

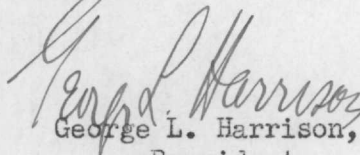
**FEDERAL RESERVE BANK
OF NEW YORK**

April 1, 1938

Dear Chairman Eccles:

A study has recently been made in our Research Department of the real estate and mortgage loan situation in the Second Federal Reserve District as compared with the rest of the country. Believing that you may be interested in seeing this report, I am enclosing a copy herewith. A copy is also being sent by the Research Department to Mr. Goldenweiser.

Faithfully yours,


George L. Harrison,
President.

Honorable Marriner S. Eccles,
Chairman, Board of Governors
Of the Federal Reserve System,
Washington, D. C.

Received in
Chairman's Office

APR 2 1938

Board of Governors

of the

Federal Reserve System

THE REAL ESTATE AND MORTGAGE LOAN SITUATION
IN THE SECOND FEDERAL RESERVE DISTRICT
AS COMPARED WITH THE REST OF THE COUNTRY

Any study of the real estate and mortgage situation is somewhat confused by numerous complexities of the available data and their interpretation, but certain outstanding tendencies become evident when the various figures obtainable for the Second Federal Reserve District (or the closest approximation to it) are compared with data for other parts of the country. In general, it may be said that the real estate situation in the Second Federal Reserve District appears to be less favorable than in other parts of the country, and this condition is reflected in the balance sheets of the banks and other fiduciary lenders, which have had to face a more rapid deterioration in the real estate situation in this district than in other districts.

In this survey, consideration has been given to construction activity during recent years in this district and in the rest of the country, building costs and rents, foreclosures, and real estate transfers; and, from the financial side, the mortgage loans of member and other banks, building and loan associations, and life insurance companies, and also these lenders' holdings of "other real estate," i. e., real estate other than bank buildings, etc., which constitutes a measure of the property which has had to be taken over as a result of real estate loans going into default. The figures in some instances are not as complete or as definite as could be desired, but where incomplete figures have been used it is felt that they at least reflect general tendencies.

In some of the accompanying diagrams, where it has been significant to show differences in rates of change, the data have been plotted on ratio scales.

Construction Activity. The volume of residential building in the Second Federal Reserve District, as in other parts of the country, was reduced greatly from the 1926-28 peak period to the 1933 low, and since that time there has been less net recovery in this district than elsewhere, probably reflecting a somewhat more overbuilt situation in this district, especially in apartment houses, than in other areas, and perhaps also less flexibility in rent-building cost relationships here. In recent months, residential building activity has been receding both in this district and elsewhere. In other types of construction, i. e., non-residential and public works and utilities, there was more reduction in the Second District from the 1926-29 peak period to 1933, and there has been somewhat less recovery here. The movement of estimated volumes of construction in the Second District and in other districts is indicated in Diagram I (residential building) and in Diagram II (non-residential construction).

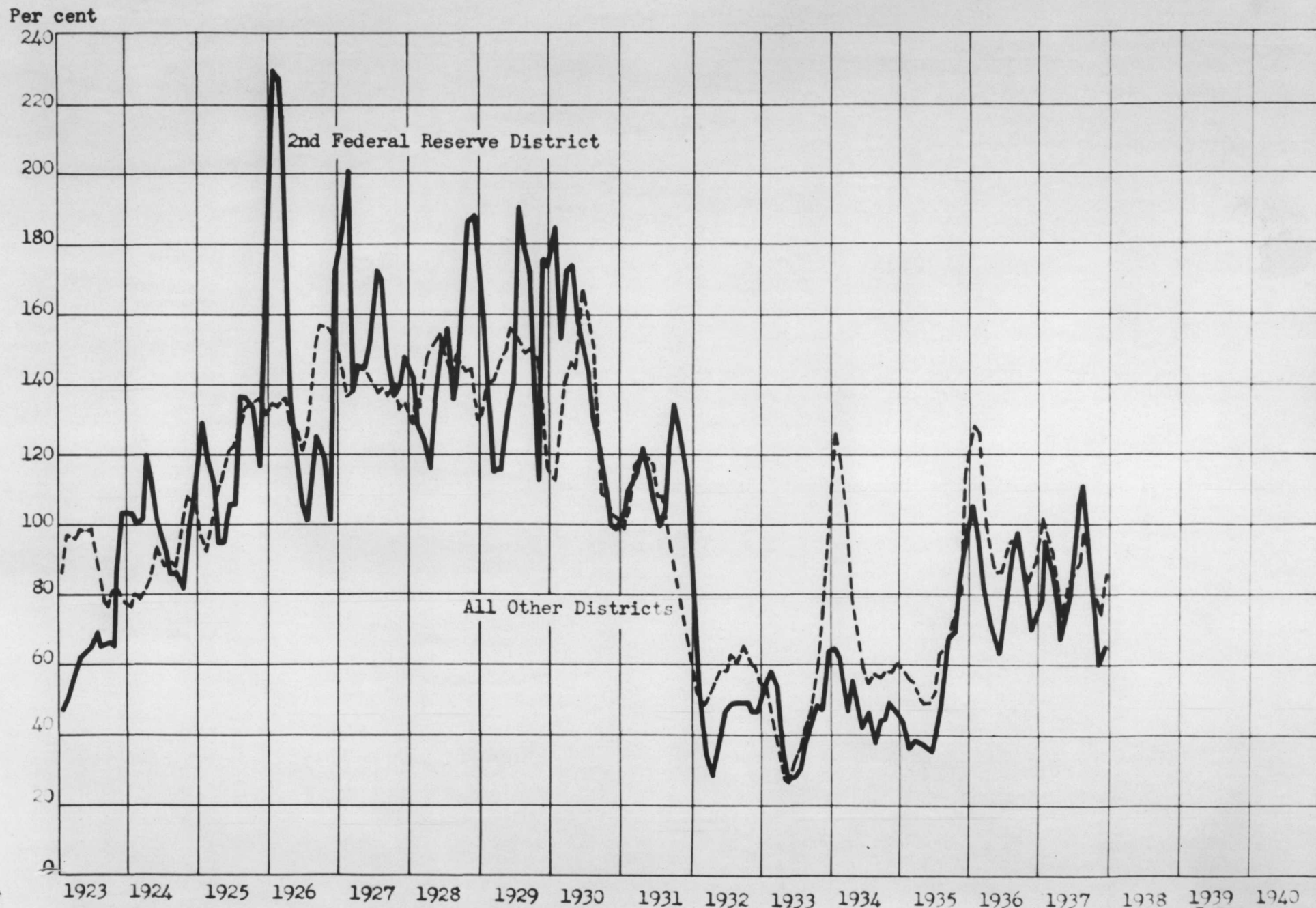
Rents and Building Costs. The limited amount of data available on the rental situation indicate in general that residential rents declined less from 1926 to 1934 in New York City than in other representative cities; but since 1934 rents in New York City have advanced less than in other cities. Furthermore, during the past year building costs in the Second Federal Reserve District (data available only for New York City and Buffalo) have increased somewhat more than building costs for the country as a whole.

Sales of Real Estate. Data on the number of voluntary real estate transfers in this district are available only for Manhattan and West Bronx and for a relatively short period - since December, 1934. Some increase in real estate sales occurred during this period, especially from the spring of 1936 through the first few months of 1937, but since that time there has been a

ESTIMATED VOLUME OF RESIDENTIAL BUILDING IN
 2ND FEDERAL RESERVE DISTRICT AND IN ALL OTHER DISTRICTS
 (Daily average, deseasonalized, deflated series; 3 months sliding averages; 1923-25=100)



ESTIMATED VOLUME OF NONRESIDENTIAL* BUILDING IN 2ND FEDERAL RESERVE DISTRICT AND IN ALL OTHER DISTRICTS
(Daily average, deseasonalized, deflated series; 3 months sliding averages; 1923-1925 = 100)



*Building contracts-nonresidential, public works, and utilities

1939 1940
F. R. B. of N. Y.
Research Dept.

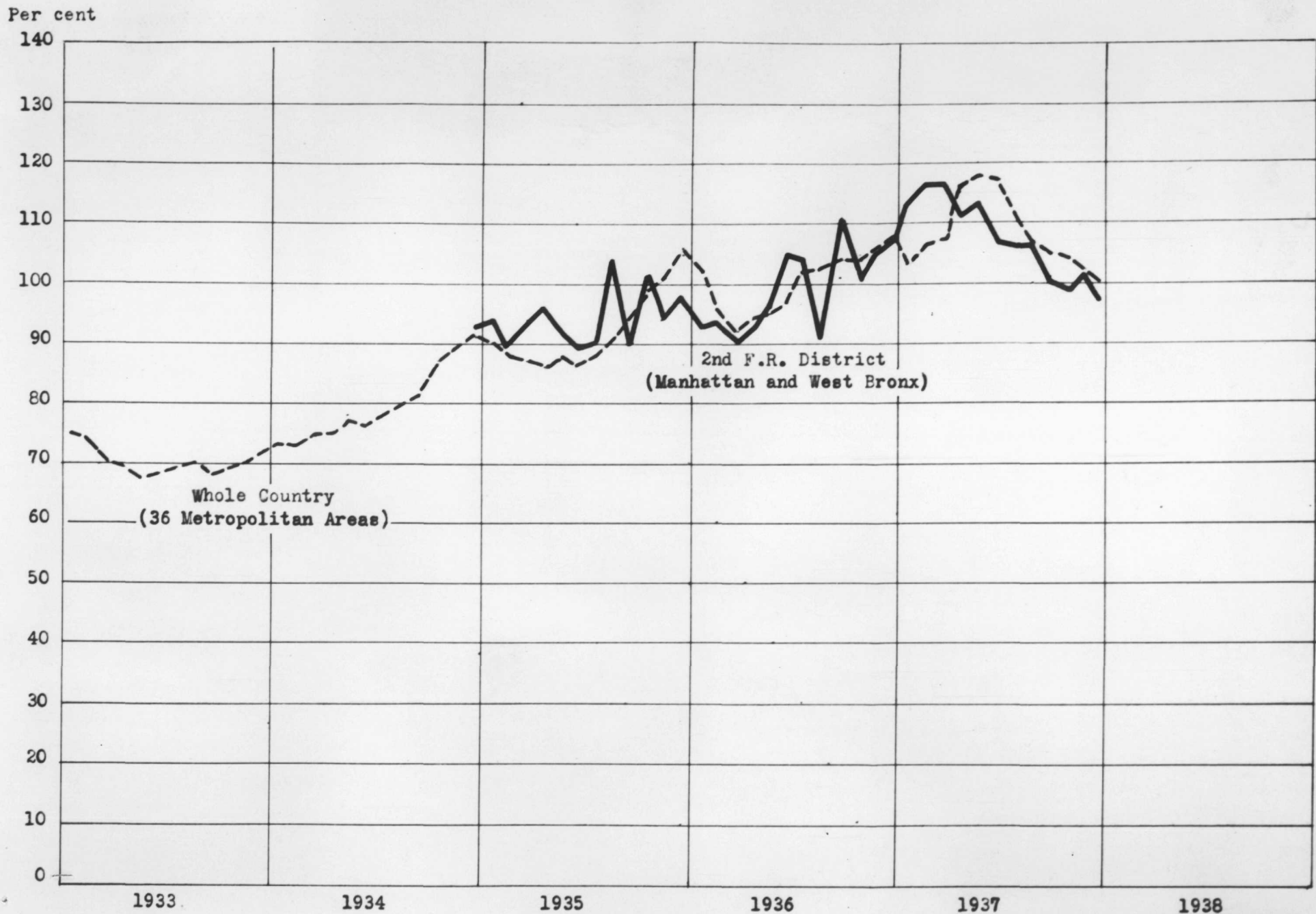
Chart # 3286

decline. The number of voluntary real estate transfers made in the country as a whole (36 metropolitan areas), for which data are available since 1926, advanced from the low point in 1933 to nearly the middle of 1937, but subsequently has also declined. In both cases activity is down about 15 per cent from the recent highs, as is indicated in Diagram III.

Real Estate Foreclosures. Perhaps the best indication of the capacity and willingness of owners of real estate to carry their property is obtainable from data on the number of real estate foreclosures. Such data have recently become available through the Federal Home Loan Bank Board. After 1926, urban foreclosures in this district (New York and New Jersey State totals) increased much more rapidly than did similar foreclosures in other areas; furthermore, the peak in the other areas appears to have been reached during the 1932-33 period when foreclosures were approximately 3 1/2 times as numerous as in 1926, but in this district foreclosures continued to rise until the first half of 1935 when they were approximately 6 1/2 times as numerous as in 1926. Since 1932-33, foreclosures in other districts have been on the down trend, and after the first half of 1935 foreclosures in this district also have been declining, but the present level in this district is still about three times the 1926 average, or about twice that in other districts relative to 1926, as is indicated in Diagram IV.

Recent figures of the Federal Home Loan Bank Board indicate that residential foreclosures in this district are currently running at an annual rate of 1.02 per hundred dwellings, whereas for the country as a whole the foreclosure rate is now 0.69. Thus, the foreclosure rate in this district is currently substantially higher than in other areas, despite a partial moratorium on foreclosures in New York State (i. e., on all mortgages on which interest and taxes

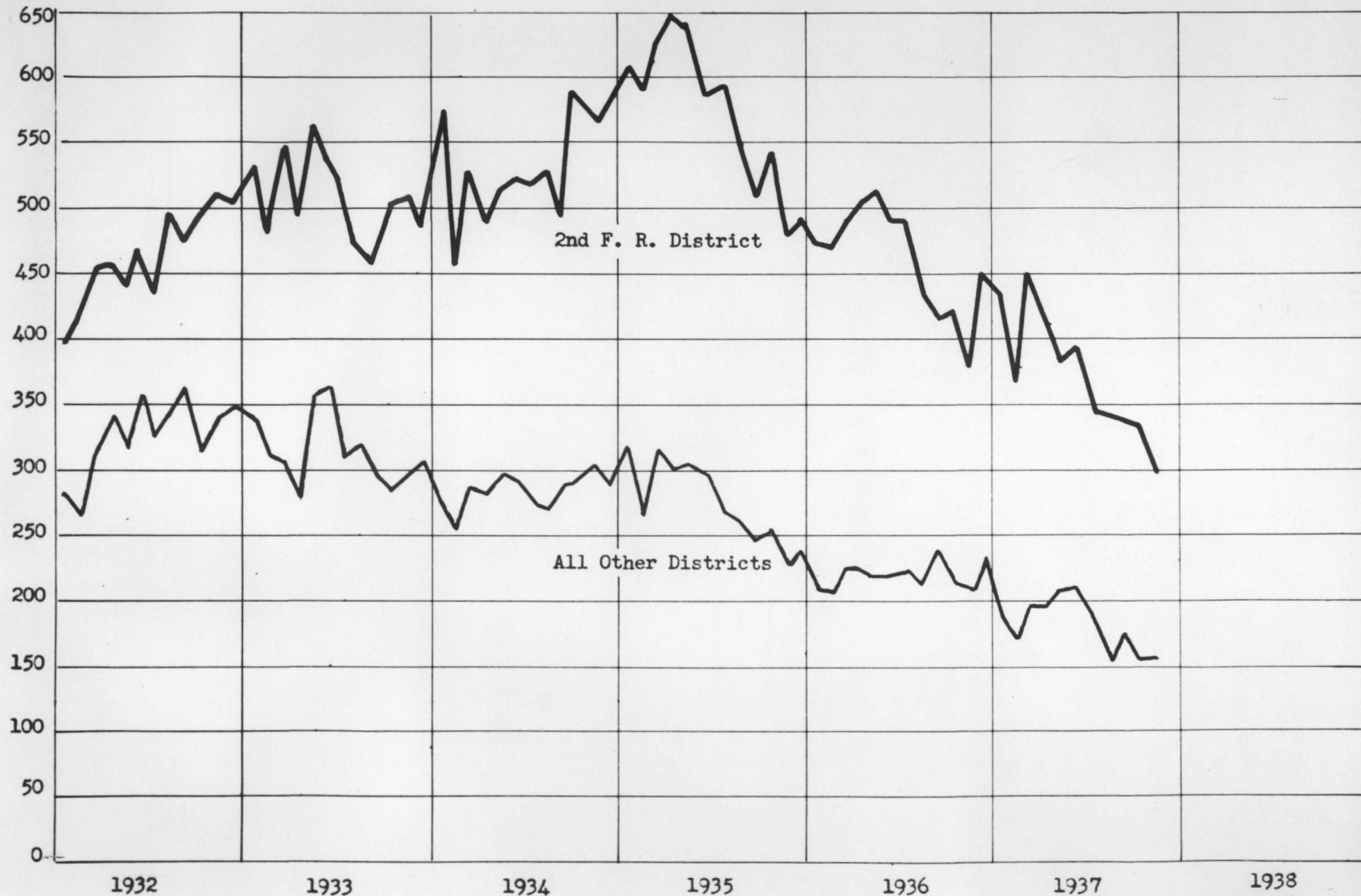
**NUMBER OF VOLUNTARY REAL ESTATE TRANSFERS
IN SECOND F.R. DISTRICT AND IN WHOLE COUNTRY**
(Monthly average 1935 - 37 = 100; with seasonal adjustments)



1938
F. R. B. of N. Y.
Res. Dept.
m 31 1938
Chart # 2287 3287

ESTIMATED NUMBER OF URBAN FORECLOSURES IN
2ND FEDERAL RESERVE* AND IN ALL OTHER DISTRICTS
(Monthly average. 1926 = 100)

Per cent



2nd Federal Home Loan District (New York and New Jersey)

1938
F. R. B. of N. Y.
Research Dept.
March 31, 1938
Chart # 3288

are paid up to date). It is not known, however, to what, if any, extent possible moratoria in other areas affect these data.

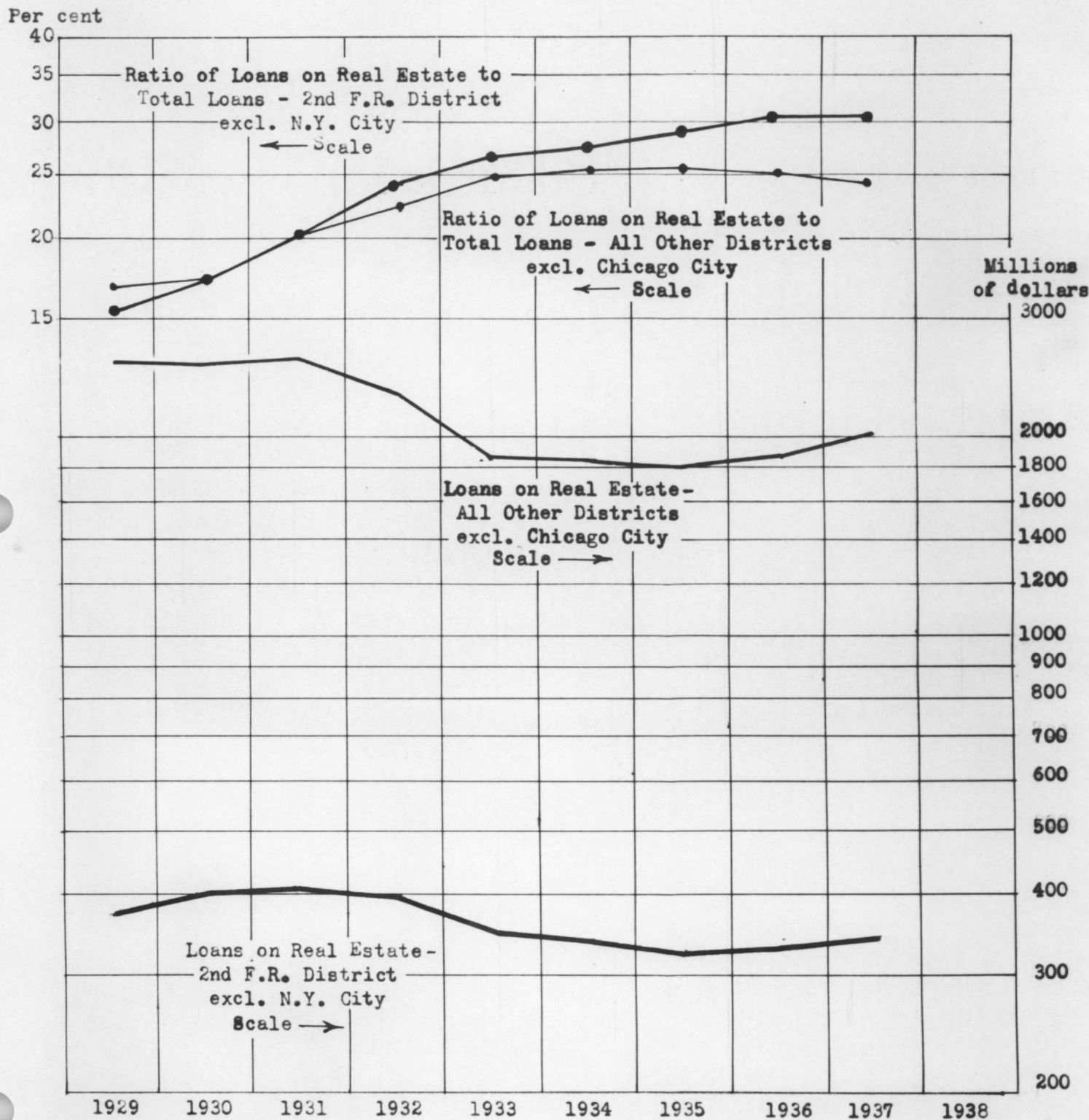
Comment on the subject of foreclosures in New York from a confidential report (as of December 20, 1937) of the Twentieth Century Fund, is pertinent:

"The figures resulting from the questionnaire distributed by the investigating commission of the New York State Legislature in 1937 indicate that the vast majority of the mortgages on property in the State of New York held by savings banks and life insurance companies are technically in default, and would be foreclosable except for the moratorium. It is probable that these institutions will eventually have to take sizable losses on their mortgages."

Banking Figures for Mortgage Loans and Real Estate Owned. With respect to the amount of involvement of member banks in the Second Federal Reserve District in real estate loans, it appears from Chart V that member banks in this district as of the latest available date had about 31 per cent of their total loans in the form of real estate loans, whereas in other districts about 24 per cent of member bank loans were real estate loans. The figures for the Second District are exclusive of the Central Reserve New York City banks, whose real estate mortgage operations have never been important, and whose other loans are so large as to weight unduly the district total; likewise from the total for other districts the figures for the Chicago Central Reserve City banks have been excluded. The sharp rise in the ratios of real estate loans to total loans shown in the diagram during 1930-1932 was, of course, associated with the large drop in total loans occasioned by the reduction in commercial and security borrowings.

Moreover, the member bank situation is only a part of the whole banking picture, so that when a survey is made of figures for all banks, including savings banks, the ratio of real estate loans to total loans becomes 46 per

LOANS ON REAL ESTATE AND RATIO TO TOTAL LOANS
IN ALL MEMBER BANKS IN
2ND F.R. DISTRICT EXCLUDING N.Y. CITY AND
IN ALL OTHER DISTRICTS EXCLUDING CHICAGO

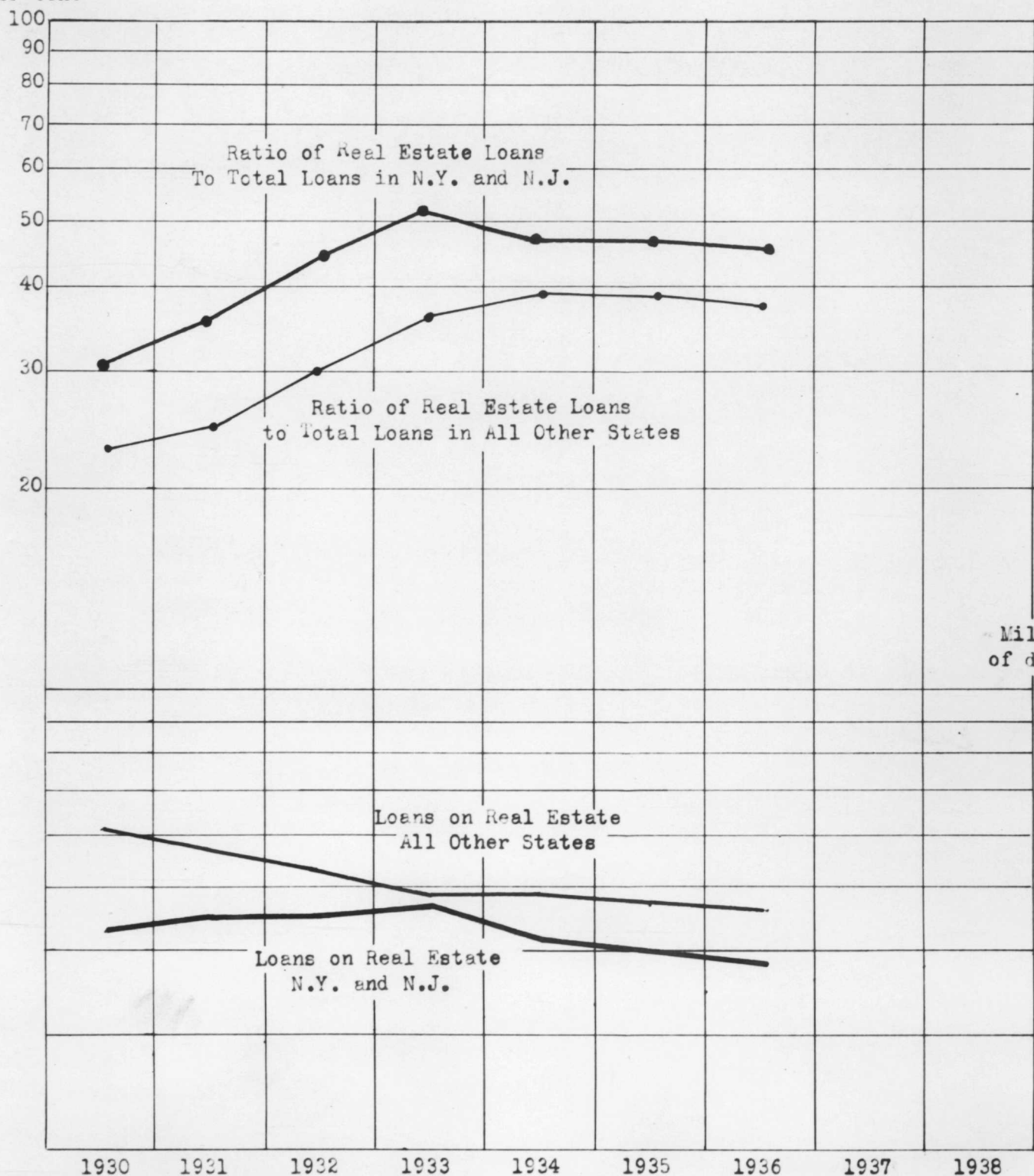


38 per cent for other areas (see Diagram VI). The greater concentration in real estate loans by all banks in this district than is shown by member banks of course reflects the importance of savings banks in this district, which to a considerable extent, especially in New York City, perform the real estate lending function executed in other districts by commercial banks. In this comparison the New York City Central Reserve banks have been included in the Second District figures, in order to improve the comparability with other districts where the commercial banks are more important factors in real estate lending and the savings banks relatively less.

The best measure of the amount of real estate loans which have gone "sour" is obtainable from data on the item "other real estate" owned by banks. This represents largely real estate which the lending banks have acquired by foreclosure or otherwise, by reason of the failure of the mortgagor to live up to the terms of the mortgage, and which, as of the various statement dates, had not yet been sold by the banks. As Diagram VII indicates, the member banks in this district, and even more so all banks in New York and New Jersey, have had astounding percentage increases in the amount of their real estate holdings because of mortgage loans going bad; the increase has been considerably greater for nonmember banks than for member banks, because of the large amount of real estate taken over by the savings banks. The rise in real estate holdings in this district has far outstripped the growth of similar holdings by banks in other districts, with the result that as of the last report all banks in the New York and New Jersey area were holding about \$555,000,000 of "other real estate," as compared with \$709,000,000 for all other banks in the country. In 1926, New York and New Jersey banks held only \$15,000,000 of real estate, whereas all other banks held \$344,000,000 at that time.

REAL ESTATE LOANS AND RATIO TO TOTAL LOANS
IN ALL BANKS IN 2ND F. R. DISTRICT*
AND IN ALL OTHER DISTRICTS

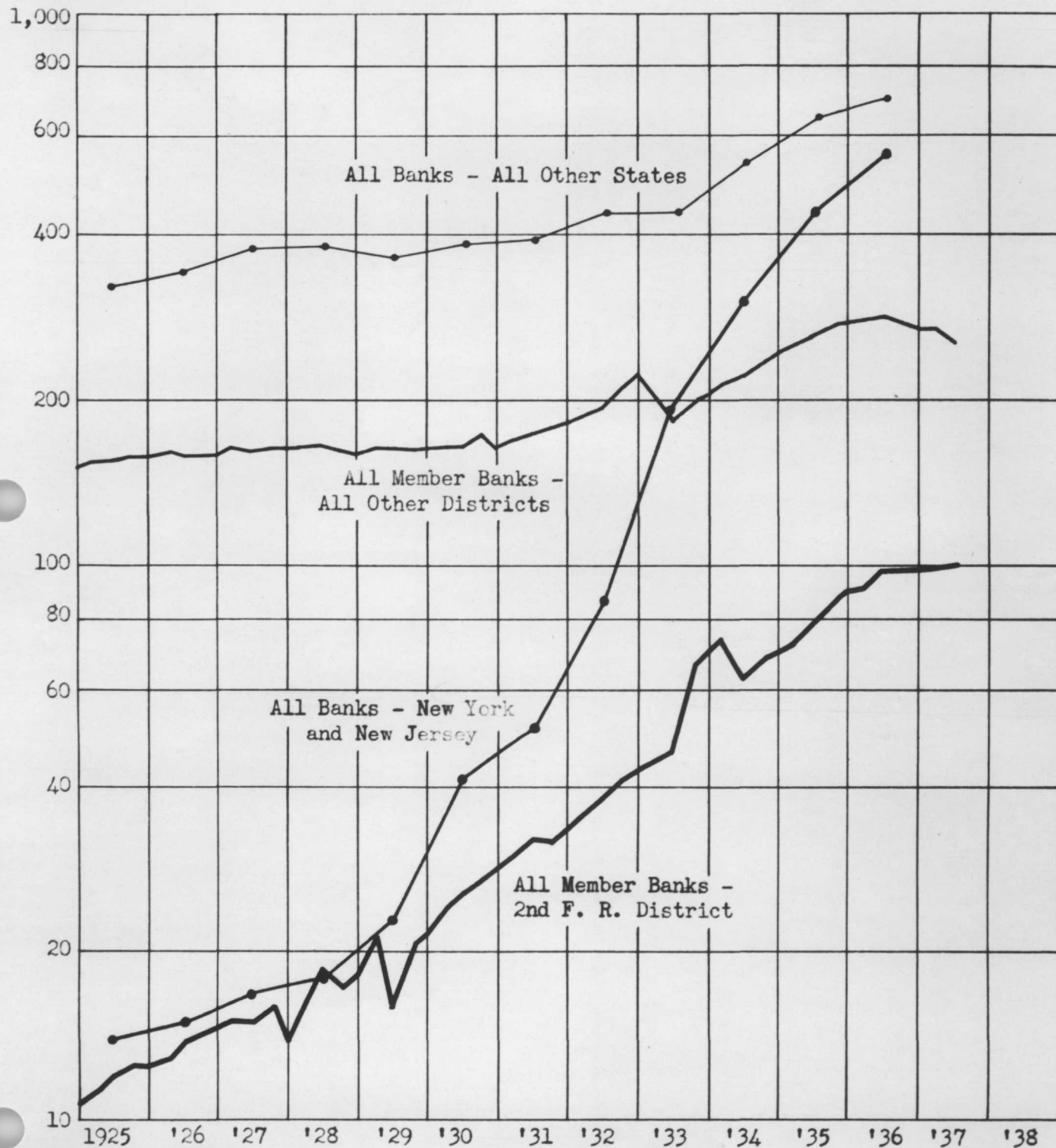
Per cent



*States of New York and New Jersey

"OTHER" REAL ESTATE OWNED BY BANKS IN 2ND F. R. AND OTHER DISTRICTS

Millions
of dollars

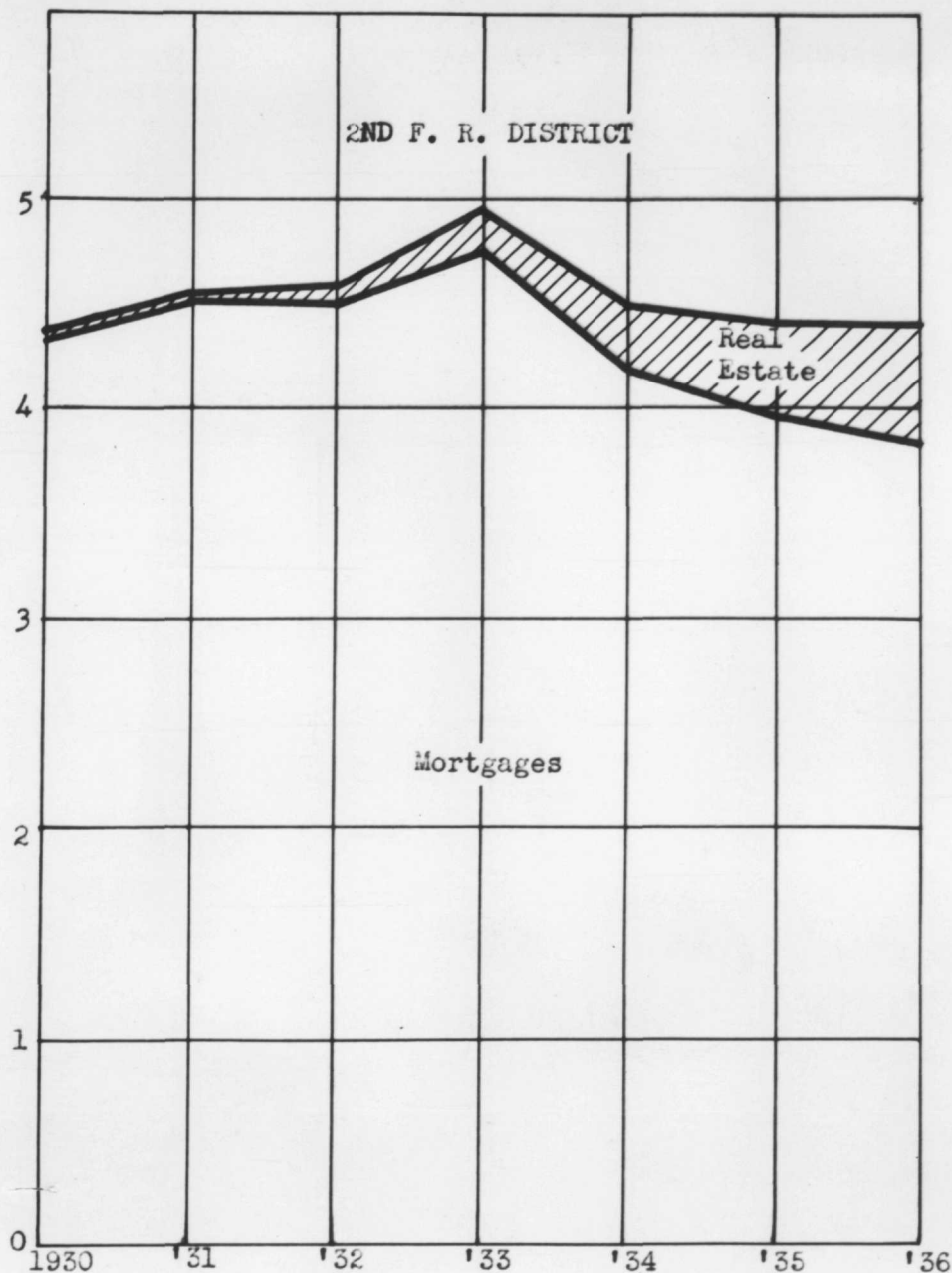


Involvement in Mortgage Loans and Real Estate of Banks in the Second Federal Reserve District as Compared with other Districts. All member banks in the Second Federal Reserve District (exclusive of Central Reserve New York City banks) in 1930 had mortgage loans and "other" real estate holdings amounting to 9.8 per cent of total assets, as compared with 10.0 per cent for the rest of the country (exclusive of City of Chicago banks). By 1936, however, this ratio in the Second District had advanced to 11.7 per cent, while in other districts the ratio had declined to 8.0 per cent. For all banks in the Second District (or the approximation to it), the ratio of mortgage loans and real estate holdings to total assets was 16.7 per cent in 1930 and 17.4 per cent in 1936, while in other districts the ratio stood at 13.6 per cent in 1930 and was down to 12.8 per cent in 1936. Diagram VIII shows the actual movement of mortgage loans and real estate holdings of all banks in this district, as compared with holdings of all banks in other districts.

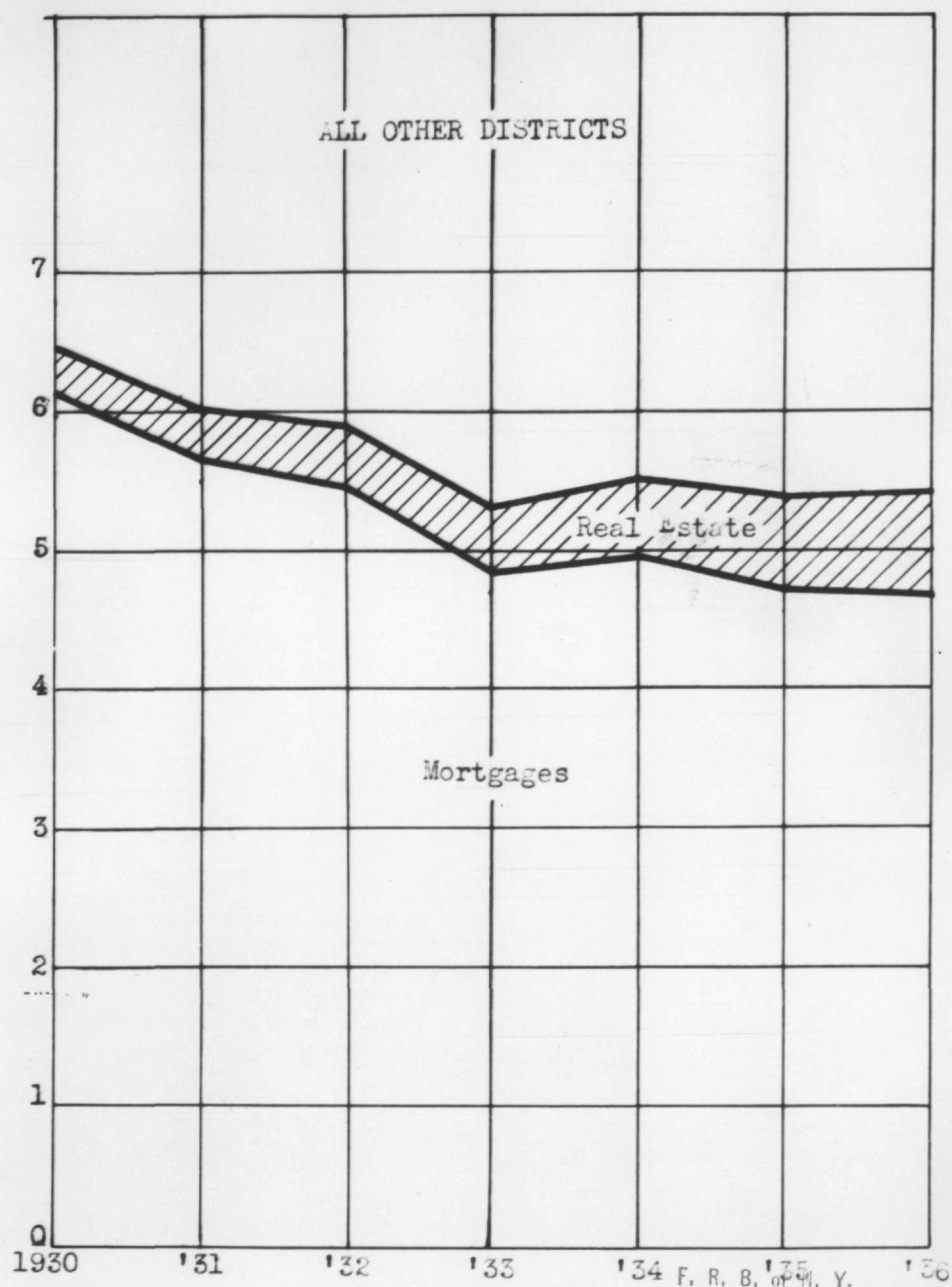
Mortgage Loans and Real Estate Holdings of Building and Loan Associations and Life Insurance Companies. In order to cover more adequately the real estate situation it is also necessary to take into account two other large lending groups, namely, the building and loan associations and the life insurance companies. Both in this district and in other areas there were large reductions in outstanding mortgage loans of these groups after 1930 and 1931, due in part to foreclosures which resulted in the real estate coming back to the lenders, and in part to refinancing of mortgages by the Home Owners Loan Corporation and various Farm Credit Administration agencies whereby the original lenders had their mortgages exchanged for Government guaranteed securities. (Part of the reduction in the banks' holdings of mortgages, shown previously, also was due to refinancing by Government agencies.)

MORTGAGE LOANS AND "OTHER" REAL ESTATE OWNED BY ALL BANKS
IN 2ND F. R. DISTRICT AND IN ALL OTHER DISTRICTS

Billions
of dollars



Billions
of dollars



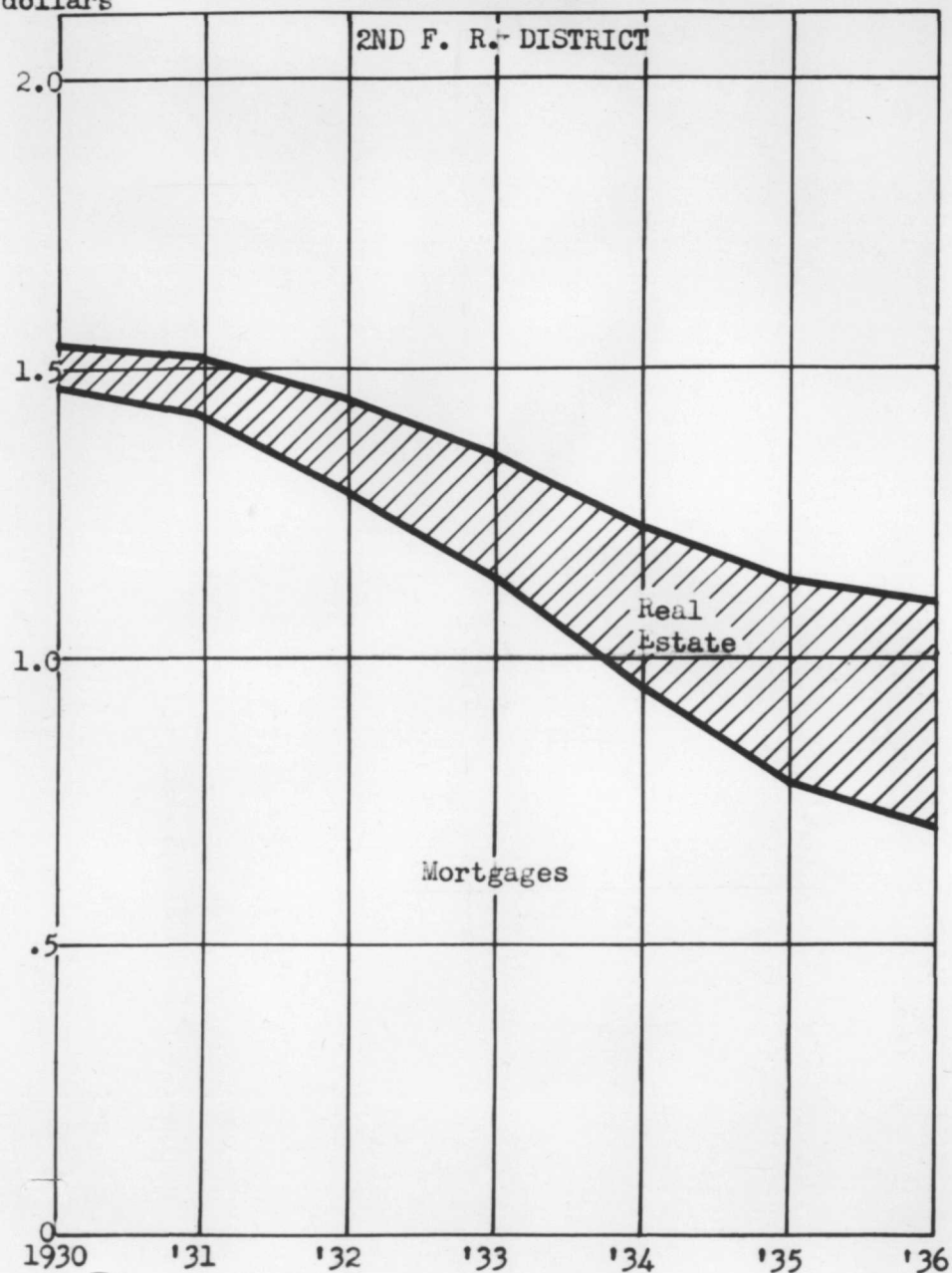
The total combined amount of real estate in the Second Federal Reserve District owned by the building and loan associations and life insurance companies increased slightly more rapidly from 1930 to 1936, the latest available date, than these lenders' holdings of real estate in other districts.

Diagram IX indicates the movement of mortgage loan and real estate holdings of building and loan associations in this district vis-a-vis the rest of the country, and Diagram X shows similar developments for the life insurance company holdings.

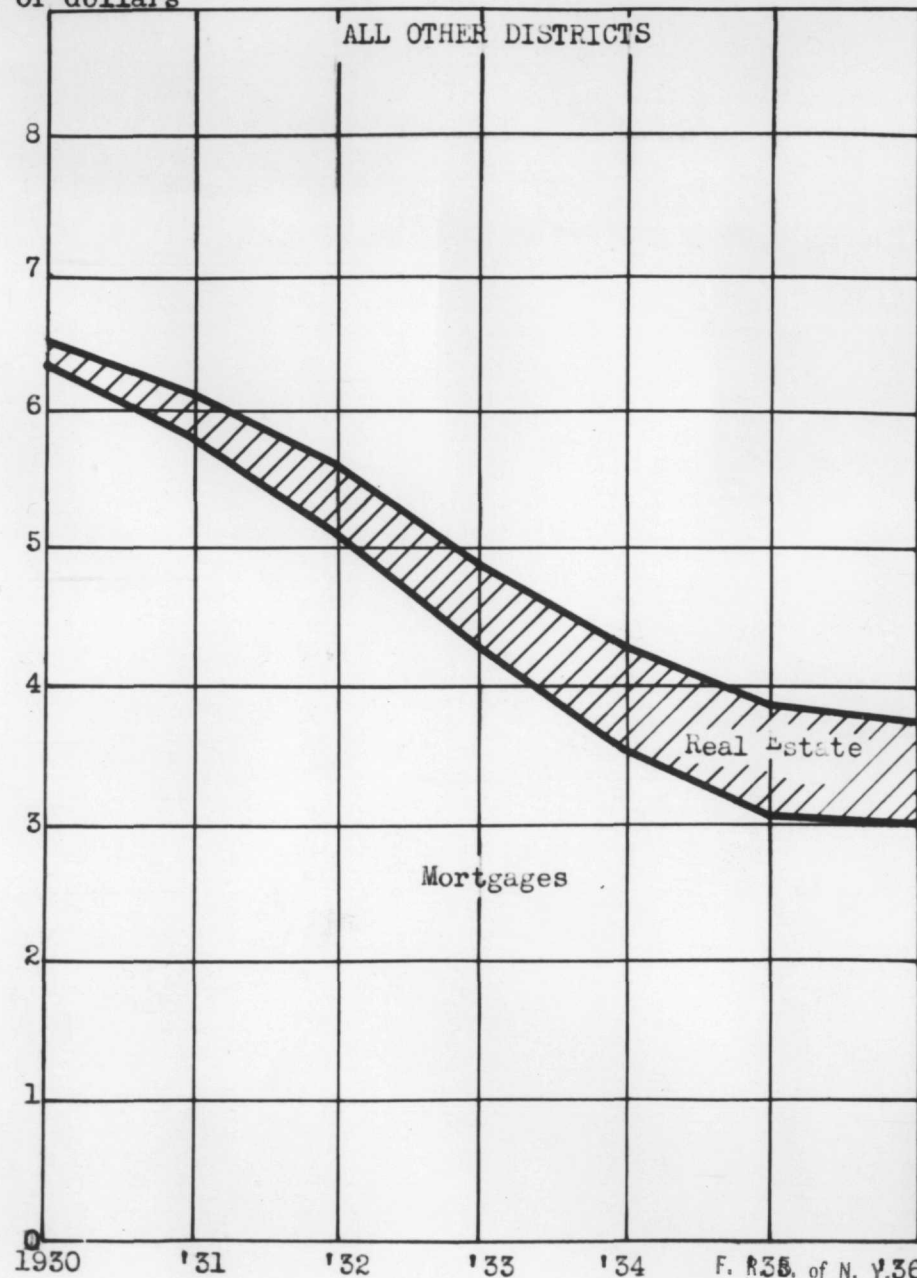
Total Mortgage Loans and Real Estate Holdings in the Second Federal Reserve District by Principal Institutional Lenders Vis-a-vis Holdings in Other Districts. The total amount of mortgages and real estate held by all banks, building and loan associations, and life insurance companies is shown in Diagram XI, which indicates that there has been considerably less liquidation of these lenders' total interest in real estate (mortgages and property held) in the Second Reserve District than in other parts of the country. With respect to the rate of growth of real estate holdings, Diagram XII shows that the amount of real estate owned in the Second Federal Reserve District by all banks (including savings banks), building and loan associations, and life insurance companies increased considerably more rapidly between 1930 and 1936 than did similar holdings in other districts. In this district the rise was from \$229,000,000 to \$1,486,000,000, and in other districts from \$882,000,000 to \$2,811,000,000, indicating that proportionately more real estate has been taken back in recent years by the lenders as a result of operations in this area than in the rest of the country. This point is further exemplified by a rise in the ratio of real estate owned to total mortgage loans of these lending institutions from 3 per cent to 24 per cent in the Second District, and from 5 per cent to 26 per cent in all other districts (see Diagram XIII).

MORTGAGE LOANS & "OTHER" REAL ESTATE OWNED BY BUILDING AND LOAN ASSOCIATIONS
IN 2ND F. R. DISTRICT AND IN ALL OTHER DISTRICTS

Billions
of dollars

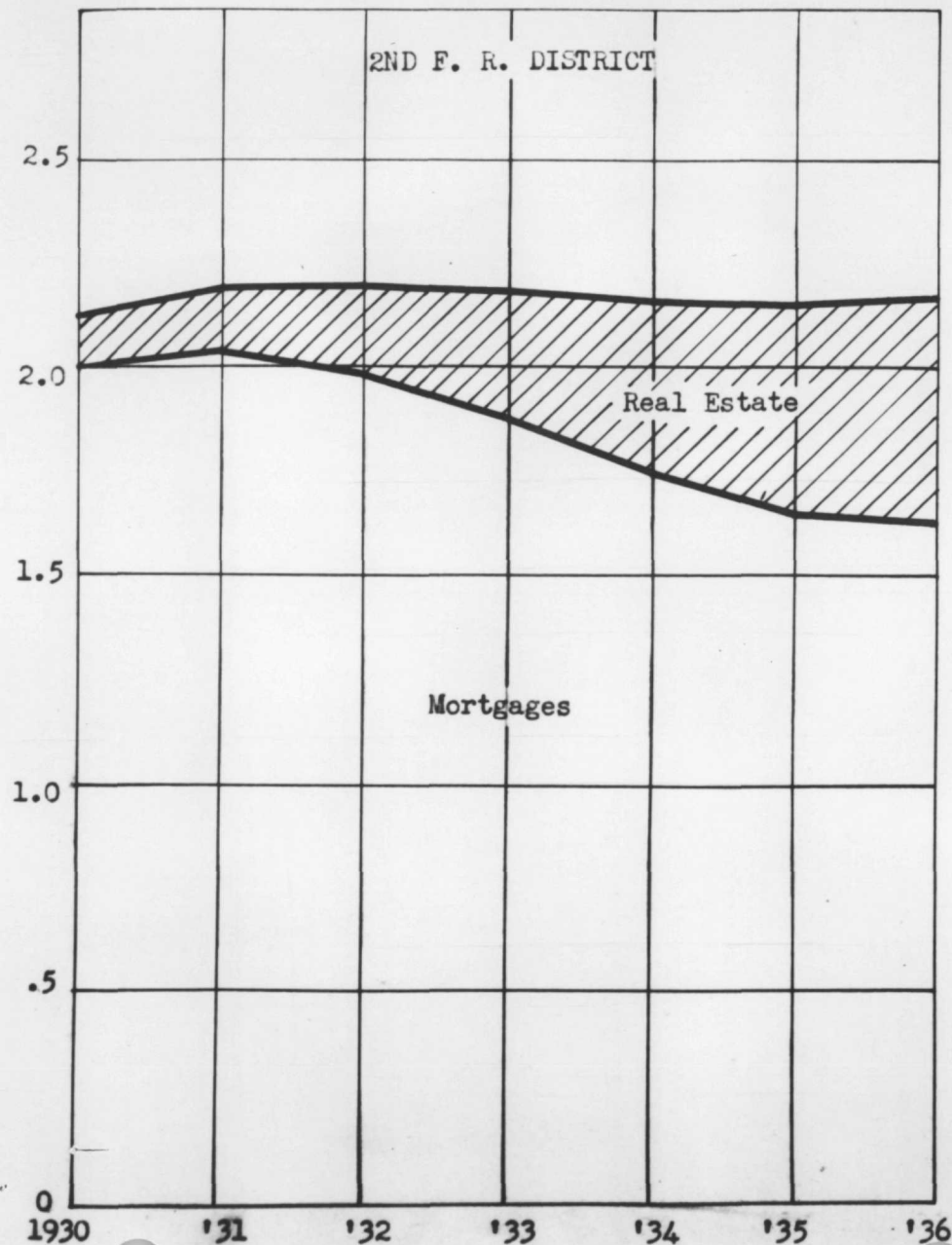


Billions
of dollars

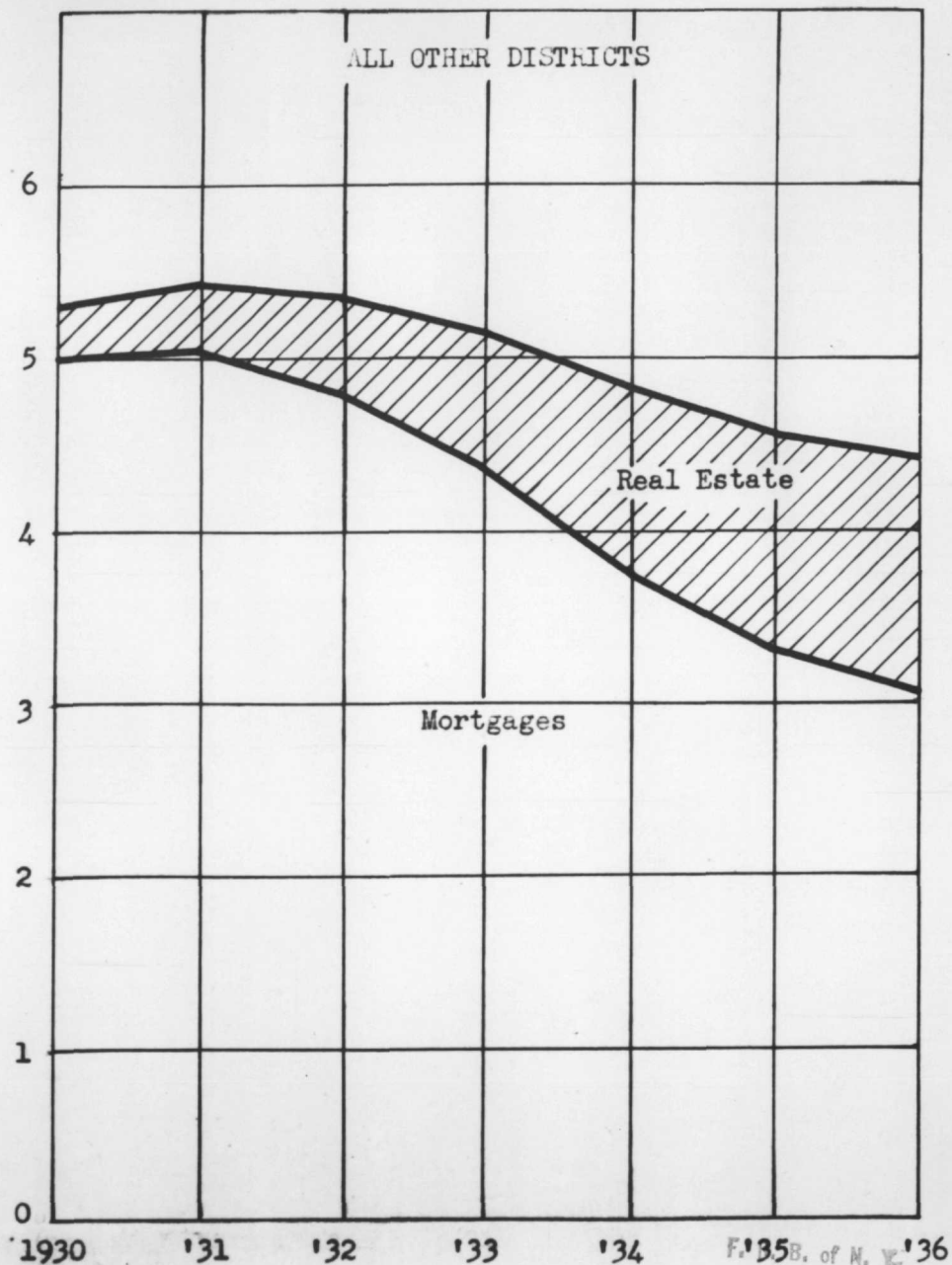


MORTGAGE LOANS & "OTHER" REAL ESTATE OWNED BY LIFE INSURANCE COMPANIES
IN 2ND F. R. DISTRICT AND IN ALL OTHER DISTRICTS

Billions
of dollars

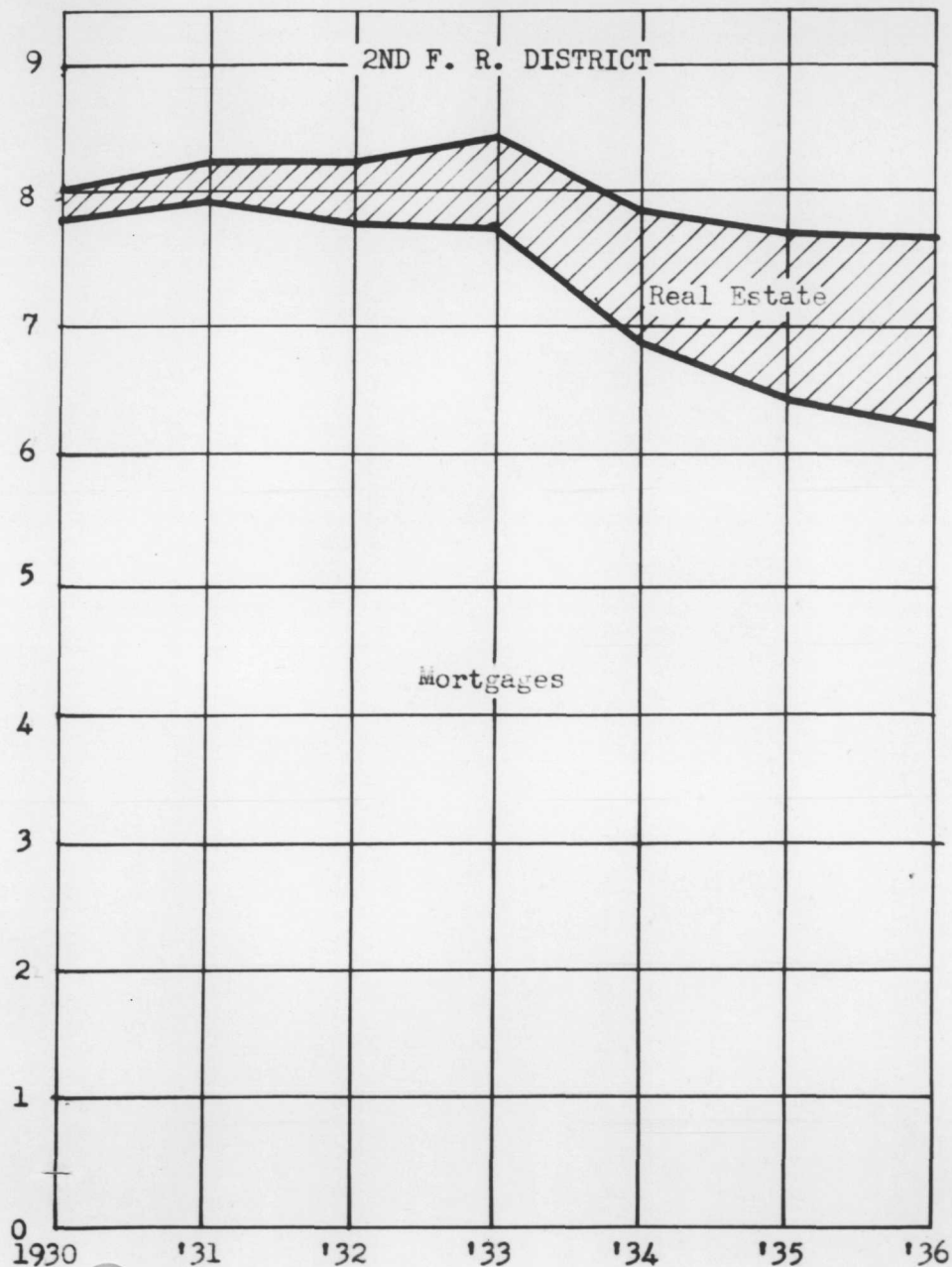


Billions
of dollars

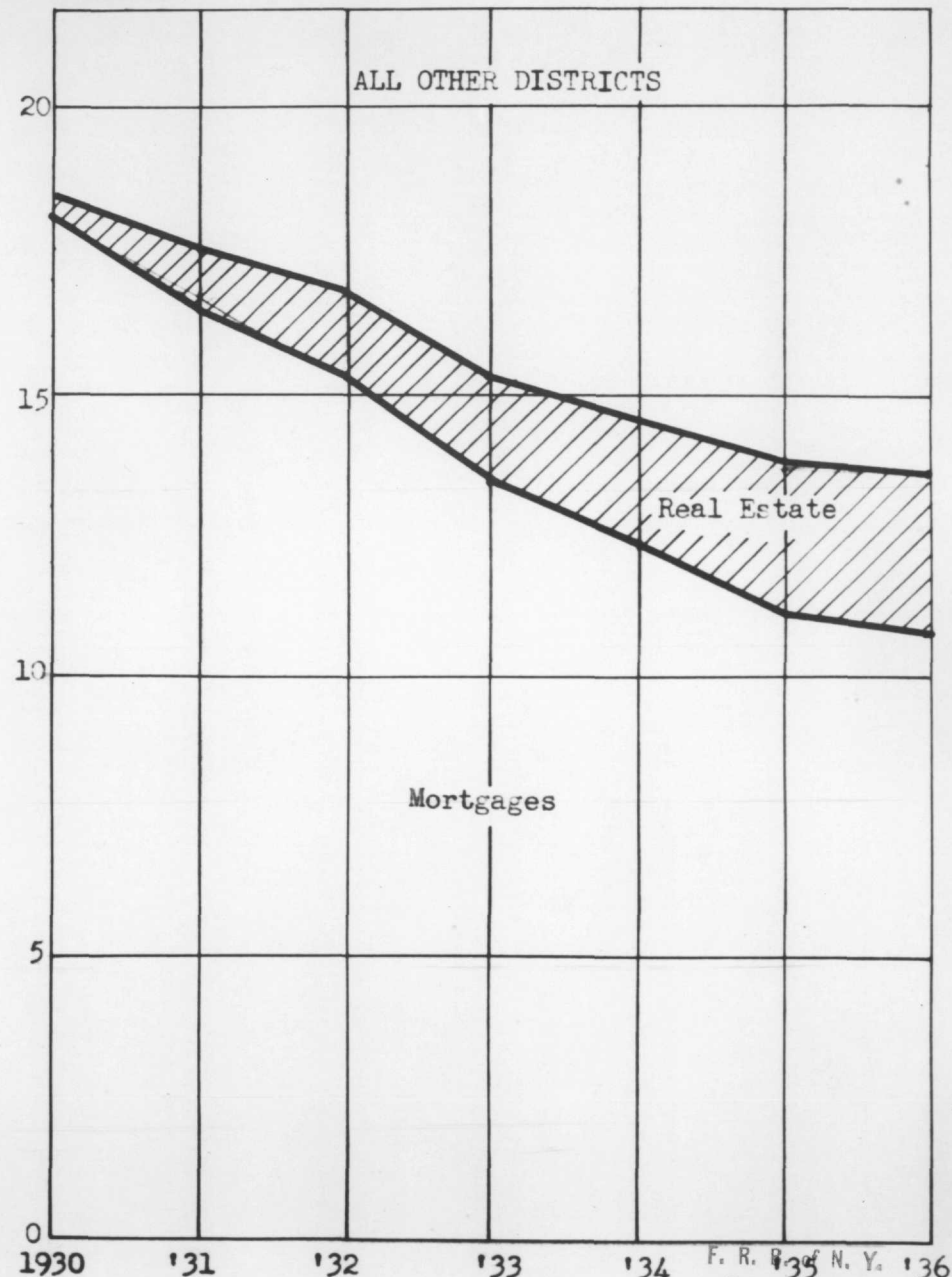


TOTAL MORTGAGE LOANS & "OTHER" REAL ESTATE OWNED BY ALL BANKS, BUILDING & LOAN ASS'NS., & LIFE INSURANCE COS.
IN 2ND F. R. DISTRICT AND IN ALL OTHER DISTRICTS

Billions
of dollars

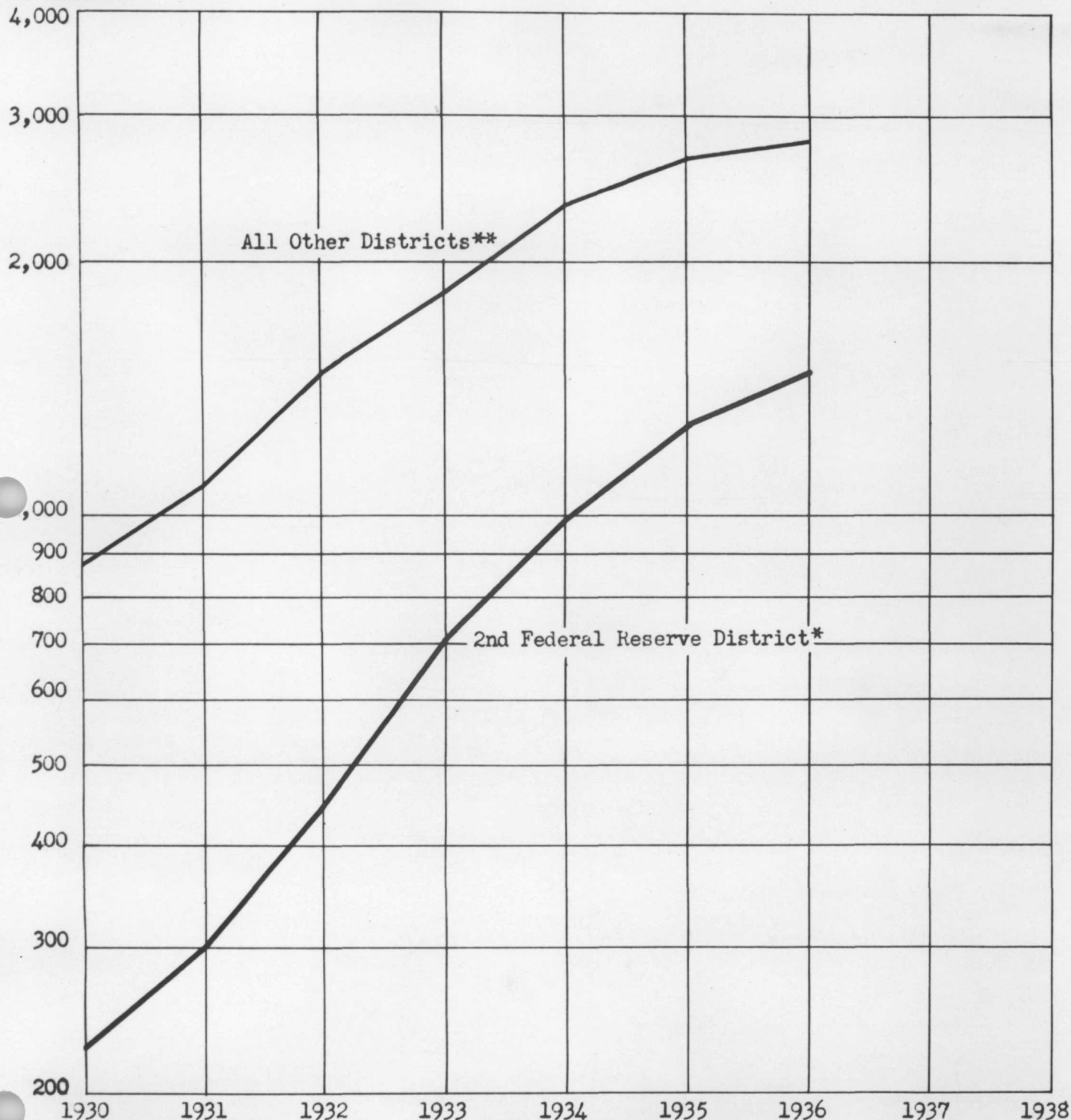


Billions
of dollars



"OTHER" REAL ESTATE OWNED BY ALL BANKS, LIFE INSURANCE COMPANIES,
AND BUILDING AND LOAN ASSOCIATIONS IN 2ND F. R. DISTRICT AND
IN ALL OTHER DISTRICTS

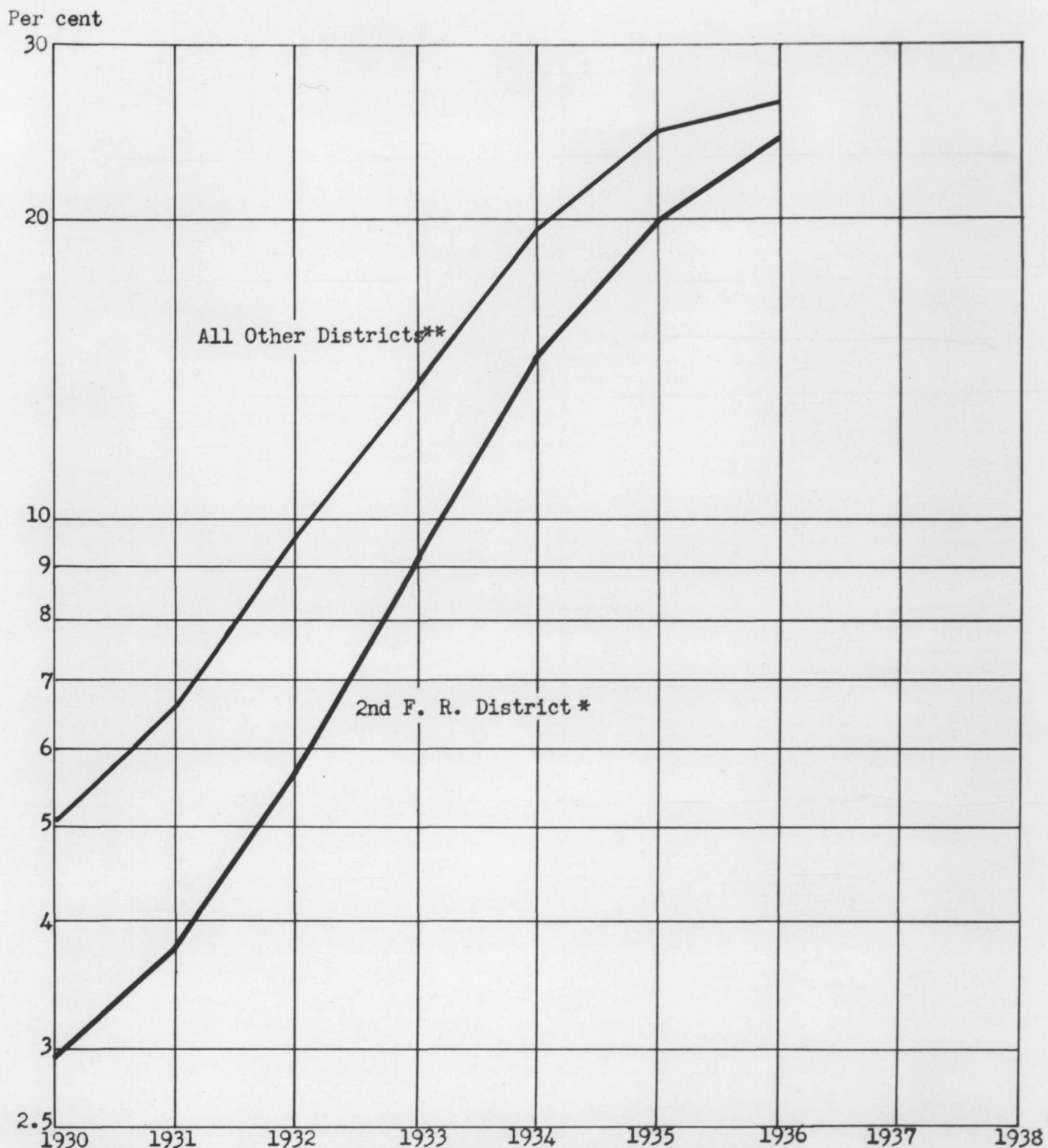
Millions
of dollars



*Not strictly 2nd F. R. District but closest approximation to it.

**Whole country minus approximate 2nd F. R. District series.

RELATIONSHIP OF "OTHER" REAL ESTATE OWNED BY ALL BANKS, BUILDING
AND LOAN ASS'NS., AND LIFE INSURANCE COMPANIES TO TOTAL MORTGAGE
LOANS OF THESE INSTITUTIONS IN 2ND F. R. DISTRICT AND IN ALL
OTHER DISTRICTS



*Not strictly 2nd F. R. District but closest approximation to it.

**Whole country minus approximate 2nd F. R. District.

F. R. B. of N. Y.
Research Dept.
Mar. 31, 1938

Relative "Load" of Real Estate Indebtedness in this District as Compared with other Districts. Although the ideal comparison would be one of total real estate indebtedness to total wealth, the lack of any up to date figures on wealth makes necessary the use of figures on "total income from all sources," which is an indirect measure of relative wealth. Computing the relative "load" of real estate indebtedness on this basis, the ratio of real estate indebtedness to total income for New York and New Jersey at the end of 1935 stood at 62 per cent, as compared with 50 per cent in 1930, whereas in the case of the rest of the country the ratio at the end of 1935 was 34 per cent as compared with 31 per cent in 1930.

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On succeeding pages there is appended a record of mortgage loans and of real estate holdings of the principal groups of lenders in the New York Federal Reserve District and in other parts of the country for the most recent date available and for previous years.

February 18, 1938
Research Department
H.L.S. & L.B.

Second Federal Reserve District

(in millions of dollars)

Dates*	Mortgage Loans					"Other" Real Estate Owned				
	All Member Banks Other Than N.Y.C.	All Banks***	B & L Ass'ns***	Life Ins. Cos.****	Total of (2), (3), & (4)	All Member Banks Other Than N.Y.C.	All Banks***	B & L Ass'ns***	Life Ins. Cos.****	Total of (2), (3), & (4)
	(1)	(2)	(3)	(4)	(5)	(1)	(2)	(3)	(4)	(5)
1926			999	1,288			15		89	
1927			1,166	1,479			17		105	
1928			1,338	1,700			18		120	
1929	372		1,443	1,886		13	23		119	
1930	401	4,329	1,472	1,997	7,798	16	42	60	127	229
1931	410	4,506	1,414	2,039	7,959	19	52	99	150	301
1932	397	4,496	1,289	1,990	7,775	22	88	151	207	446
1933	348**	4,762	1,131	1,878	7,771	28**	194	215	304	713
1934	335	4,200	944	1,748	6,892	38	301	280	410	991
1935	322	3,975	788	1,652	6,415	49	437	345	496	1,278
1936	327	3,858	707	1,635	6,200	65	555	392	539	1,486
1937	338					68				

*Bank figures are as of June 30; Building and Loan Association and Life Insurance Companies' figures are as of December 31.

**Licensed banks only.

***Not strictly 2nd F. R. District; states of N. Y. and N. J.

****Middle Atlantic States (incl. N. Y., N. J., and Pa.).

All Other Districts

(in millions of dollars)

Dates*	Mortgage Loans					"Other" Real Estate Owned				
	All Member Banks Other Than Chicago (1)	All Banks*** (2)	B & L Ass'ns*** (3)	Life Ins. Cos.**** (4)	Total of (2), (3), & (4) (5)	All Member Banks Other Than Chicago (1)	All Banks*** (2)	B & L Ass'ns*** (3)	Life Ins. Cos.**** (4)	Total of (2), (3), & (4) (5)
1926			4,854	3,822			344		127	
1927			5,419	4,205			382		150	
1928			5,929	4,551			386		181	
1929	2,593		6,348	4,861		164	368		226	
1930	2,578	6,116	6,288	5,017	17,421	165	383	215	284	882
1931	2,629	5,630	5,791	5,050	16,471	174	394	323	371	1,088
1932	2,311	5,446	5,101	4,806	15,353	190	439	503	546	1,488
1933	1,842**	4,866	4,282	4,364	13,512	180**	444	614	798	1,856
1934	1,846	4,960	3,540	3,748	12,248	222	544	753	1,075	2,372
1935	1,802	4,702	3,091	3,297	11,090	256	646	799	1,253	2,698
1936	1,853	4,658	3,037	3,068	10,763	275	709	752	1,350	2,811
1937	2,006					248				

*Bank figures are as of June 30; Building and Loan Association and Life Insurance Companies' figures are as of December 31.

**Licensed banks only.

***All other than States of N. Y. and N. J.

****All other than Middle Atlantic States (N. Y., N. J., and Pa.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 23, 1938To Mr. EcclesSubject: Letter from President Harrison,
April 1, 1938, re real estate and mtge.
loans in Second Federal Reserve District.From Mr. Clayton

File

I have read through the attached memorandum sent by George Harrison, being a study of the Research Department of the New York Reserve Bank respecting the real estate mortgage situation in the Second Federal Reserve District.

The general showing made by the study is that the real estate situation in the Second District appears to be less favorable than in other parts of the country. Some of the high lights are as follows:

1. Banking figures. The New York District member banks at the latest available date had about 31 percent of their total loans on real estate as against about 24 percent of member banks of all the other districts. These figures are exclusive of the central reserve city banks, which are left out both at New York and Chicago. The growth in real estate owned is also striking. Since 1926 Second District member banks have increased their holdings of real estate from \$15 million to \$555 million as compared with an increase in the rest of the country from \$344 million to \$709 million.

2. Total mortgage loans and real estate holdings. Lumping all institutional mortgage lenders together, the rise in real estate holdings between 1930 and 1936 was from \$229 million to \$1,486 million, whereas in the other districts it was from \$882 million to \$2,811 million.

Engelmann
p. 8

3. Relative load of real estate indebtedness. The ratio of real estate indebtedness to total income for New York and New Jersey at the end of 1935 stood at 62 percent, as compared with 50 percent in 1930, whereas in the rest of the country the ratio at the end of 1935 was 34 percent, as compared with 31 percent in 1930.

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