936 and then rose to 16.4 percent in 1949 (Table 4). Data on mortgage debt secured by multi-family and commercial properties—available only since 1938—show the same direct correlation between volume of loans outstanding and proportion held by banks (Table 4). In this case, the proportion of mortgage loans held by commercial banks ranged from a low of 13.9 percent in 1944 to 22.8 percent in 1948, and in the following year showed a nominal decline to 22 percent. Although total mortgage debt on farm properties has increased only slightly in recent years, the commercial banks' share has risen from about 7 percent in the years 1934–38 to 16.3 percent in 1949.

Data on the relative importance of commercial banks in the urban mortgage market are shown in Table 4 for *all* commercial

TABLE 4 — TOTAL MORTGAGE DEBT OUTSTANDING AND PERCENT HELD BY ALL COMMERCIAL BANKS, BY TYPE OF PROPERTY, 1929–49[a]
*(dollar figures in billions)*

| End of Year | *Mortgage Debt Outstanding* | | | | *Percent Held by Commercial Banks* | | | |
|---|---|---|---|---|---|---|---|---|
| | | NONFARM | | | | NONFARM | | |
| | TOTAL | 1- to 4-Family Dwellings | Multi-Family & Commercial | FARM | TOTAL | 1- to 4-Family Dwellings | Multi-Family & Commercial | FARM |
| 1929 | $47.0 | $19.5 | $17.8 | $9.6 | b | 10.1% | b | 10.4% |
| 1930 | 47.8 | 19.6 | 18.8 | 9.4 | b | 9.9 | b | 10.1 |
| 1931 | 46.5 | 19.0 | 18.4 | 9.1 | b | 9.5 | b | 10.3 |
| 1932 | 44.0 | 17.9 | 17.7 | 8.5 | b | 9.3 | b | 10.5 |
| 1933 | 39.5 | 16.7 | 15.1 | 7.7 | b | 9.1 | b | 9.2 |
| 1934 | 38.4 | 17.0 | 13.9 | 7.6 | b | 7.1 | b | 6.6 |
| 1935 | 37.3 | 16.8 | 13.1 | 7.4 | b | 7.6 | b | 6.6 |
| 1936 | 36.6 | 16.7 | 12.8 | 7.2 | b | 8.2 | b | 6.8 |
| 1937 | 36.4 | 16.8 | 12.7 | 7.0 | b | 8.7 | b | 7.2 |
| 1938 | 36.5 | 17.1 | 12.7 | 6.8 | 10.9% | 9.3 | 14.7% | 7.7 |
| 1939 | 36.9 | 17.6 | 12.7 | 6.6 | 11.5 | 10.0 | 15.3 | 8.1 |
| 1940 | 37.7 | 18.4 | 12.9 | 6.5 | 12.0 | 10.5 | 16.1 | 8.4 |
| 1941 | 38.8 | 19.4 | 13.0 | 6.4 | 12.6 | 11.9 | 15.6 | 8.4 |
| 1942 | 37.9 | 19.2 | 12.7 | 6.0 | 12.5 | 12.3 | 14.9 | 8.0 |
| 1943 | 36.4 | 18.8 | 12.2 | 5.4 | 12.4 | 12.3 | 14.3 | 8.3 |
| 1944 | 35.7 | 18.8 | 12.0 | 4.9 | 12.4 | 12.2 | 13.9 | 9.1 |
| 1945 | 36.4 | 19.2 | 12.5 | 4.7 | 13.1 | 12.6 | 14.6 | 10.8 |
| 1946 | 42.8 | 23.6 | 14.4 | 4.8 | 16.9 | 15.7 | 19.7 | 14.3 |
| 1947 | 50.1 | 28.6 | 16.7 | 4.9 | 18.8 | 17.4 | 21.8 | 16.2 |
| 1948 | 57.5 | 33.5 | 19.0 | 5.1 | 18.9 | 17.0 | 22.8 | 16.6 |
| 1949 | 63.8 | 37.3 | 21.1 | 5.4 | 18.2 | 16.4 | 22.0 | 16.3 |

[a] All data except farm mortgage loans held by commercial banks are from Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, October 1950, Tables 6 and 7, p. 15. Data for farm mortgage loans are from the Department of Agriculture and represent only loans held by insured commercial banks. However, insured commercial banks accounted for 98 percent of the total assets of all commercial banks at the end of 1949. Amounts do not always add to totals shown due to rounding.

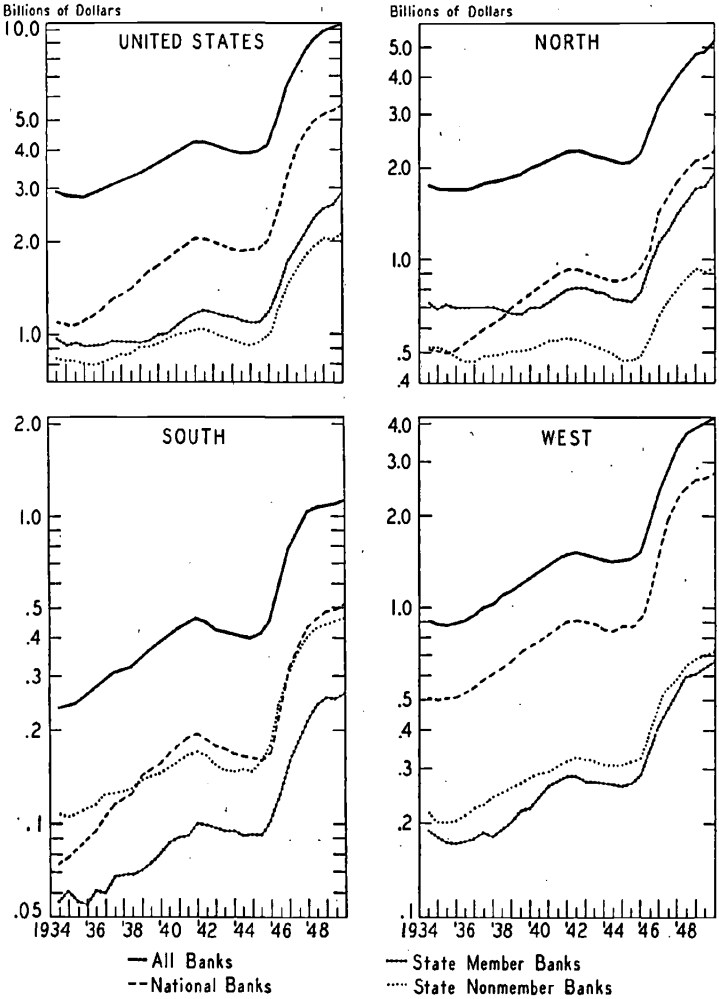
[b] Not available.

banks; however, in order to analyze changes in the amount of urban mortgage loans held by commercial banks and differences in rates of expansion according to type of bank and regional location of bank, it has been necessary to limit the study to total urban mortgage loans held by *insured* commercial banks, 1934–49 (Chart 1). This chart shows that, from a low point of $2.8 billion at the end of 1935, the loans on residential and other properties of operating insured commercial banks rose to $10.5 billion at the end of 1949. All three types of banks—national, state member, and state nonmember—showed substantial gains during this period; it will be noted, however, that the gains in the two state bank groups occurred mostly in the postwar period, whereas the urban mortgage loans of national banks advanced sharply in the period 1935–41 as well as during the postwar period. This sharp increase after 1935 in the urban mortgage holdings of national banks is doubtless attributable in large part to the liberalization in that year of the national banking laws affecting mortgage loans as indicated in Chapter 1.

In each of the three areas shown separately in Chart 1 the series representing state member banks and state nonmember banks fluctuated similarly.[3] In the western states the fluctuations of the national bank series were also similar to those of the two state bank groups, but series for the northern and southern states on the volume of real estate loans made by national banks in the period 1934–38 increased more rapidly than the series for either of the state bank groups, and have maintained a lead in volume most of the time since 1934. In the northern states, state member bank holdings of urban mortgage loans were consistently higher than those of state nonmember banks, whereas the opposite has prevailed in the southern area. Over the whole period since 1934 bank loans have increased much more rapidly in the South and West than in the North.

[3] States in each region, including two or more census regions, are as follows: *North*—Connecticut, Illinois, Indiana, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, and Wisconsin; *South*—Alabama, Delaware, Florida, Georgia, Kentucky, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia, and the District of Columbia; *West*—Arizona, Arkansas, California, Colorado, Idaho, Iowa, Kansas, Louisiana, Minnesota, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, and Wyoming.

CHART 1 – Urban Mortgage Loans Held by National, State Member, and State Nonmember Insured Commercial Banks, by Broad Regional Groups, 1934–49




Source: Federal Deposit Insurance Corporation.

Urban mortgage loans of insured commercial banks increased about five-fold from 1934 to 1949, with banks in the South and West showing the greatest expansion. Loans of national banks rose especially rapidly after 1935, doubtless owing to the liberalizing effect of legislation.