

Kenneth Snowden: "The Evolution of Interregional Mortgage Lending, 1870-1940: The Life Insurance-Mortgage Company Connection. In *Coordination and Information: Historical Perspectives on the Organization of Enterprise*, Univ. of Chicago, 1995, 209-47.

Kimbrough, Geoffrey and Kenneth Snowden: The [Spatial Character of Housing Depression in the 1930s](#)

- 1) Mortgage markets.
 - a. Bilateral lending
 - b. Interregional lending
- 2) Financial intermediaries
 - a. Problems of moral hazard
 - b. Problems of adverse selection
- 3) Real estate and mortgage markets.
 - a. Asset values depend on the rental price (but you have to capitalize that)
 - b. Asset values depend on the cost of holding an option (but somewhere there is a cost of capital)
 - c. Extent of rationing
 - i. Affects who can get a loan
 - ii. Likelihood of default
- 4) Snowden, 1870
 - a. Why are there returns to interregional lending?

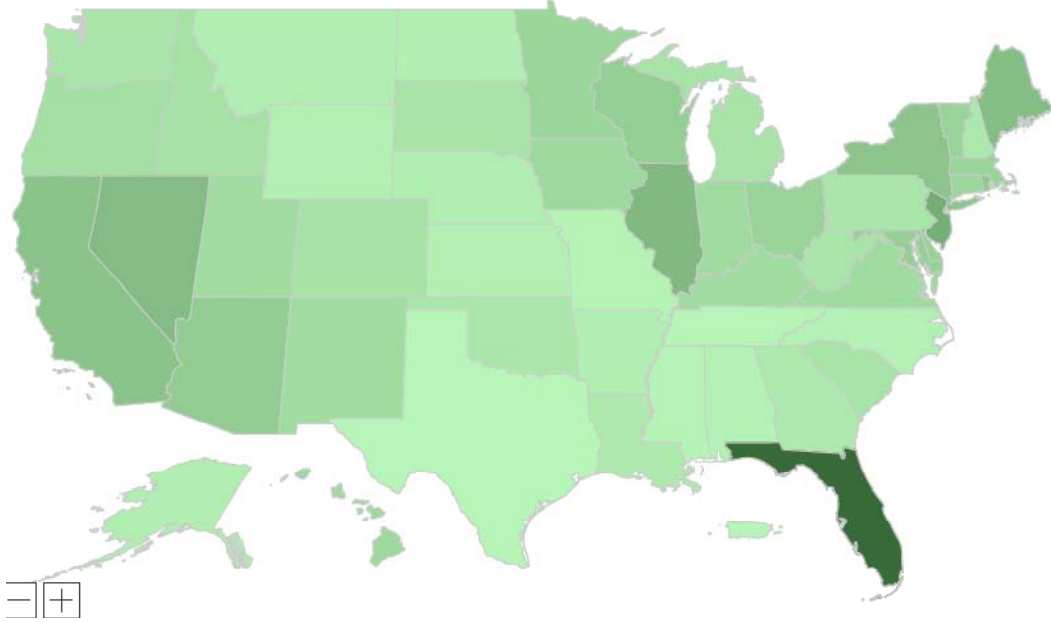
TABLE 7
MORTGAGE INTEREST RATES BY REGION, 1880-1889

<i>All Mortgages^a</i>						
<i>Region</i>						
<i>Year</i>	I	II	III	IV	V	VI
1880	6.04	6.06	7.97	7.72	10.89	12.48
1881	5.90	5.80	7.96	7.39	11.28	11.40
1882	5.88	5.85	7.91	7.23	10.30	10.70
1883	5.87	5.83	7.87	7.25	9.94	10.77
1884	5.88	5.84	8.02	7.29	9.58	10.65
1885	5.83	5.79	8.08	7.31	10.09	10.88
1886	5.75	5.70	8.03	7.18	9.75	10.14
1887	5.69	5.69	7.86	7.10	9.57	9.49
1888	5.82	5.66	7.91	7.10	7.24	10.43
1889	5.78	5.66	7.80	6.90	9.00	9.95

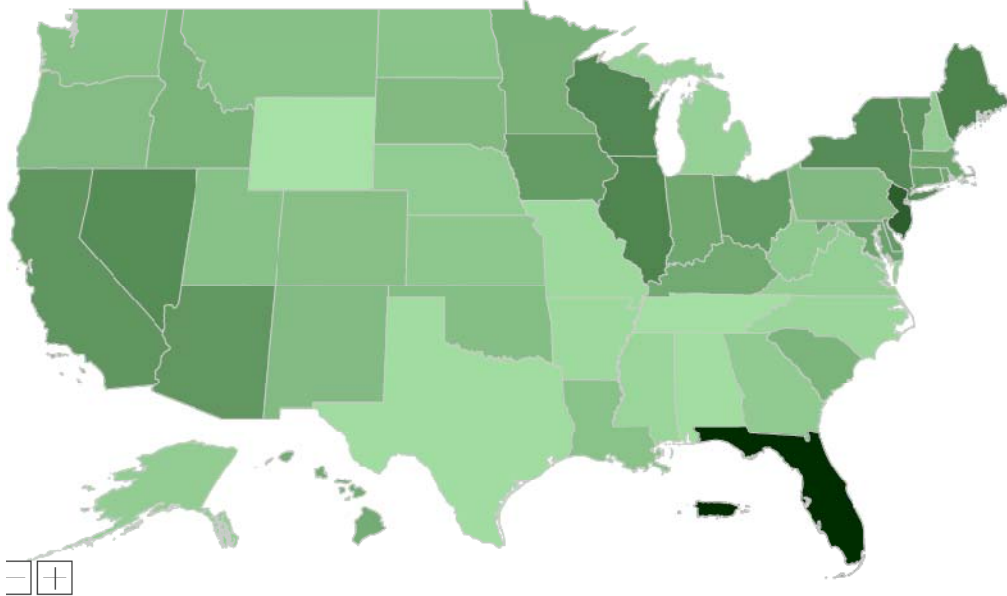
<i>Farm Mortgages^b</i>						
<i>Region</i>						
<i>Year</i>	I	II	III	IV	V	VI
1880	6.03	6.11	8.02	7.81	10.51	11.94
1881	5.98	6.01	8.02	7.48	10.75	11.11
1882	5.93	5.90	7.93	7.34	9.65	10.52
1883	5.95	5.83	7.90	7.34	9.21	10.71
1884	5.95	5.79	8.05	7.40	9.03	10.10
1885	5.90	5.78	8.13	7.46	9.57	10.63
1886	5.86	5.76	8.02	7.32	9.60	9.84
1887	5.82	5.75	7.88	7.19	9.42	9.07
1888	5.88	5.70	7.90	7.22	9.09	10.19
1889	5.87	5.74	7.82	7.14	8.96	9.85
1914 ^a	5.7	5.6	7.6	5.9	7.6	8.2
1914 ^b	5.7	5.8	8.3	6.3	8.7	8.6
1930	6.1	6.0	6.8	5.9	6.5	6.9

- ⁵ Region I: Maine, Vermont, New Hampshire, Massachusetts, Connecticut, and Rhode Island.
- Region II: New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Columbia.
- Region III: Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Texas, Arkansas, Kentucky, and Tennessee.
- Region IV: Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, and Missouri.
- Region V: North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming, Colorado, New Mexico, and Oklahoma.
- Region VI: Washington, Oregon, California, Idaho, Utah, Nevada, and Arizona.

- b. So who does it?
 - i. Life insurance companies
 - ii. Mortgage companies
 - iii. Investment banks and Mortgage backed securities
 - c. What kinds of problems are confronted early on?
 - i. Local intermediaries (loan brokers)
 - ii. Who does loan services
 - iii. Who deal with problem loans
 - iv. Why does a boom make this worse?
 - d. How are these problems addressed?
 - e. How different is this from the present boom bust cycle?
 - i. What are the lessons of history?
 - ii. Are they inevitably undone by financial innovation?
- 5) Snowden 1940
- a. life during the boom.
 - i. The 1920s are very good for the US and particularly good for cities
 - ii. As the largest cities grow the building stock increases
 - iii. Role of the car
 - b. The crash
 - i. Two steps. Finance than real
 - ii. Primary issuers of mortgages are S&L (then Building and Loans)
 - 1. State regulated not covered by any federal regulation
 - 2. Many are small local organization that face runs
 - iii. The real as the depression worsens, its not just real estate speculators who default but also unemployed people
 - iv. Then supply of real estate outstrips demand...and this problem is worse in the 'old' areas than in the new ones
 - c. 'relative' resistance of the new areas (west and the South) contrast with the experience of the 1970s and present.



Alternate (no doc high credit rating) fraction in foreclosure December 2008



Sub prime fraction in foreclosure December 2008

Source Federal reserve of NY.