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Mortgage Milestones

BY JILLY MacDOWELL

Late 14th century: morgage, "a conveyance of property on condition as security for a loan or agreement," from Old French morgage (13c.), mort gaige, literally "dead pledge" (replaced in modern French by hypothèque), from mort "dead" + gage "pledge."

Because the deal dies when the debt is paid or payment fails, the "dead pledge" is as old as time. In 5th century India, the Code of Manu shunned those who were taking advantage of the lending process and charging exorbitant interest rates. The Babylonian Talmudic scriptures refer to the "Shetar," an instrument that established formal obligation either in contract or in debt. The Greeks and Romans borrowed from these ancient practices.

Early maritime law permitted loans on merchant ships; the borrower would repay with interest once the ship arrived at its destination. (The United States would adopt this concept during WWII to safeguard the immense surplus on merchant ships.)

Mortgages are mentioned in 12th century English common law describing how a creditor is protected in property purchase agreements. Buyers would get loans directly from the seller – no banks or outside parties were involved.

The American mortgage got its proper start upon the founding of the first legitimate commercial bank in 1781, when the Continental Congress chartered the Bank of North America (now Wells Fargo) "to create new financial tools for a fledgling nation.

The number of banks increased between 1820 and 1860, which also led to an uptick in the volume of loans. Starting in the 1870s, private banks began to lend regularly to farmers, enabling agricultural growth across rural America. *>>> CONT'D ON PAGE 11*

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COVER PHOTO BY COLIN LLOYD ON UNSPLASH.

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And in the 1880s, established lenders began issuing covered mortgage bond programs, to later be expanded upon in the urban residential market.

To even the playing field and increase access to credit, farming organizations lobbied for lending to become more standardized. In 1916, President Woodrow Wilson signed the Federal Farm Land Bank Act into law. Under the Act, farmers were able to access mortgages with lower interest rates and pay them back over longer periods of time, helping small farmers compete with large conglomerates.

Most all private mortgage insurance companies were bankrupted by the Great Depression of 1929. Over half of U.S. banks failed, unemployment skyrocketed and about half of American homeowners defaulted on their mortgages.

In 1934, President Franklin D. Roosevelt's New Deal to boost a depressed economy included creating the Federal Housing Administration (FHA), which stepped in with federally insured mortgages sold by banks, an amortization plan and terms of 15-20 years. FHA and other government institutions that back mortgages – the Home Owners Loan Corporation (HOLC), the Federal National Mortgage Association (Fannie Mae), FDIC – were major players in early mortgage loans.

WWII introduced the G.I. bill and the VA mortgage insurance program for service members and veterans. The maximum mortgage term was extended to 30 years to stimulate the housing market.

1957 was the beginning of the PMI era, when the Mortgage Guaranty Insurance Company assumed risks on the first 20 percent of losses on a loan, allowing borrowers smaller down-payments. And, in 1968, the Government National Mortgage Association (Ginnie Mae) was created to guarantee affordable home loans to underserved consumers in the mortgage market.

Adjustable rate mortgages returned to the market during the 1980s under the discretion of the Federal Reserve. Former NAMB president Rocke Andrews picks up the story from here, in NAMB's early days, on the following page.

In this issue of NC, we urge NAMB members to join us in DC for the Legislative & Regulatory Conference, affectionately known at NAMB HQ as "The Ledge." And contributor Sarah Shriber continues her branding series with a trip to the flower shop.

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