1967

Commercial Bank Residential Non Farm Mortgage Activity

Randolph George Urbanec
The University of Montana

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COMMERCIAL BANK RESIDENTIAL
NON-FARM MORTGAGE ACTIVITY

by

Randolph George Urbanec

B. A. University of Montana, 1964

Presented in partial fulfillment
of the requirements for the degree of
Master of Business Administration

UNIVERSITY OF MONTANA

1967

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[Signatures]

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Date

FEB 5 1968
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CHAPTER I

THE RESIDENTIAL NON-FARM MORTGAGE:
CLASSIFICATION AND TYPES

Commercial bank activity in residential non-farm mortgages is of consequence in the mortgage market and in their own operations. In 1965, the total amount of mortgage debt outstanding held by all holders on all properties was $341.7 billion. Of this amount, commercial banks held 14.6% or $49.7 billion. Total residential non-farm mortgage debt outstanding held by commercial banks was $32.4 billion in 1965 or 9.5% of total national mortgage debt outstanding. Activity in the residential non-farm mortgage market is a significant commercial bank function. Residential non-farm mortgage debt outstanding held by commercial banks in 1965 comprised 16.1% of its total loans and amounted to 24.1% of its time deposits from individuals, partnerships, and corporations.

A mortgage creates the existence of a debt and requires a pledge of property to secure it.¹ The mortgage note admits the debt and contains an agreement to repay it in accordance


NOTE: All statistics, excluding percentages, used in this paper are from various issues of the Federal Reserve Bulletin.
with specified conditions. Any instrument or legal form which conveys an interest in property for the purpose of giving security is a mortgage. As such, a residential non-farm mortgage is debt secured by residential non-farm property.

**Mortgage Classifications**

Mortgages may be classified by: (1) priority, (2) repayment, and (3) purpose.

**Priority.** The degree of priority is referred to by numbering the mortgage instrument as first, second, third, or fourth mortgages. Rarely is a mortgage numbered over fourth. Any mortgage which is subordinate to a mortgage or mortgages on the same property is called a junior mortgage. A junior mortgage becomes a senior mortgage when prior claims are paid. Mortgages by numbers, e.g. first, second, or third mortgage, can be originated at the same time. The number refers to the priority of claim, as a second mortgage is the second in a series of mortgages on the same property. However, the second mortgage doesn't necessarily mean the second lien (the right to have the property of another sold to satisfy a debt).² In this case, "the lien of a judgment might intervene between the first and second mortgages; in which case, the second mortgage would be the third lien."³

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²Ibid., p. 681.
³Ibid., p. 225.
Repayment. Three types of repayment of a mortgage exist: (1) straight term, (2) amortized, or (3) partially amortized.\(^4\) A straight term mortgage is one which no payments on the principal are made during the term of the mortgage. A lump sum payment of the principal at maturity would pay the entire mortgage off. Although this type of mortgage was common during the 1930's, it is not used much now because of the difficulty inherent in the mortgagor's ability to accumulate the total principal voluntarily during the term of the mortgage.

Most of the mortgages made by commercial banks are payable on an amortized basis. Here, payments are made in accordance with a definite plan which requires a certain amount to be paid at a certain time over a period of years until the debt is paid. An amortized mortgage is similar to an installment contract in its repayment procedures. The benefits of amortization are numerous.\(^5\) The mortgage may be retired faster than the straight term mortgage since the monthly amortized payments continually reduce the principal. These payments are also similar to monthly rent payments, thus being more easily incorporated into one's budget. Once equity has been built up by the borrower, there is less chance of default. The amount of the loan a commercial bank can make is dependent upon the repayment schedule. A national bank can loan only

\(^4\)Ibid., pp. 225-228.

for 75% of appraised value of property or for a period of five years on a non-amortized mortgage compared to up to 75% and twenty years for an amortized mortgage. Amortization permits the making of a mortgage which might be risky otherwise.

A partially amortized mortgage is originated less frequently than a fully amortized loan. A partially amortized mortgage is one which most of the debt is paid in installments during the term of the loan, leaving a portion to be repaid when the debt falls due. Various combinations of straight term and amortized mortgages can be made, depending upon the decision on the method of repayment.

Purpose. Blanket, open-end, and package mortgages are the three most common mortgages made in relation to their purpose. A "blanket mortgage" may be issued against a subdivision with individual mortgages granted on specific projects and released from the blanket mortgage as sales are made. An "open-end mortgage" is one which permits the readvance of amortized principal on an existing mortgage. Additional advances during the life of the loan may be made for the purpose of improvement and maintenance of mortgaged property. In practice, the sum of the improvement, floor covering, for example, is added to the unpaid balance of the

6Weimer and Hoyt, op. cit., p. 228.
mortgage and payment on the principal and interest of the additional sum are added to the amortized payments scheduled originally. A "package mortgage" includes financing for equipment such as plumbing and air conditioning to be incorporated in the mortgage agreement. Such equipment must be designated exactly and made part of the mortgage agreement. The Federal Housing Administration insures mortgages of this type and has developed an extensive list of equipment which is considered eligible in mortgage agreements.

Types of Mortgages

There are three types of mortgages which commercial banks handle: (1) FHA, (2) VA, and (3) conventional. FHA mortgages are those which are insured by the Federal Housing Administration. VA mortgages are those which are guaranteed by the Veteran's Administration. Conventional mortgages are those which are originated in accordance with commercial bank dictums. Commercial banks favor conventional mortgages over FHA and VA loans. In 1965, total commercial bank holdings of conventional residential non-farm mortgages was $22 billion, compared to $7.7 billion in FHA insured mortgages and $2.7 billion in VA guaranteed mortgages.

7"The Open-End Mortgage," Banking, XLVI (September, 1953) p. 42.
8Weimer and Hoyt, op. cit., p. 228.
FHA Insured and VA Guaranteed Mortgages. The Federal Housing Administration was created by the National Housing Act of 1934 to improve mortgage lending conditions. The Act provided for the insurance of mortgage loans and unsecured loans for repair and modernization of real property. At first, FHA loans were fully amortized, twenty year mortgages on 80% of the appraised value of the property to be mortgaged. The original purpose of the Federal Housing Administration was to help people who couldn't otherwise own their own homes. On June 22, 1944, the 78th Congress passed legislation authorizing the Veterans' Administration to guarantee mortgages on homes purchased by veterans for owner occupancy.

In relation to FHA insured and VA guaranteed mortgages, the Housing Act of 1950 was a major piece of legislation to influence the mortgage market. VA guaranteed mortgages were increased to 60% of appraised value of real property from 50% and to a ceiling of $7,500 from $4,000. FHA insured loans were authorized to be for thirty years and up to 98% of appraised value. The Act imposed regulations governing fees, charges, or discounts that could be passed on by lenders to sellers or builders of houses under FHA and VA programs. Of importance

is that the Act stated that any commercial bank that is a member of either the Federal Reserve System or the Federal Deposit Insurance Corporation is automatically approved as a mortgagee by the FHA and VA and is authorized to make loans which fall under these agencies. This Act increased commercial bank mortgage activities in the residential non-farm market.12

Commercial banks have been active in FHA insured and VA guaranteed mortgages due to a number of reasons.13 The practice has been advisable from a public relations standpoint. Many prospective borrowers can only afford the cheaper FHA insured and VA guaranteed loans. Right after World War II, the making of VA guaranteed mortgages was considered an act of patriotism and respect for the veteran. During the post-war period, government underwritten loans on real estate carried a favorable rate of interest. As such, they were, and are still, considered by commercial banks as a desirable source of income. The fact that government underwritten loans are insured and guaranteed has made them desirable from the investment standpoint. FHA insured and VA guaranteed mortgages have a relatively stable interest rate during recessions. As such, they are considered by commercial banks as firm, stable investments. Federal National Mortgage Association activity has injected a degree of liquidity in this mortgage market.

12Reed, op. cit., p. 364.
13 Ibid., p. 367.
The Federal National Mortgage Association (FNMA) was established in 1938 to provide liquidity for the mortgage market so that home building businesses would not suffer excessively from tight money markets. When mortgages are hard to place, FNMA enters the mortgage market and buys them. This is their primary activity. When mortgages are scarce and buyers are plentiful, FNMA sells them. As such, FNMA is the sole secondary mortgage market for government underwritten mortgages.

Although FHA insured and VA guaranteed mortgages represent a large percentage of commercial bank portfolios in residential non-farm investments (23.8% are FHA insured and 8.3% are VA guaranteed), there are disadvantages in their investment. Long maturities and low down payments allowed in these mortgages prevent excessive investment by commercial banks. These long maturities (up to 35 years on FHA insured and 30 years on VA guaranteed loans) result in less liquidity. The commercial bank sometimes considers the liberal terms of these mortgages and ultimately rejects them because they are conducive to nonpayment and default in times of financial distress on the part of the borrower. Although FNMA operations lessen these disadvantages, the commercial bank still takes them into account when determining portfolio composition. Another disadvantage is that the maximum allowed interest

\[14\] Weimer and Hoyt, op. cit., p. 254.
rates are slow to follow competitive market rates. During rising mortgage interest rates and an expanding economy, government underwritten mortgages are less attractive than investment in conventional mortgages, capital loans, and commercial loans. Some commercial banks don't want to handle FHA insured and VA guaranteed loans because of the large amount of "red tape" which is required for producing, supervising, and foreclosing a mortgage. The changing nature of housing needs limit FHA insured mortgage financing. These mortgages are used more by lower-income families. This results in high delinquency ratios. Although there are many other disadvantages and advantages of government underwritten mortgages, the ones discussed here are perhaps the most important of those which affect commercial bank investment in them.

Conventional Mortgages. Primary lending on conventional mortgages accounts for the largest portion of residential non-farm mortgage lending by commercial banks. In 1965, 67.9% of total commercial bank residential non-farm mortgages were financed by conventional mortgages. Because of changes in investment climates and increasingly better economic conditions, bankers seek conventional mortgages and are willing to underwrite their own risks. There are numerous advantages in the

15Reed, op. cit., p. 368.

origination of conventional mortgages. For one thing, conventional loans are freer of "red-tape", delays, and strict standards of design and construction. Higher down payments and shorter amortization periods compared to FHA insured and VA guaranteed loans are characteristic of conventional mortgages. This results in less credit risk and greater liquidity. Since conventional mortgage interest rates aren't fixed by the government, they vary more with other competitive, alternative courses of investment. In this respect, conventional mortgages are relatively free of capital market movements.\textsuperscript{17} Also, FHA insured and VA guaranteed loans are given at a discount so as to be more desirable an investment. The result here is a loss of interest not experienced by conventional loans. Since interest rates on conventional mortgages are usually higher than those on FHA insured and VA guaranteed loans, there is a greater availability of conventional mortgage funds. Although there probably are more advantages to commercial banks for making conventional mortgages, the above are perhaps the prime benefits. The disadvantages of conventional mortgages on residential non-farm properties originated by commercials banks are few. The bank must underwrite the risk itself, but because of this, they are more selective when originating conventional mortgages. A conventional mortgage department

may not have the planned operating procedures common to government underwritten mortgages. The additional time necessary in servicing conventional loans in relation to other loans may be a disadvantage. See page 47 for a break-down by years from 1952 to 1965 of residential non-farm mortgages held by commercial banks.
A long-term residential non-farm mortgage loan is either FHA insured, VA guaranteed, or a conventional mortgage. Their origination, servicing and closing, and/or foreclosure is one of the four mortgage operations conducted by commercial banks. They are also active in short-term construction financing, interim financing, and in conducting mortgage company activities.

Commercial banking operations are either retail or wholesale.\textsuperscript{18} Wholesale banking is concerned with providing deposit, credit, and ancillary services to business. Large banks in manufacturing and trade centers are oriented toward wholesale banking whereas suburban and rural banks concentrate on retail banking. Retail banking concentrates on the banking needs of the individual by providing lending and deposit services for profit.

Since the largest need for long-term residential non-farm mortgage loans is centered on the individual, mortgage loan operations are usually considered part of retail banking. However, wholesale operations in the mortgage loan area are

conducted generally through technical loans to business. The characteristics of retail mortgage loan operations are the widespread promotion of the service through mass media advertising and the extension of loans to non-depositers. The dominant policy in this connection is to extend residential non-farm mortgage loans to qualified individuals without requiring a deposit relationship to promote the service actively.\textsuperscript{19} The rapid growth of individual, partnership, and corporation time deposits from \$39.05 billion in 1952 to \$134.3 billion in 1965, as well as the savings rate paid, up to 5\% in some cases, has contributed to this growth because the assets acquired through retail commercial banking activities offer higher yields. The general favorable credit experience with consumer loans and amortized mortgages also contribute.\textsuperscript{20}

Although activity in the long-term residential non-farm mortgage market by commercial banks is well established, the degree to which a newcomer commercial bank enters this market must be determined. There are some prerequisites a commercial bank must consider before entering the long-term residential non-farm mortgage market.\textsuperscript{21} First, the bank's officers must have the full intention to remain in it, once it is undertaken.

\textsuperscript{19}Ibid. \textsuperscript{20}Ibid., p. 141. \textsuperscript{21}Clarence Liller, Jr., "Trained Mortgage Officers Increase Profits," \textit{Banking}, LVIII (March, 1966), p. 117.
An area market analysis must be conducted to indicate the degree the community needs mortgage service. Commercial bank officers should determine the trend and current relative importance of the mortgage lending institutions in the area in question. The trend and current relative importance of each lender of the smaller submarkets in the area in which the bank may want to secure a greater share of the mortgage market must be determined. The characteristics of the policies, procedures, and activities of the commercial bank's main competition in the relevant area must be surveyed. Any changes to be made to maintain a share of the market and submarket needs to be forecast. The submarkets which would be most likely to respond to the bank's efforts to enable it to retain or obtain the volume of sound mortgage loans desired should be found.

The bank must determine a mortgage policy which will encompass financing it cares to offer. In this respect, FHA and VA guidelines are followed. A survey of competition's mortgage policy may be conducted. Some of the policy questions to be decided are: (1) to whom will mortgages be extended, (2) what dollar limitations are to be imposed, (3) to what degree is the bank going to service and foreclose mortgages, (4) what type of mortgage will be concentrated upon, and (5) what

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loan-deposit ratio will be required. In general, a policy which encompasses everything from mortgage origination to foreclosure should be formulated.

Lastly, the nature and size of the mortgage loan department must be geared to the needs and amount of activity. The personnel in this department must be adequately trained so they may handle the complex problems which arise in this type of financing. In this connection, the American Banker’s Association Mortgage Finance Committee offers refresher and original courses in mortgage operations. Similar schools are offered to mortgage lending personnel and some universities are active in this type of instruction. A survey of other competitive mortgage lending operations would also be helpful.

When the commercial bank is actively engaged in mortgage loans, mortgage lending can be generally categorized into three operations: (1) the operation of origination and selection, or mortgage production, (2) the operation of closing and servicing mortgages, and (3) the rental, maintenance, and sales to be performed when mortgages are foreclosed.\(^{23}\)

Mortgage Production

After the potential borrower has been attracted to the

\(^{23}\)Behrens, _op. cit._, p. 73.
commercial bank for the purpose of mortgage borrowing, there
are three steps commercial banks undertake in the production
of long-term residential non-farm mortgages. These are:
(1) the credit analysis of the borrower, (2) the appraisal of
property to be mortgaged, and (3) the inspection of the prop­
erty. 24

Credit Analysis of the Borrower. A credit analysis of
the borrower must be undertaken to determine the ability and
inclination to pay. This is of utmost importance due to the
long-term nature and the size of the mortgage loan. Other
things considered in this phase are the prospective mortgagor's
occupation, resources, liabilities, family composition, age
(younger persons are better risks), reasons for purchase
(whether for a status symbol, to alleviate a temporary housing
shortage, or because it is a "good buy"), previous housing
experience (past upkeep habits, rent payment promptness, and
market value upon departure), and general attitude toward debt.
Of course, the borrower's income is analyzed to determine the
size of loan he could pay for. A rule of thumb in this
connection commonly used is that a family should not expend
in excess of two and one-half times its annual income on a
home. Another rule is two and one-half to three times income
after taxes. The difference rests with the family and bank
policy. Although these are the more important borrower

24 Reed, op. cit., pp. 252-255.
characteristics the bank must analyze, it is necessary to consider all factors which might affect the ability and inclination to pay of the borrower.

Appraisal of Property. If the prospective mortgagor passes these requirements, an appraisal of the real estate to be used to secure the mortgage is undertaken to determine the market value and marketability of it. Ordinarily, four factors are considered in the appraisal: (1) physical, (2) locational, (3) market, and (4) government and regulatory. Physical factors encompass: (1) site and accessibility, (2) size, shape, and functionalism of the lot and building, (3) condition of the building, (4) materials or construction, (5) number of apartments, rooms, or other space units, (6) equipment in the building and improvements. Locational factors include: (1) the general reputation of the neighborhood or district in which the property is located, (2) the desirability of the area to live, (3) the economic future of the area or city, and (4) the availability of utilities and services. Market factors include: (1) present and anticipated sales prices, (2) rentals, (3) preferences for various types of properties, (4) construction costs, and (5) anticipated changes in market trends. Government and regulatory factors include: (1) the taxation base, (2) zoning and building regulations, (3) public improvements in the area, and

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25Weimer and Hoyt, op. cit., pp. 304-305.
(4) Deed restrictions. In general, the success of the appraisal depends upon the ability and experience of the appraiser and the use of the appraisal tools.

The appraisal should, by necessity, be accurate. If the appraisal is too high, the risk of carrying the mortgage increases and if the appraisal is too low, the borrower will go elsewhere. Accuracy in appraisal is important because the amount of the loan is dependent upon it. Since the mortgage applicant may not be able to complete payment of the loan, the bank will have to look at the market value of the property for repayment. Member commercial banks of the Federal Reserve System are restricted on property-loan ratios. Individual conventional real estate loans are limited to 50% of the appraised value for a term of five years and to 66 2/3% of the appraised value for a period of ten years if 40% or more of the loan can be repaid in that time. If a twenty year mortgage is produced, the loan amount can not exceed 75% of the appraised value of the property if the entire principal and interest are amortized in installments during the maturity of the loan.26 The ratio of loan to appraised value on FHA insured and VA guaranteed mortgages is regulated by those instrumentalities apart from the above restrictions imposed on state and national commercial banks.

26 Reed, op. cit., p. 188.
Inspection of Property. Inspection of the property to be mortgaged is a part of property appraisal. Inspection is essentially the physical examination of the real estate and its covenants to be used as security for the mortgage. It is a continuous process, an integral part of the servicing operation. The physical inspection makes sure that the property is taken care of and the covenant inspection assures that taxes are paid, adequate insurance is carried, and the property has clear deed. If a construction mortgage is produced, the property inspection is more intensified because of the need for compliance with FHA insured and VA guaranteed regulations.

If the appraisal and inspection is satisfactory, the mortgage applicant receives a statement as to the loan amount, the rate of interest, the terms of repayment, and other conditions such as insurance requirements. If the prospective borrower accepts the offer, he then furnishes an abstract of title (a historical summary of related documents on the property). If it is satisfactory, he is notified of the closing date and requirements, and the loan funds are disbursed.

The quality of long-term residential non-farm mortgage credit is the composite of the characteristics of the property, the borrower, and the loan. A high quality loan in

27Weimer and Hoyt, op. cit., p. 672.
relation to property is one on a soundly constructed and well maintained property in a good neighborhood. In relation to the borrower, a high quality loan is one to a stable and responsible individual with an income high relative to the monthly amortization payments. A high quality loan in relation to the loan amount ordinarily would have a low debt-to-value ratio and have a short-term maturity. A low quality loan in relation to property is one on a poorly designed, poorly located, poorly constructed property. In relation to the borrower, a low quality loan would be one to a marginal borrower with a record of instability and irresponsibility. A loan of more than 80% of appraised value, for more than thirty years with a balloon note on the end, and possible junior financing is, of course, considered a low quality loan in relation to the loan itself.

Closing and Servicing Mortgages

The second operation commercial banks perform in long-term residential non-farm mortgage financing is that of closing and servicing loans. Closing mortgages consists of those functions which must take place at the time the mortgage is paid and the debt removed from the property. A check is made to determine whether all functions of the contract have been performed. Servicing a mortgage is a continuous process in mortgage lending. The cost and time which this encompasses is a reason for minimal mortgage origination by some commercial banks. In this operation, the bank collects
each monthly amortized installment during the mortgage term. Collection of monthly escrow installments which are determined each year in advance and estimated as sufficient to pay the property taxes and insurance may also be performed by the bank. Escrow is an instrument in the hands of a third party which is held for delivery until certain acts are performed or conditions fulfilled.\textsuperscript{29} The bank makes monthly remittances to the mortgagee and pays property charges when due. These and other collateral functions undertaken by the bank must be performed each year for the life of the mortgage agreement. To pay for these services and to insure against loss in case of default, service charges are greater in the early years of the mortgage life as is mortgage interest.

Operations Related to Foreclosure

The third operation performed by commercial banks in long-term residential non-farm mortgage activity is the actions to be taken in the event of default and consequential foreclosure. Since mortgage defaults are an inevitable aspect of mortgage lending, the bank must protect itself. The prime means of protection is in the origination of high quality loans. Another means of protection is to treat due dates for payments as such. Since FHA insured and VA guaranteed mortgages grant a payment grace of fifteen days,\textsuperscript{30} payments may become a month overdue. As such, the bank must encourage the borrower to

\textsuperscript{29}Weimer and Hoyt, \textit{op. cit.}, p. 676.

establish good paying habits. The commercial bank needs to review collection and lending policies periodically to assure soundness and subsequent reduction in defaults.

There are two types of foreclosure: (1) strict foreclosure and (2) foreclosure by sale.\textsuperscript{31} Foreclosure is the "legal steps that must be taken by the mortgagee or lender for the purpose of having the property applied to the payment of a defaulted debt."\textsuperscript{32} Strict foreclosure is the legal process to determine whether a reasonable time has elapsed after failure to pay on the debt by the mortgagor at the prescribed time. Here, the property is not sold to satisfy the debt, but a court decree confirms the absolute title to it in the mortgagee. Although strict foreclosure proceedings aren't common, they are permitted under special circumstances as when the value of the property does not exceed the debt and the mortgagor does not contest the action. Two methods of foreclosure by sale are most common: (1) foreclosure under power of sale contained in a mortgage, and (2) foreclosure by court action which declares a decree of sale. State laws decide which foreclosure proceeding will be adhered to.

All states have laws providing for the right of redemption. Right of redemption "permits a debtor to redeem the mortgage property by paying the debt within a certain period

\textsuperscript{31}\textit{Weimer and Hoyt, op. cit.}, pp. 231-232.

\textsuperscript{32}\textit{Ibid.}, p. 231.
of time.\textsuperscript{33} Although the period of time varies, a one to eighteen month period is average.

For the commercial bank to foreclose a mortgage, then, the case is submitted to a court of equity. This court evaluates all circumstances surrounding the case. The mortgagor is then given a reasonable period of time to redeem the property before approval is given for its actual sale.\textsuperscript{34} Ordinarily, commercial banks are reluctant to engage in foreclosure proceedings unless it is absolutely necessary. Every action is taken to make it possible for the mortgagor to pay or to transfer the property to another buyer.

**Mortgage Portfolio Management**

Long-term residential non-farm mortgage portfolio management is dependent upon federal, state, and local regulations, the economic condition, and individual commercial bank mortgage loan policies. However, there is a general pattern of over-all mortgage portfolio management. First, "under fairly easy money conditions, mortgages on eligible properties may be extended up to about 50-55\% of time deposits but not up to the legal maximum because of the possible needs for using the funds elsewhere."\textsuperscript{35} The Federal Reserve System limits the number of real estate loans that can be made by a member bank

\begin{footnotes}
\footnote{Reed, \textit{op. cit.}, p. 360.}
\footnote{Ibid.}
\footnote{Hayes, \textit{op. cit.}, p. 146.}
\end{footnotes}
by an amount equal to a bank's capital and surplus or to 70% of a bank's time and savings deposits, whichever is larger. This restriction is the outcome of pre-1930 actions by commercial banks. In the 1920's, loan-deposit ratios frequently exceeded 100%. Since mortgages are less liquid than other investments, the ratio was lowered so banks couldn't be so inflexible.

Secondly, through the imposition of more rigorous screening devices, the mortgage portfolio may be held to even smaller proportions under the pressure of heavy loan demands from other sources. This was exemplified during the 1958-1961 period when loan policy adjustments by commercial banks were directed toward the residential non-farm mortgage area. The limitations took two somewhat related forms: (1) mortgages to non-customers were reduced or eliminated entirely, and (2) dollar limitations were imposed on entire portfolios with the policy that deposit customers were to be preferred unless significant customer relations were at stake. Also, since mortgage rates were sticky, especially on FHA and VA underwritten mortgages, the subsequent spread in investment rates rendered mortgage investment less attractive than alternatives.

36 Reed, op. cit., p. 188.
38 Hayes, op. cit., p. 146.
39 Ibid., p. 219.
And, since mortgage loans then lacked liquidity and accommodated few customers, they weren't attractive investments for the time.

The third pattern in mortgage portfolio management is that commercial banks purchase mortgages on the secondary mortgage market in blocs when time deposit growth exceeds local mortgage market demand. Although these purchases of mortgages from FNMA are really outside the scope of the mortgage lending functions, commercial banks relate them to retail mortgage operations in two ways. First, it represents a more active interest in mortgage loans in that an increasing proportion of their assets are allocated to retail mortgages. Secondly, it represents an opportunity to obtain future direct business in deposits and retail loans.

The rationale for these patterns is logical. First, since mortgages have a relatively low turnover, they are similar to most time deposits. Secondly, satisfaction of local mortgage needs has a lower priority than the extension of credit needs to deposit customers. Lastly, mortgage rates are more attractive during times of low interest rates because they vary less than other instruments.

Commercial bank policies toward types of mortgages vary. According to a study by Douglas A. Hayes, University of

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40Ibid., p. 146.  41Ibid., p. 149.  42Ibid., p. 147.
Michigan Bureau of Business Research, there is a significant attitude by commercial banks for conventional mortgages.\textsuperscript{43} As of 1963, national banks were restricted in conventional mortgage originations to 75\% of appraised property value for a twenty year maturity if fully amortized on a monthly basis. State statutes generally follow the federal law although there are slight modifications mostly in the allowable maturities. Some states, e.g., Michigan, allow a maximum maturity of thirty years and 75\% of appraised value. However, the study found that most commercial banks were willing to extend conventional mortgages to the maximum legal maturity, mainly because of the need to compete with FHA and VA maturities. Only a minority of the banks studied, however, would loan up to the legal maximum of 75\% of appraised property value. The differences in these policies accentuate the fact that those banks which go to the maximum maturities used full market values while those which went to 66 2/3\% of appraised value generally incorporated an appraisal policy of discounting market value by 6\% to 15\%. The reason cited for these policies is that the commercial banks wanted to maintain quality in their mortgage portfolios. Other trends in policies discovered from this study were that the lowest interest rates are offered to the better quality credits, that banks avoid mortgages on very expensive

\textsuperscript{43}Ibid., pp. 151-155.
properties, and that animosity occurs when mortgage lending officers request exceptions as to rates and loan amounts on mortgages for executives of profitable businesses. Commercial bank preference for conventional mortgages is illustrated on page 47.
CHAPTER III

COMMERCIAL BANK RESIDENTIAL NON-FARM
CONSTRUCTION FINANCING

Residential non-farm construction financing is the second type of mortgage activity conducted by commercial banks. This type of financing is a highly specialized banking activity and is usually concentrated around relatively few large banks. Generally, there are two ways in which commercial banks finance residential construction.

Commercial banks may make straight commercial loan arrangements with contractors. These are risky loans because adequate collateral is difficult to obtain. Usually, performance bond companies have a prior lien on receivables and the contractor's equipment usually is in debt. If this type of credit is allowed, banks usually require a special loss reserve to be set up from earnings. The requirement of deposit balances and personal guarantees are alternative or additional collateral fulfillments.

The second type of residential construction financing is the extension of loans to the originator of the building project in which the proceeds of the loan are disbursed as construction progresses. This is the most common type of

44Klaman, op. cit., p. 167.
45Weimer and Hoyt, op. cit., p. 235.
commercial bank residential construction financing activity. In this case, the security is the firm commitment from a long-term lender upon satisfactory completion. Commercial banks usually require the builder to obtain permanent financing from a long-term investor, such as a life insurance company, prior to obtaining construction financing. These commitments assure the bank of availability of permanent mortgage financing and of repayment of its construction loan upon satisfactory sale of the completed property. Since the final mortgage is only valid when the construction is completed and all debt to labor and material is paid, frequent audits and inspections are made. As such, rates tend to be above permanent mortgage rates and servicing fees are often added. The national banking laws limit the maturity of residential construction loans to eighteen months. As such, it is the usual policy to require an adequate deposit relationship from construction borrowers.

Commercial banks are generally reluctant to make construction loans. The servicing costs on these loans makes them unattractive. The Federal Housing Administration and the Veterans Administration require three inspections during construction of residential units which are to be eligible for insurances and guarantees. Payouts on FHA and VA projects are

46 O'Leary, op. cit., p. 178.
47 Weimer and Hoyt, op. cit., p. 237.
usually related to the required inspections. Extraordinary hazards usually doesn't justify the risk or cost. Another risk in this type of financing is the contractor's ability to construct housing acceptable to FHA and VA standards, and to the final owner's preference while holding costs within the limits set by the contract. As such, risks are mainly minimized by requiring greater equity protection and by restricting the amount of loan or loans by a percentage of the builder's or investor's net worth. However, there are advantages in these loans. They are attractive in that the interest rate charged is designed to compensate for the unusual risk. Also, construction loans are usually in a less competitive market relative to permanent mortgage financing.\textsuperscript{48}

\begin{footnotesize}
\end{footnotesize}
The third type of commercial bank residential non-farm mortgage financing activity is in the field of interim financing. Important in the field of interim financing are mortgage banks and mortgage warehousing.

Mortgage banks are active in interim financing in connection with commercial banks. Mortgage banks depend on commercial banks for credit and their borrowings are estimated at 75% to 90% of all bank loans to real estate mortgage lenders. Mortgage companies and mortgage banks are essentially the same. In their operations, they originate, close, and disburse final mortgages and later sell them in blocks to precommitted institutional investors and then service them for a set fee. They may also offer or arrange for construction financing of builders. And, less frequently, they originate mortgages where a commitment for ultimate sale has not been received, acting as a middleman between builders and owners. Under normal arrangements with institutional investors, the mortgage company must fully complete the final mortgages. Once blocks of mortgages of appropriate size are obtained, they are sold to the institutional investors. Since mortgage companies also provide interim construction

\[49\] Hayes, op. cit., p. 157.
financing, large amounts of capital are needed. Since the risk of fully completed and committed mortgages is small, commercial banks may be willing to extend credit to mortgage companies up to five times their net worth and up to 95% of the face value of the mortgages pledged against the loans.  

The carrying of mortgages until appropriate amounts are accumulated for transfer to institutional investors is a function of commercial banks for mortgage companies. As such, "mortgage warehousing" is the carrying of FHA insured and VA guaranteed mortgages between the time they are closed by the mortgage company and the time they are taken up by an investor. The purpose of mortgage warehousing is to replenish working capital of the interim mortgagee and to permit him to get the supporting documents so that the loan or loans will be in full and proper form when delivered to the permanent investor for purchase.

There are two types of financing of mortgage warehouse loans: (1) committed and (2) uncommitted. A committed loan is one which is supported by a firm purchase agreement from an institutional investor to the warehousing bank. Here,

50 Ibid., p. 158.


53 Ibid.
the banks accumulate the loans and hold them in accordance to the terms of the purchase agreement. An uncommitted loan is not covered by a firm purchase agreement. In this case, after the working capital has been restored and the mortgages assembled and accumulated into blocks for sale, they are held for sale and immediate delivery to a permanent investor at a better price than that offered for loans sold for future delivery. This type of warehousing is unattractive due to the speculative characteristic involved.

**Interim Financing**

Commercial banks are active in four types of interim financing. The first type of this financing involves the use of short-term commercial bank credits for periods of 60 to 180 days by mortgage banks or other institutional permanent investors. This is the most common type of interim financing as practiced by commercial banks. Credit is extended to mortgage companies and other permanent investors secured either by permanent mortgages awaiting final processing and legal documentation or by temporary loans on construction awaiting completion. These, in turn, are backed by firm take-out or purchase commitments of institutional investors. Sometimes, commercial banks offer a revolving line of credit rather than a series of short-term loans. When the mortgages are completed by the mortgage company and delivered to the permanent investor, the company uses the proceeds received to pay the

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[^54]: Klaman, op. cit., p. 184.
commercial bank.

The second type of interim financing is the same as the first except short-term loans aren't offered by the commercial bank to the permanent investor. Loans of somewhat longer maturity are offered instead. Mortgage warehousing activities enter here to store complete mortgages from six months to two years usually in a "reservoir" for later "tapping" by an institutional investor as funds become available. This type of financing is also called "deep-freeze" warehousing of mortgages. In this case, commercial banks are confronted by long-term investors or mortgage companies with offers to lend against, or buy subject to a repurchase agreement, blocks of mortgages to be taken up gradually over a period of a year or more. The need for this type of financing arises because the flow of funds to permanent investors is relatively regular and doesn't fluctuate seasonally or cyclically to any great degree. However, the supply of new mortgages does. As such, this financing permits the institutional investor to acquire a steady portfolio of mortgages.

The third type of interim financing performed by commercial banks is mortgage warehousing which is not backed by a firm purchase commitment from an institutional investor. This type of financing is offered to large, heavily capitalized mortgage originators which can extend mortgage credit

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55 Klaman, op. cit., p. 184.  
without prior commitments from an ultimate investor. Here, if the originator can't find a permanent investor at the end of the warehousing period, it may fall back on the commercial bank's standby commitment to buy the mortgages. According to the previously mentioned study by Douglas A. Hayes, commercial bank policy toward this type of financing was evenly divided. Some banks avoided these loans because of the indefiniteness of repayment, whereas others emphasized the need to accommodate deposit customers. Some banks viewed the collateral in regard to this financing as similar to marketable securities in that FHA insured and VA guaranteed mortgages are involved with their subsequent option to be sold to FNMA. These loans were typically restricted to 85% to 90% of the face value of the pledged mortgages to guard against the reduction of actual market value of the mortgages due to rising interest rates. And, some banks regarded these loans as detrimental to effective investment during periods of heavy credit demands since mortgages are long-term and funds already committed. In the same light, during periods of tight money conditions, the supply of insured and guaranteed mortgages exceeds available commitments from long-term investors. As such, the banks would have to purchase them and tie up funds.

57 Kaplan, op. cit., p. 190.
58 Hayes, op. cit., p. 160.
The fourth type of interim financing incorporates repurchase or institutional warehousing arrangements. Here, the transaction is between the commercial bank and a permanent mortgage investor. The commercial bank extends short-term credits either secured by mortgage loans or it purchases the mortgage loans under a repurchase agreement. This type of financing is used by institutional investors to provide relief for an over-committed position and/or for the establishment of a reservoir of mortgage funds. This type of mortgage warehousing is also called a mortgage inventory loan. Although this activity first appeared in 1955, it seems to be becoming popular with commercial banks.\(^{59}\)

\(^{59}\)Klaman, op. cit., p. 186.
COMMERCIAL BANK MORTGAGE COMPANY ACTIVITIES

Commercial banks may undertake a mortgage company type of operation if such an operation is profitable. In this situation, the bank originates mortgages in excess of portfolio needs and then sells them to institutional investors. Profits may either be obtained by a markup on the price per dollar of face value of the mortgage or by retaining the servicing for a prescribed annual fee. Servicing here includes collecting interest and principal payments and often the disbursement of funds for taxes and insurance on the mortgage properties. If the bank desires to conduct these mortgage operations, it, in effect, becomes a mortgage company. In the previously mentioned study by Douglas A. Hayes, the majority of the banks surveyed didn't favor this type of operation. However, the minority had good reasons for it. First, this type of operation enables a commercial bank to remain in direct contact with more retail customers than if mortgage originations were limited only to portfolio needs for FHA insured and VA guaranteed mortgages. Secondly, since the commercial bank already conducts servicing operations for mortgages, an extension could be made adequate and profitable. Thirdly, since escrow collections are retained under the control of

Hayes, op. cit., p. 150.
of the bank, they could be more profitable than mortgage company deposits. These arguments are mostly from modern sized suburban communities. However, there has been a trend in recent years for commercial banks to acquire mortgage companies, due to an increased interest in mortgage company operations.61

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CHAPTER VI

COMMERCIAL BANK RESIDENTIAL NON-FARM
MORTGAGE ACTIVITY: 1952-1965

During the 1952-1965 period, commercial bank mortgage holdings more than tripled from $15.9 billion in 1952 to $49.7 billion in 1965. Residential non-farm mortgages outstanding held by commercial banks increased from $12.2 billion to $32.4 billion during this period. The reasons for this increased commercial bank activity in the residential non-farm mortgage market are multiple.

Liquidity has been, of course, a commercial bank's concern when building its loan portfolio. Since time deposits of individuals, partnerships, and corporations (IPC) increased from $39 billion in 1952 to $134 billion in 1965 and failed to decline during the recessions of the period, protective liquidity to guard against cyclical erosion of deposits was practically unnecessary. (See page 49) As such, an ingrained notion held by commercial bank officials that mortgage loans lack the necessary liquidity in long-term investments has been altered. As high cost savings and time deposits increase, commercial banks have to seek more profitable investments that combine soundness with adequate liquidity. This search has lead many commercial banks to invest in residential non-farm mortgages.
The federal government's entry into the mortgage market through FHA insured and VA guaranteed mortgages and with the establishment of FNMA as a secondary mortgage market has been instrumental in commercial bank residential non-farm mortgage developments. FNMA operations and the introduction of amortization of mortgages have made government insured and guaranteed mortgages more liquid in that they still can be repaid through refinancing and the loan is marketable to other investors. Added security due to mortgage insurance and guarantees have made residential non-farm mortgages desirable. Although FHA insured and VA guaranteed mortgages haven't experienced a tremendous growth in commercial bank mortgage loan portfolio as evidenced on page 47, due, in part, to the reasons given on pages 9-10, they are still considered stable, sound investments by commercial banks. Perhaps the primary reason for this lack of interest in government insured and guaranteed mortgages is the inflexibility of their interest rates with capital market rate fluctuations.

Cyclical fluctuations in other credit markets have caused funds to be invested in residential non-farm mortgages by commercial banks, especially in conventional mortgages. During economic upswings, conventional mortgages, due to interest rates which fluctuate and increase with prosperity, are heavily invested in by commercial banks. The tremendous increase in conventional mortgage investment as evidenced on page 47, is due to the previously mentioned reasons given on
Perhaps the primary reason, though, for this increase in conventional mortgage investment, is the willingness for commercial banks to underwrite mortgages in their search for relatively high return, sound long-term investment to utilize the tremendous increase in IPC time deposits. In other words, commercial banks can afford to underwrite their own mortgages and are willing to do so because of its type of investment.

Origination of residential non-farm mortgages allows commercial banks to provide complete financial services to customers. Deposits generally increase at the commercial bank through mortgages since mortgagors tend to carry their checking and savings accounts at the bank that extends them credit for the purchase of a home. Some banks consider home mortgage origination as the best single source of new customers. Since 6% of the average community consists of newcomers, they represent new accounts. The average family buys a house before opening a bank account. Thus, mortgage origination provides new accounts. From a social and obligatory standpoint, there are less justified investments of funds. As such, residential real estate lending is considered one of the more constructive uses to which a bank can place a portion of its loanable funds.

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62 Liller, op. cit., p. 117.

63 Lewiston, op. cit., p. 107.
Mortgage companies have contributed to the increase in home mortgage holdings by commercial banks. Since commercial banks have been able to reduce the concentration of their residential mortgages in one area of the country due to the development of a nation-wide network of mortgage companies, they are more willing to originate mortgages over portfolio requirements. Also, mortgage company activity as undertaken by commercial banks have caused increased mortgage originations. Increased mortgage activity in interim and construction financing has, undoubtedly, expanded home mortgage originations.

The growth of the economy, population, personal income, and desire to own a home have, of course, also contributed to increased commercial bank home mortgage holdings. Private housing starts during the 1952-1965 period reached a low of 993,000 in 1957 and a high of 1,609,000 in 1963. The new housing starts in 1952 were 1,069,000 and 1,505,000 in 1965. Although this increase isn't a steady, geometrical sequence, housing starts of residential non-farm nature have increased, and, with it, additional home mortgages.

Inflation and the characteristics of residential non-farm mortgages have added to the volume of mortgages outstanding held by commercial banks. Construction costs on new housing has added dollars to home mortgage holdings. For example, in 1959, new housing starts were 1,517,000 at a total cost of $24.3 billion while in 1965, new housing starts totaled 1,505,000 at a cost of $26.5 billion. Construction costs
had risen 12% during this period due to wages and worker shortages. Lower down-payments on home mortgages, especially FHA insured and VA guaranteed, have resulted in increased carrying and debt accumulation and volume of outstanding dollars.

Residential non-farm mortgages held by commercial banks haven't increased, however, as much as other non-farm mortgage outstandings held by banks or as much as mortgage debt held by other financial institutions. Total non-farm mortgages held by banks on properties other than farm and residential have increased by 550% during the 1952-1965 period, whereas, total residential non-farm mortgages outstanding held by commercial banks increased only 266% during the same period. (See page 48) The primary reason for this is that commercial banks, due to the tremendous increase in IPC time deposits and economic prosperity and growth, especially in the 1960's, have invested in the more profitable commercial and industrial real estate market, as well as handsome religious, recreational, and public financing of real estate. Total farm holdings have increased 237% during this period due to increased construction cost and the development of corporation type farms which need extensive building financing.

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The second largest increase in commercial bank loan portfolios has been in the real estate mortgage field. However, commercial banks have actually lost ground in comparison with other financial institutional mortgage investors. Holdings of mortgage debt outstanding on all properties by financial institutions other than commercial banks has increased from $51 billion in 1952 to $214.8 billion in 1965, a 421% increase. On the other hand, commercial bank mortgage debt outstanding on all properties has increased from $15.9 billion in 1952 to $49.7 billion in 1965, only a 306% increase. The rapid growth in Savings and Loan Associations has been largely responsible for this situation; their holdings of mortgages on all properties have increased about sixfold in the 1952-1965 period. The differential rate of savings account growth, not differences in lending policies, has been the real cause of the more favorable showing of Savings and Loan Associations. Their share of savings and time deposits has increased considerably more rapidly than commercial bank's share during this period.\(^{65}\) However, since 1961, commercial banks have adopted more competitive policies to attract IHC time deposits, principally by offering higher rates of interest as allowed in Federal Reserve changes in maximum allowable interest payable on savings and time deposits.

\(^{65}\text{Hayes, op. cit., p. 23.}\)
Total residential non-farm mortgages outstanding held by commercial banks haven't increased as much as total loans which banks have made in the 1952-1965 period. In this period, commercial bank total loans have increased from $64.16 billion in 1952 to $201.66 billion in 1965, a 314% increase. Total residential non-farm mortgages outstanding held by banks have only increased by 266%. The remarkable fact of total loan portfolio trend is that commercial banks were able to increase total loans in relation to total economic output in the face of technological and institutional conditions which logically should have reduced them. This does not suggest any revolution in lending policies. It does suggest extensive liberalization of commercial bank management views on the types of credit acceptable for loan portfolios. As such, residential non-farm mortgage originations have been side-stepped somewhat in favor of more lucrative investments. (See page 50.) The percentage of residential non-farm mortgages outstanding held by commercial banks to total loans clearly illustrates this trend. Other reasons are also behind this phenomenon. First, the demand for business loans during the post-war years and the low rates of interest on real estate loans has led to investment away from home mortgages. Although FNMA operations provide a degree of liquidity into mortgages, they are still considered too non-liquid for extensive

66Ibid., p. 21.
investments. And, increased competition from other lending institutions, because of their increased savings and time deposits, has averted commercial banks away from the mortgage investment field as exemplified on page 49. As such, there seems to be a trend suggesting decreasing interest with residential non-farm mortgage financing in favor of other, higher return, less static investment alternatives by commercial banks.

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### TABLE I
COMMERCIAL BANK RESIDENTIAL NON-FARM MORTGAGES OUTSTANDING BY TYPE: 1952-1965  
(In millions of dollars)*

<table>
<thead>
<tr>
<th>YEAR</th>
<th>FHA INSURED</th>
<th>VA GUARANTEED</th>
<th>CONVENTIONAL</th>
<th>TOTAL RESIDENTIAL NON-FARM</th>
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*Source: Federal Reserve Bulletin, various issues.*
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<tr>
<th>YEAR</th>
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<th>TOTAL OTHER NON-FARM</th>
<th>TOTAL FARM</th>
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*Source: Federal Reserve Bulletin, various issues.*
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**Individuals, partnerships, and corporations.**
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<tr>
<th>YEAR</th>
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<th>NON-FARM MORTGAGES OUTSTANDING</th>
<th>PERCENTAGE: MORTGAGES TO LOANS</th>
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*Source: Federal Reserve Bulletin, various issues.*
CHAPTER VII

SUMMARY

Commercial bank activity with residential non-farm mortgages is a complex, profitable, and necessary function. These mortgage operations are complex in that they require loan origination, servicing and closing, and foreclosure proceedings when necessary. These mortgages are profitable in that they are sound investments with relatively high returns and they produce additional IPC time deposits. These mortgages are necessary because commercial banks hold 9.5% of total national mortgage debt outstanding. As such, commercial bank residential non-farm mortgage activity is an important outlet for home mortgage financing.

Commercial banks use FHA insured, VA guaranteed, and conventional mortgages in residential non-farm mortgage origination. FHA insured and VA guaranteed mortgages are the least desirable because of the "red tape" involved and their relatively fixed interest rates. Their desirability lies in FNMA secondary mortgage operations which provide a secondary market for them. Conventional mortgages, those underwritten by the commercial bank, are the most desirable mortgage investments, mainly because of higher down-payments required, less default risk due to more scrutable production, and interest rates which vary more with other alternative investment outlets than do FHA and VA loans.
Commercial bank operations, in providing long-term residential non-farm mortgages to individuals, encompass numerous activities. First, the desire to participate in this mortgage market must be present. Once the bank decides to engage in this mortgage activity, it must: (1) determine the degree to which it will participate in the activity, (2) obtain knowledge of the concerned mortgage market, (3) set the mortgage policies to be followed, and (4) determine the nature and size of the mortgage department. Then, when the prospective mortgagor is solicited, the mortgage operation is conducted. First, a credit analysis of the borrower, an appraisal of the property to be used as security, and the inspection of this property must be performed. The outcome of these operations will determine the quality of the mortgage loan. Of particular importance is the need for accurate property appraisal, since the amount of the loan and profit from sale of the property in the event of default is dependent on accurate appraisal. Once the prospective mortgagor has been accepted, the operation of servicing the mortgage and closing the mortgage when it is paid in full is conducted. In the event of default, and possible foreclosure, commercial banks may take various actions to satisfy the debt. The best protection against default is in the origination of high quality mortgages.

Home mortgage policy varies with commercial banks. In general, though, residential non-farm mortgages are offered to individuals suitable for them, regardless of whether they
carry a deposit balance. In the event of heavy loan demands which produce high returns from rising rates of interest, the majority of commercial banks will reduce home mortgage originations in favor of these higher return alternatives. Commercial bank policies toward types of mortgages vary, but conventional mortgages are heavily favored. In this respect, most banks will loan up to the maximum maturity to compete with FHA and VA underwritings, but won't loan up to the maximum legal percentage of appraised value.

Other than origination of home loans to individuals, residential non-farm mortgage operations extend to other areas. Construction financing for builders of homes is offered. Although these loans are not desirable because of the extraordinary risk involved and the high servicing costs, they are still lucrative investments and an integral part of home mortgage financing. Interim financing is actively undertaken. The primary method of this type of mortgage lending is through the warehousing of mortgages to provide working capital to the interim mortgagor, mostly mortgage banks, and to permit the accumulation of blocks of mortgages large enough for sale and transfer to a committed institutional investor or for immediate sale and delivery to an uncommitted permanent investor. The four types of interim financing differ in loan term lengths and type of commitment involved. The most popular is the use of 60 to 180 day commercial bank credits by mortgage banks backed by firm purchase commitments.
from a permanent investor. The least popular is the "deep-freeze" mortgage warehousing operations. Commercial bank activity in mortgage company type of operations, although presently avoided, has increased by the purchase of mortgage banks.

Commercial bank residential non-farm mortgage activity during the 1952-1965 period has resulted in a three-fold increase in these debts outstanding. The tremendous increase in IPC time deposits has caused banks to invest in home mortgages. FNMA secondary mortgage market operations which buy and sell government underwritten mortgages and the flexibility of conventional mortgage interest rates has added to home mortgage originations. Involvement in residential non-farm mortgages due to social and obligatory public pressures and as a source of new savings and time deposits has resulted in home mortgage originations. The growth of the economy, population, personal income, and mortgage company activity aided in increasing home mortgage debt outstanding, as has increased construction costs. Residential non-farm mortgages held by commercial banks haven't increased, however, as much as other non-farm mortgages outstanding or as much as mortgage debt held by other financial institutions. This phenomenon is the result of investment in alternative, more lucrative markets and the increased competition from other financial institutions, especially Savings and Loan Associations.

Due to the volume of residential non-farm mortgage debt
outstanding held by commercial banks, the role of the bank in the mortgage market is both a necessary activity, in that it provides mortgage financing for the public, and an important activity, in that it provides financing to mortgage companies and institutional investors for the purpose of home mortgage investment.
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