MEMORANDUM

To: Mr. John H. Pahay  
From: Corwin A. Ferguson  
Date: January 6, 1939  

Employment and business activity in general are above 1929 levels and again increasing after a slight recession shrinkage. The possible reversal of the recent centralization trend in the administration of state government affairs is a hazard currently confronting this Capital City.

A shortage of desirable housing has forced real estate sales prices back to 85-90% and rents to 90% of 1929 with no evidence of any softening. Vacancy is currently about 2-3% and available rental units are few. Sales activity attained peak levels in 1937 and the trend continues up. Institutions have disposed of virtually all their overhang sales during 1936-37 and the first 7 months of 1938 equaling 28% of their present small holdings ($508,300 = 3% of mortgage portfolios). Potential acquisitions are few and foreclosures (1 per 1,000 non-farm dwellings) are well below average. New residential construction volume has been heavy ~ estimated 1938 volume based on 10 months experience equaling 72% of the previous peak ~ and is increasing. Building costs, down slightly from 1937, are at 1929 levels.

New mortgage activity has paralleled real estate activity and the majority of loans are for new construction. Title II loans comprised over half of recent lending and loans of this type equal 37% of present institutional mortgage portfolios. Title II activity together with the highly competitive institutional lending terms generally have forced individuals out of the residential lending dominance they exercised prior to 1937. Ample mortgage funds are available.

Banks and trust companies now constitute the most active residential mortgage lenders doing 55% of the dollar volume of business during 1936-37 and the first 7 months of 1938 and making 54% of the number of loans. Their mortgage portfolios ~ over three-fourths in Title II loans ~ equal 39% of the number and 41% of the dollar amount of total institutional holdings. The group reports a deposit loss of $13,110,500 during the past year, but this figure is meaningless because of the turnover in state government deposits. Interest of 3 - 2% is paid on savings.

Savings and loan associations are second to the banking group in activity and holdings but have lost ground since 1936. The associations hold 28% of the number and 11% of the amount of total institutional mortgage accounts, but their activity dropped to 24% of the number and 13% of the dollar amount of mortgages made since January 1, 1936. The group reports a loss of $224,900 in private share investment during the past year and the decline continues currently. Dividend rates are 3-4%.

Insurance companies are not active in Sacramento and other non-resident institutions, paced by one savings and loan association in a nearby city, constitute the only other important source of institutional mortgage funds. The one mortgage company in this area is a state-financed home-purchasing agency operating exclusively for the benefit of war veterans.

The liquidation of the only two institutions in this category is virtually complete, and their remaining holdings of mortgages and real estate are negligible. The HOLD has mortgages and real estate equivalent to 11% and 16% of institutional totals respectively.

(For details as to investment and activity by institutional groups, see the attached consolidated figures.)

C.A.F.