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Where Credit Is Due: Residential Mortgage Finance in Canada, 1901 to 1954

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Abstract

The experience of Canada in the first half of this century indicates that the importance of institutional mortgage lending for the growth of homeownership can be overstated. Home ownership rates in Canada and the United States were similar, but many fewer Canadians than Americans relied on lending institutions. Fewer incurred debt of any sort. A case study of Hamilton, Ontario, based on land titles records indicates that this was especially true during the interwar years. No Canadians lived in large metropolitan areas, where mortgage debt was most prevalent, while many built in stages as their finances allowed. Moreover, even in the early 1950s, half of all residential mortgage debt in Canada was held by private individuals, with brokers playing an important role. Despite the importance of the personal sector, above all in the markets for older homes and junior mortgages, the Canadian government made no effort to improve the way in which it operated.

Key Words: mortgage finance, home ownership, Canada, Hamilton (Ont.)

Housing experts agree that mortgage credit has been critical to the development of housing markets in modern economies and assume that lending institutions have played the critical role. When the National Bureau of Economic Research undertook research into the U.S. mortgage scene after World War II, it commissioned studies of each of the largest institutional lenders. Surveying these studies, Saulnier (1956, p. 4) observed that the most important recent development in mortgage markets had been the growth of institutional lenders. According to this view, it is institutions that underpin the efficient production of housing, that deserve the credit for improved housing conditions, and that have permitted the growth of owner occupation. Both in Canada and in the United States, governments have acted on this view. Since the 1930s federal housing policy has sought to restructure and fine-tune mortgage finance, using financial institutions as the policy tool.

In this article we probe this view, especially as it applies to Canada between 1901 and 1954. In the latter year, because of a shortage of mortgage funds, a revised National Housing Act allowed the banks to provide mortgage credit. We show that throughout the first half of this century many people acquired homes with little financing (section 1). When they did obtain credit, they relied heavily on individuals and not lending institutions (section 2). Indeed, as savers and lenders, individuals were responsible for most urban home financing in the first half of this century, and for spectacular (if erratic) increases in owner occupation. Credit, we argue, should be given where it is due.

To some extent, the neglect of personal equity and lending reflects an intellectual bias. In 1971, the Central (now Canada) Mortgage and Housing Corporation (CMHC) commissioned an internal report that offered what are still the only estimates of noninstitutional mortgage lending from 1926 to 1950 (CMHC, 1971, app. D). Significantly, the report was neither published nor apparently deposited in the agency's own library and has now been lost. Such neglect is compounded by the fact that personal equity and lending is hard to document. Institutions submit annual reports of lending activity, but individuals do not. Moreover, the Canadian Census did not report on the incidence of home mortgage debt until 1941. To supplement published data, then, we have made extensive use of property assessment and land registry records to document mortgage lending in a single city—Hamilton, Ontario.

Hamilton was not exactly average, but it embodied the major patterns and trends in mortgage lending and our argument interweaves national with local evidence. In the conclusion we suggest how the Canadian experience has relevance for our understanding of mortgage markets in other countries.

1. Owners' Equity

> The mortgage indebtedness of this country is moderate.
> —Prime Minister Bennett, June 4, 1934

To qualify for a mortgage, borrowers usually invest equity in a downpayment. Today we are accustomed to high-ratio mortgages amounting to 90% or more of the purchase price, but these became common only after World War II. In the United States, downpayments of 50% were typical until the Federal Housing Administration (FHA) introduced loan insurance in 1934. This insurance reduced default risks, and the FHA initially pushed for 75% loans, raising this to 90% by the late 1940s. Veterans could borrow most (and sometimes all) of the remainder through VA guarantees.

Home buyers in Canada, however, were expected to invest more equity. Trust and Loan companies—which together held two-fifths of all institutional mortgage debt in 1931—were forbidden from making loans in excess of 60%.[1] A ratio of 50% seems to have been the usual maximum well into the 1930s (Canada, House of Commons, 1935, p. 347). In 1935, a Dominion Housing Act (DHA) introduced a scheme whereby 80% loans were offered jointly by private lenders (60%) and the state (20%). This scheme was renewed in 1938 under the terms of the first National Housing Act (NHA).

Few such loans were made, however, and they had little effect on conventional lending. By the late 1940s conventional loan limits had only risen slightly to 66%, while the usual NHA loan remained fixed at a maximum of 80%.[2] The first president of CMHC later recalled with pride that until 1954 his agency maintained this conservative lending ratio at a time when the FHA was promoting 95% loans (Canada, Royal Commission on Banking and Finance, 1961, p. 6142). Only when the joint-loan scheme was replaced in 1954 by a system of mortgage insurance did higher ratio loans become common. From the late 1920s to the mid-1950s, then, Canadian home buyers were expected to invest more equity than their American counterparts.

Information on the mortgage status of dwellings has been published for the United States since 1890. In Canada it only dates from 1941. In that year, a lower proportion of owner-occupied nonfarm dwellings were mortgaged in Canada (31.2%) than in the United States (45.3%) (table 1). Much the same difference existed in 1951. Almost a third of this difference was because the United States was more urbanized, and urban homes were more likely to be mortgaged. Among urban dwellings the national difference was only ten percentage points. Some of the remaining difference was due to the differing size distribution of urban centers in the two countries. Urban size is important because mortgage debt has always been most prevalent in larger centers where housing is more expensive. In small Canadian urban centers (population 10,000 to 29,999) in 1951, for example, only 28% of all dwellings were mortgaged, while in larger centers the proportion approached 50% (table 2). For comparative purposes, then, it is desirable to control for city size. Unfortunately, this is possible to only a limited extent. For example, in 1951 the Canadian census reported the incidence of mortgages by city size but the U.S. census did not. Fortunately, the latter did report data for specific medium and large urban centers, and these can be aggregated. The results show that, in the United States as in Canada, the incidence of mortgage debt increased steadily with city size, reaching an average of 58.8% in urban centers larger than 1.4 million (table 2). National comparisons are possible only for two size categories—0.1 to 1.4 million, and 30,000 to 99,999.[3] Only in the larger size category was there a substantial difference (of 5.9 percentage points) between the two countries. For the most part, then, Canadians incurred less debt because relatively few lived in large cities. Those that did, however, were more likely than their U.S. counterparts to own their homes outright.[4]

Table 1. Mortgage status of nonfarm owner-occupied dwelling units, Canada and the United States, 1900 to 1950.

	Proportion of dwelling units with mortgage		
	Canada[a] Nonfarm	Urban	United States Nonfarm
1890	—	—	27.7
1900	—	—	32.0
1910	—	—	33.3
1920	—	—	39.8
1930	—	—	—
1940	31.2	35.5	45.3
1950	31.2	38.3	44.0

Sources: Canada, Dominion Bureau of Statistics (1941, tables 24, 24a; 1951, Table 68); U.S. Bureau of the Census (1954, table T).
[a] All Canadian data are for following year.

Table 2. Mortgaged home ownership by urban size category, Canada and United States, 1950 or 1951.

Urban size category (population)	Mortgaged dwelling units as a proportion of all owner-occupied units: Canada (1951)	United States (1950)
> 1,400,000	—	58.8
100,000–1,399,999	46.2	52.1
30–99,999	46.5	46.3[a]
10–29,999	28.3	n/a

Sources: Canada, Dominion Bureau of Statistics (1951, table 68); U.S. Bureau of the Census (1954, table 32).
a. U.S. data are available only for specific urban areas with a population of at least 50,000.

Housing experts often discuss loan limits as if they define the norm, assuming that people borrow as much as they can. This was certainly not the case in the first half of this century. Indebtedness implies living beyond one's means and involves risk. It is rarely rational to take on as much debt as one can. Beyond purely economic considerations, debt was stigmatized. True, mortgage debt can be rationalized as a mechanism for saving, and U.S. savings and loans styled themselves as ''thrifts,'' but a mortgage was long regarded by some people with shame and by many as a necessary evil. As the president of CMHC noted in 1959, it was only in the postwar years that mortgages became thoroughly respectable and ''as typical of a Canadian home as the furnace'' (Bates, 1959).

Canadians strove to avoid mortgages or to pay them off as quickly as possible. Writers have noted that immigrants accomplished this by scrimping and taking in boarders. In fact, such practices were widespread. In Toronto, for example, contemporaries referred to the use of boarding not only as a matter of survival but also as a way of saving, and paying, for a home (Harris, 1992, pp. 349–351). The extreme strategy was to build one's own dwelling in stages so as to avoid debt. Owner-building was common in Canada. In Toronto, between one-third and two-fifths of all single-family homes erected between 1900 and 1913 were owner-built (Harris, 1991; 1996, ch. 8). This, and not new mortgage debt, accounted for a major boom in owner-occupation: between 1901 and 1921 the proportion of households in the Toronto area that owned their own home more than doubled, approaching 60% by the latter year (Harris, 1996, p. 137). The same boom was apparent in Hamilton and indeed in most cities west of Quebec (Doucet and Weaver, 1991, p. 329; Harris and Hamnett, 1987). Contemporary accounts and oral histories indicate that, typically, families did not rely on credit. At most, they ran a tab with the local lumber dealer. It is clear that a good many viewed sweat equity as the more virtuous form of thrift and determined to avoid debt (''Earlscourt Is a Model of Thrift,'' 1918). The Canadian boom in homebuilding and home ownership after 1900 seems to have owed more to domestic thrift than to the moneylender.

Some idea of the actual extent of mortgage debt may be gleaned from case studies of Hamilton and Toronto, Ontario. Examining five surveys in Hamilton, Doucet (1977, ch. 4) found that 73% of house sales between 1847 and 1881 were paid in cash (cf. Katz, Doucet, and Stern 1982, p. 148). Judging from Paterson's (1991) study of Toronto between 1911 and 1941, this proportion had decreased by the second quarter of this century. Paterson examined the extent of financing on property transactions in five suburbs, ranging from affluent, restricted Lawrence Park to the Parsons Estate, an unregulated ''shacktown.'' He distinguished between transactions that occurred before and after construction, labeling these the ''production'' and ''consumption'' phases. Across all five areas between 1911 and 1941, he found that 49% of property transactions in the production phase were for cash; his estimate for the consumption phase, comparable to Doucet's, was 38% (Paterson, 1991, pp. 67–68). Significantly, Paterson found cash sales to be most common on the Parsons Estate, where owner-building was the norm, and also in Lawrence Park, where buyers had plenty of savings. Paterson's data suggest that the use of mortgages had increased by the interwar period but that equity remained important in land speculation and housebuilding, as well as in home buying.

It is not clear whether Paterson's evidence represents the overall picture in Toronto, and it offers no clues about trends within the study period. To obtain more representative information, we took a systematic 5% sample of dwelling units from property assessment records for the city of Hamilton and linked sample properties with land registry abstract books. With a constant sampling ratio, our sample increased with the growth of the city, from 775 dwelling units in 1901 to 5700 units in 1951. Tenure, and the occupation of both the owner and the occupier, were drawn from assessments. From the abstract books we obtained data regarding the presence and source of first mortgage financing.[5]

Our data for Hamilton indicate an unexpected trend: the incidence of mortgage debt rose until about 1921 and then fell (table 3). The decline during the 1930s is not surprising: foreclosures and loan repayments outweighed new mortgage lending. The extent of the decline, however, is noteworthy. More surprisingly, debt fell during the 1920s and affected all types of properties, new and old. In order to distinguish new properties from old we constructed our sample longitudinally, beginning in 1951 and tracing properties backward. If a property sampled in 1951 had not existed in 1941 we classified it as ''recently built,'' if it did exist, we classified it as ''older.'' We adopted the same procedure for each previous census year back to 1911. (We did not attempt to establish the age range of properties in our residual 1901 sample.) Since, on the average, recently built dwellings

Table 3. Mortgage status of recently built and older dwelling units, Hamilton, 1901 to 1951.

	Proportion of dwelling units with mortgage			
	All units	Units built in previous decade	Older units	Owner-occupied units
1901[a]	37	—	—	43
1911[a]	42	46	36	46
1921[a]	50	56	43	55
1931[a]	47	52	45	50
1941[a]	37	51	35	42
	—	—	—	56.4[b]
1951[a]	37	47	33	40[b]
	—	—	—	48.6

[a] Longitudinal sample (5%) of Hamilton assessment and land registry records.
[b] Canada, Dominion Bureau of Statistics (1941, table 24a; 1951, table 71).

will be about five years old, and since few people are able to repay mortgages within such a period, the available information provides a rough estimate of the use of mortgage financing on new homes.[6] The pattern is clear: from the early 1920s until at least 1951, a declining proportion of buyers of new homes used credit. It is not possible to make exact comparisons with the United States, for no mortgage data were gathered by the 1930 census. Taking the period 1921 to 1941 as a whole, however, it is striking that while the incidence of mortgage finance on nonfarm homes rose in the United States (by 5.5 percentage points), it fell in Hamilton (by thirteen points). This suggests that in Hamilton, and perhaps other Canadian cities, mortgage financing developed differently from the United States during the interwar period.

To assess this possibility we looked carefully at our registry sample. In principle, there is no reason why the character of our sample should have introduced any important bias (Ragonetti, 1994). Where comparison is possible, our estimates are generally close to reported census data. In 1951, for example, the census reported that 65% of all households in Hamilton lived in ''single-family'' dwellings and that the city had an overall home ownership rate of 65%. The equivalent sample estimates were 68% and 62%.[7]

However, sample and census estimates of mortgage financing do differ. In 1941, for the first time, census enumerators asked owner-occupiers whether their dwelling was mortgaged. The resulting estimate of the incidence of mortgage financing in the city of Hamilton (56.4%) is higher than what we derived from land registry records (42%). Much of the discrepancy can be explained in one of two ways. First, because of an oversight in our sampling design, our estimates exclude agreements of sale. Available evidence on the assets of life insurance companies, the largest institutional source of mortgage finance, indicates that such agreements were unusually common in the early 1940s. Nationwide, during the 1930s the total value of sale agreements averaged only 5% of the book value of insurance company mortgages (Urquhart and Buckley, 1965, p. 255). This proportion rose temporarily in the early 1940s, before falling back after 1945. In 1942 it was 7.3% in the province of Ontario (Canada, Superintendant of Insurance, 1942, p. cxxxviii). If the same ratio applied to loans from all sources held in Hamilton, sale agreements might account for three of the observed fourteen-point discrepancy. To check the plausibility of this estimate, we undertook a supplementary analysis for 1931, 1941, and 1951. Of 1050 cases where purchasers relied on credit, 51 (4.9%) were agreements of sale, a rate that did not vary greatly from year to year.[8] This suggests that the inclusion of sale agreements in our original sampling design would have elevated our estimate of the incidence of mortgage credit by rather less than three percentage points in 1931, 1941, and 1951.

A second, and probably more substantial, reason for the low sample estimate of mortgage financing is the existence of unregistered agreements. Canadian (following English) law recognized *equitable* mortgages, which cited real property as loan security but which were not registered against title (Falconbridge, 1931, pp. 61–75).[9] Where the parties in question trusted one another, cheap, informal agreements might be preferred. Indeed, even strangers used unregistered contracts. A lender might require the borrower to deposit title deeds with a bank until the terms of the contract were satisfied. More commonly, the borrower simply pledged property as security for a debt. A striking example was offered in 1950 by L. T. Clue, general supervisor of the mortgage division at

CMHC. Apparently, a borrower had evaded the equity requirement for a joint loan by obtaining informal credit from his employer.[10] The case was noteworthy because the employer was a bank that was prohibited from making a registered mortgage loan. The existence of informal arrangements was widely recognized, and the author of the definitive Canadian text on mortgage law discussed them at length (Falconbridge, 1931, pp. 61–75). To account for the remaining eleven-point discrepancy between census and sample estimates, they would have had to have made up between one-fifth and one-quarter of all mortgages. This is a high proportion but quite conceivable.[11]

Within these constraints, accepting the Hamilton data as valid, it would appear that trends in the incidence of mortgage financing in Hamilton diverged from the average U.S. experience during the 1920s and 1930s. If Hamilton's experience may be regarded as typical of other Canadian cities—and we cannot at present assess this issue—then the greater Canadian reliance on savings and equity probably became most marked during the 1920s and 1930s.

The national difference persisted into the postwar years, narrowing slightly during the 1940s and 1950s (table 1). In both countries, high ratio mortgages became available, but many borrowers did not (or could not) take advantage of them. In Canada, CMHC surveys reveal that between 1949 and 1953 buyers' equity never accounted for less than 49% of all expenditures on new housing, dropping to 43% in 1954 (CMHC, 1949, 1953, 1954).[12] Most equity came from savings, although in many cases it was supplemented by the owner's labor (CMHC, 1953, p. 30). Between a quarter and a fifth of all dwellings were purchased entirely from equity. At one extreme there were ''the owners who are in a favorable enough position to dispense with loan assistance''; at the other lay those who simply could not borrow; in another category entirely were ''owner-builders operating on a cash and carry basis and building their homes stage by stage over a considerable period of time.'' (CMHC, 1950, p. 28). These observations describe the same experiences implied by Paterson's evidence for Toronto in the interwar years. They underline the continuing importance of owners' equity in the Canadian housing market throughout the first half of this century.

2. The Personal Sector

If Canadians provided much of their own equity, as individuals they also provided much of the mortgage credit. The only attempt to estimate historical trends in their market share was prepared by CMHC in 1971 (CMHC, 1971; cf. Fell, 1940, p. 129). It suggests that, as late as 1952, financial institutions held only 42% (by value) of all mortgage debt in Canada (figure 1). This was exactly the same as that of the ''personal sector,'' the term used by CMHC to denote noninstitutional lenders.[13] For present purposes one of the more serious limitations of this estimate is that it comprises all forms of mortgage debt, including that on farms. Fortunately, census data on farm debt are available. These data show that during the 1940s individuals held a fairly constant share of farm debt, 47.2% of the total in 1941 and 45.4% in 1951 (Drummond and Mackenzie, 1956, p. 113). Subsequently, as government involvement in the farm credit market continued to expand, the share of the

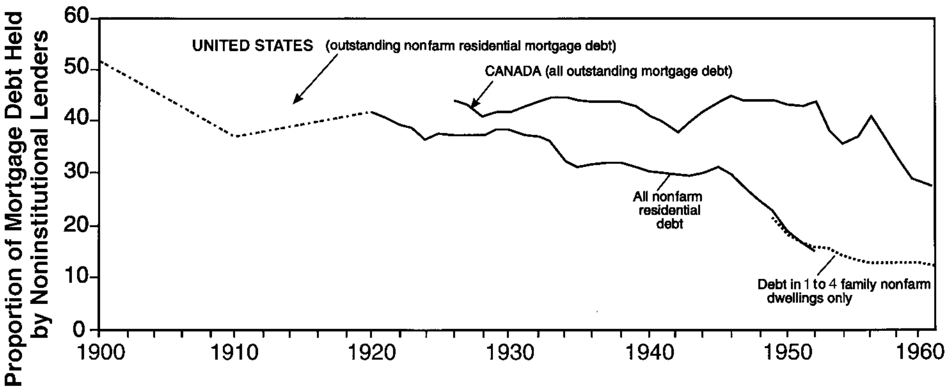

Figure 1. The share of nonfarm mortgage debt held by the personal sector, Canada and United States, 1900 to 1960.
Source: Central Mortgage and Housing Corporation (1971); Brebler, Blank, and Winnick (1956, Tables N3 and N5).

personal sector declined, falling below one-third by the early 1960s (Rust, 1966). These proportions are slightly higher than those with respect to aggregate mortgage debt, where the share of the personal sector rose from 40% in 1941 to 43% in 1951, before falling irregularly to 27% in 1961. Given that nonfarm debt accounted for the largest single component of total mortgage debt, it is likely that the evidence displayed in figure 1 overestimate the share of the personal sector in nonfarm debt by no more than a percentage point in any year. Moreover, and certainly from the late 1930s until the early 1960s, it provides an accurate impression of historical trends.

Accepting CMHC's estimates as a guide, the personal share of nonfarm debt did not decline during the second quarter of this century. Between 1926, the first year for which estimates are available, and 1952, the share of the institutional and personal sectors fluctuated. During the 1930s total mortgage debt fell. Borrowers repaid debts or defaulted, and lenders acquired property. Repayments and acquisitions outweighed new loans, especially for institutions. The share of debt held by the personal sector grew steadily from the late 1920s before stabilizing after 1933. It then fell markedly after 1938, in part because of the impact of the National Housing Act (NHA) of that year.[14] The NHA reaffirmed the government's commitment, defined in the Dominion Housing Act (DHA) of 1935, to make joint mortgage loans with approved institutional lenders. At that time most of these were insurance companies. There was a small spate of construction under the NHA in the late 1930s, which slowly petered out after Canada entered the war in 1939. By 1943 the share of the personal sector was growing again. This was due to the writing of new mortgages on existing homes, a business avoided by many institutions. The wartime economy brought full employment, and tenants bought existing homes, in many cases from their landlords with vendor-financing. The rate of owner-occupation rose rapidly throughout the 1940s. As new construction resumed on a large scale after 1945, the share of mortgage debt held by the personal sector stabilized and then fell slightly. Even so, it remained larger than that of the lending institutions until 1952. Throughout the second quarter of this century, then, lending institutions did not gain ground at the expense of the individual lender.

CMHC's calculations were subject to various errors, the net effect of which was probably to understate the role of the individual lender.[15] They were residual estimates derived by deducting the reported value of mortgages held by governments and lending institutions from estimates of aggregate mortgage debt. The ''personal sector'' included nonprofits, businesses whose main functions were not financial, as well as private individuals. In fact, judging from the evidence for Hamilton, individuals were overwhelmingly the most important type of lender in this group (table 4). The Hamilton registry records reveal that, in every census year between 1901 and 1951, individuals held more than twenty times as many mortgages as did all other nonfinancial private-sector lenders. CMHC's estimate for the ''personal sector'' probably comes very close to measuring the importance of the individual lender. Indeed, it may be an underestimate. Equitable mortgages depended to some degree on trust. They were probably most common between private individuals, so that estimates based on registered mortgages alone will fail to do justice to this group. It is quite likely that in Canada individuals provided most of the credit that was secured against real property throughout the second quarter of this century.

Before 1926 there are no national estimates, however imperfect. Informed guesstimates can be made from available evidence for the United States and also from the Hamilton sample. Given that both methods of inference are fraught with difficulty, they yield surprisingly similar results. Evidence for the United States, also based on ''residual'' methods, shows that institutional mortgage financing grew after 1900, especially in the first decade of the century (figure 1). The question is whether, in this period, the U.S. trend was paralleled north of the border. The behavior of mortgage markets in the two countries between the mid-1920s and the mid-1940s suggests that it might. In this period the personal sector was relatively more important in Canada than in the United States. The gap

Table 4. Sources of outstanding first mortgages, City of Hamilton, 1901 to 1951.

	Percentage distribution of outstanding first mortgages					
	1901	1911	1921	1931	1941	1951
Financial institutions of which	11	7	8	18	25	31
Loan companies	68	75	55	24	10	1
Trust companies	3	8	14	19	12	13
Chartered banks/credit unions	7	—	7	1	2	8
Insurance companies	21	3	19	41	70	65
Mortgage brokers	—	16	3	15	7	13
Nonfinancial institutions	1	2	2	2	2	2
Government agencies	—	—	—	—	—	6
Individuals	88	91	90	79	73	61
All lenders	100%	100%	100%	100%	100%	100%
$n =$	289	476	1,394	1,745	1,532	2,135

Source: Longitudinal sample (5%) of Hamilton land registry records.

between the two countries grew somewhat after 1933, probably because of the impact of the Federal Housing Administration (FHA). From its formation in 1934, the FHA favored lending institutions and encouraged lending on both new and existing homes. In Canada the DHA also favored institutions, but it affected only new homes, and even there its initial impact was limited. The gap between Canada and the United States widened again, becoming substantial, in the decade after 1945. Between 1926 and 1945, however, the general pattern in the two countries was broadly similar—growth in the personal sector in the late twenties and early 1940s, declines in the mid- and then in the late 1930s. If the parallels were extended back, we might infer that the share of mortgage debt held by the personal sector in Canada declined by ten percentage points during the first quarter of the century and from a level that approached 60% in 1901.[16]

Our sample data for Hamilton underline the dominance of the personal sector before 1926. They indicate that until the 1920s nine out of every ten mortgage loans were held by individuals.[17] This figure must be interpreted carefully. In one respect, since it pertains only to first mortgages, it understates the importance of individual lenders in the market as a whole. By the 1940s, U.S. evidence shows that individuals were much more important in the market for junior loans than for first mortgages, and the same was true in Canada (Kinnard, 1956; Canada, Royal Commission on Banking and Finance, 1961, p. 6212; Smith, 1974, p. 83). At the same time, the Hamilton data should be qualified in the other direction. They pertain to numbers of mortgages and not to quantities of debt. Since first mortgage loans made by individuals were, on the average, smaller than those made by institutions, the personal sector would have accounted for less than 90% of all first mortgage debt in Hamilton: 85% is plausible guess. Moreover, evidence for later years shows that individuals played a larger role in the Hamilton mortgage market than was normal. Across Canada in 1961, one-quarter of the first mortgages on urban, single-detached, owner-occupied, nonfarm dwellings were held by individuals. The proportion in Ontario was higher (28.8%), and in the City of Hamilton higher still (36.4%).[18] If we extrapolate backward, this ratio in the relative importance of individual lenders (36.4/ 25.0 = 1.46), we can estimate that individuals held about 58% (85/1.46) of all Canadian first mortgages at the turn of the century. This would have corresponded to a little under 55% of first mortgage debt and approaching 60% of all residential debt.[19] This points to a very similar conclusion to what was derived from an examination of U.S. trends.

There are, however, important anomalies. Institutional lending grew rapidly in the United States in the 1900s (figure 1) but not until the 1920s in Hamilton. This probably represented a national difference. The prewar boom saw even larger rates of emigration to Canada than to the United States, and many immigrants built their own homes. This is significant because, to the extent that owner-builders used credit at all, they relied on individuals. In Union Park, a subdivision in Hamilton's East End that saw extensive owner-building, nine in ten mortgages were held by individuals as late as the 1930s (Harris and Sendbuehler, 1994, p. 500). A similar pattern existed on the Parsons Estate in Toronto (Paterson, 1991, p. 62), while ongoing research indicates that owner-builders continued to rely on loans from individuals in the years immediately following World War II.[20] If owner-building was more prevalent in Canada in the first decade of the century,

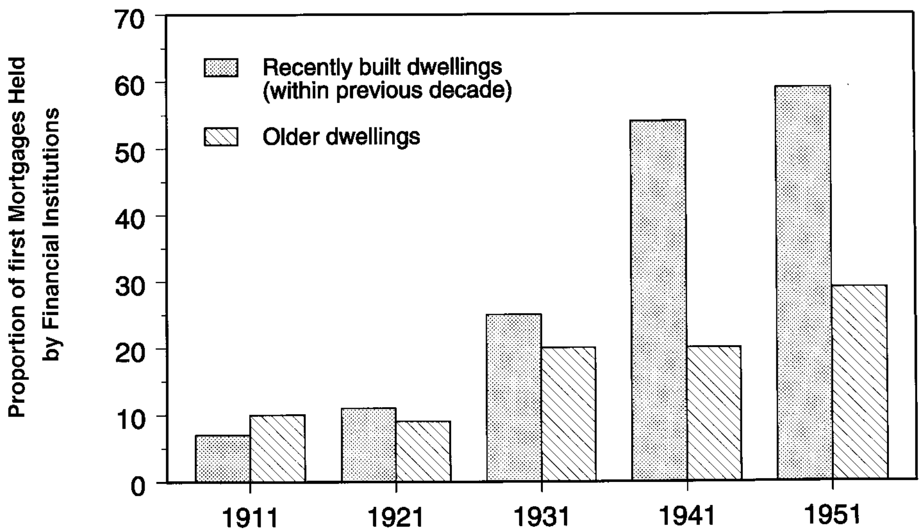

Figure 2. Institutional financing by period of construction, City of Hamilton, 1911 to 1951.
Source: Longitudinal sample (5%) of Hamilton assessment and land registry records.

then institutional lending would have grown more slowly than in the United States, if at all.

This is exactly what our sample data for Hamilton indicate. Here, the first major expansion of institutional lending occurred in the 1920s, at a time when owner-building went into a cyclical decline (Harris, 1996, ch. 8). In Hamilton, institutions continued to expand their share of first mortgage lending during the 1930s and 1940s (table 4). This could be consistent with the fact that nationally, and in terms of total mortgage debt, they did not (table 4). It is quite likely that the relative concentration of individuals within the market for older homes and junior mortgages increased in this period, balancing the emerging emphasis of insurance companies on financing new homes. Certainly, in Hamilton the growth of institutional lending occurred most dramatically, during the 1930s, on new homes (figure 2). Overall, although there was some change in their specific role, individual lenders maintained their importance relative to institutions throughout the first half of this century.

3. Discussion

Scholars have overrated the historical significance of mortgage lending institutions. In Canada, as late as the mid-1950s, one-quarter of all families acquired their homes without going into debt. On the average, buyers put down at least half of the purchase price themselves, often as sweat equity. Before World War II, the buyer's contribution must have been higher still. Of course, it was often only borrowed money that allowed buyers to invest equity. In that sense, lenders played a more important role than simple statistics might suggest. This, however, does not justify the emphasis that scholars have placed, specifically, on financial institutions. Until the 1950s, more than half of all mortgages were held by individuals and were typically granted on cheaper, existing properties to those who were most in need. After the 1930s institutions—led by the insurance companies—concentrated on new homes in the nicer areas. They helped those who least needed help. If we are looking to assign credit for the housing of most Canadians, we should look elsewhere—to the thrifty saver and the private lender.

From this point of view the policies of the Canadian government seem unbalanced. From 1935 onward the government favored institutions exclusively, even though it had to drag them into its joint loan program. At first, only insurance companies were interested in making such loans, and even then only under pressure. In the postwar years trust and loan companies continued to drag their heels and steered clear of the NHA. Banks made a good show of lending after 1954, but the point can be overinterpreted: they, too, had to be persuaded that this made sense.

While CMHC was finding it hard to secure the enthusiastic cooperation of the institutions, individuals continued to lend, and prospective owners invested their savings and labor in building homes. The Canadian government might have served borrowers better by assisting owners in self-help work, by helping to develop an insurance program for personal loans, by allowing individuals to participate in the joint loan program, or by improving existing brokerage channels. Most, and perhaps all, of these possibilities were suggested at the time.[21] The only one that received even partial support was that of assistance to owner-builders, a scheme that was pursued by the Department of Veterans' Affairs for a few years after 1948 under the terms of the Veterans Land Act (Woods, 1953, pp. 155–159). Even here, however, the terms excluded the small lender: those receiving VLA loans were prohibited from obtaining secondary finance.

There are some peculiarities to the Canadian story that qualify its relevance to other countries. By comparison with the United States, from at least the 1920s (and probably before that), a somewhat higher proportion of urban Canadians acquired homes without using credit. To a considerable extent many were inhibited from borrowing by the organization of the institutional sector. Canada did not have very effective ways of channeling savings into mortgages. The banks took deposits but did not lend on mortgages. Loans and trusts gave mortgages but were slow to tap local savings. In this situation people managed without credit or sought help from other individuals. Here, differences in federal policy were probably important. In the United States, although the FHA has been criticized for favoring new construction, it did insure loans on existing homes. In Canada, existing homes were excluded from the government's lending program. As a result, while individual lenders were slowly squeezed from the new home market, they continued to enjoy wide opportunities in the resale sector. Another difference may lie in the importance of the mortgage broker. Although many individual loans were given by vendors to buyers, a large number were arranged through intermediaries.[22] This was especially true in smaller centers and in much of Quebec, where the notary acted as a ''sort of supreme authority on the administration of all local affairs of the inhabitants,'' including the arrangement of mortgages.[23] Indeed, since insurance companies also used agent-brokers to initiate loans, and since they dominated the institutional sector in Canada from the 1920s to the 1950s, brokers probably played a more important role in Canada than in most other countries.[24] Unfortunately, beyond anecdotal evidence, little is known about their operations (Doucet and Weaver, 1991, pp. 283–289; Babcock, 1953).

The differences between Canada and the United States are significant, but they do not mean that the Canadian experience has no wider relevance. Individual lenders played a major role in the United States until the 1930s and remained important even in the 1950s. The parallels between Canada and some other countries are closer. In Australia, for example, private lenders accounted for about one-third of all new mortgages as late as the mid-1950s and a still higher proportion of loans outstanding (Hill, 1959, p. 125). At that time the number of brokers was growing, the average downpayment was 40% while owner-building, which created sweat equity, was rife (Hill, 1959, pp. 142, 135–136, 124–125; Holland, 1988, p. 64). Given that individual lenders in all countries were more likely than institutions to make unregistered loans, they must always have been more important than official statistics reveal. It is clear that we need to pay more attention to the individual lenders and to the informal financing that they tended to favor.

In arguing for a new focus for historical research on mortgage finance, we believe that there is more at stake than simply filling in a picture whose outline is already known. Where institutions account for no more than half of all mortgage credit, we cannot continue to treat individual lenders as residual. If institutions grew slowly and haltingly, then we might reasonably ask why. The conventional wisdom would suggest that mortgage terms had not been adequately refined, and it was to such refinements that governments in Canada, and elsewhere, bent their every effort. This view contains some truth and has been explored. In principle, however, one might just as reasonably suggest that the personal sector, and the brokerage arrangements on which it depended, had some merit. Individuals were willing to lend to people, and on terms, that institutions avoided. In so doing they probably demanded a higher price, but, overall, how should their activity be judged? To answer such a question we need to know much more about who the lenders were, how brokers operated, and in particular how they served the varied needs of a diverse clientele. When we acquire such knowledge, we will not merely have filled in some empty space on the canvas: we will have established a new vantage point from which the mortgage scene can be viewed. Instead of the panoramic vista from the director's penthouse we may come to see the market from the street window of the broker's office or the small investor's living room.

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Notes

1. Trust companies were roughly equivalent to the American Mutual Savings Banks. Loan companies were similar to the U.S. savings and loans, though unlike the latter they were a rapidly waning force during the interwar years.
2. Ninety percent loans were permitted on inexpensive properties, but institutional lenders were wary, and few such loans were made.
3. U.S. data are reported only for urban centers with populations in excess of 50,000. The figure reported in table 2 is therefore probably a slight overestimate of the actual incidence of mortgage debt in the 30,000 to 99,999 size category.
4. The available evidence in this period pertains to owner-occupied homes. There is no reason to believe that the national difference would be much different for tenant-occupied dwellings, though obviously this is an area for research.
5. For discussion of the Ontario Land Registry Records, see Hagopian (1995).
6. In fact, during both the 1930s and the 1940s, most construction took place in the latter half of the decade. The average age of ''recently built'' dwellings at the end of each decade would have been less than five years, making our evidence even more useful as a guide to the financing of new homes.
7. These minor discrepancies can easily be explained. ''Single-family'' is used here to refer to dwellings that were originally intended for single-family occupancy, although in 1951 quite a number were still occupied by two households. In 1951 the census employed a broad definition of ''boarding family,'' which included subtenant households in single-family dwellings that shared the main entrance. In the assessments the latter appeared as separate households, thereby depressing the ownership rate relative to that reported by the census and raising the estimated proportion of households living in single-family dwellings. For many purposes the assessment estimates are actually more meaningful. For other comparisons see below, and also Ragonetti (1994, p. 70).
8. We sampled fifty mortgaged properties in each of seven surveys in each of the three years, one survey being drawn from each of the city's wards to ensure wide geographical coverage.
9. Falconbridge points out that equitable mortgages could be registered, although he implies that this was uncommon. See also Woodard (1959, pp. 51–52); (Evans, 1961, p. 63). Evans's book was also published in Canada.
10. Memo from L. T. Clue to the Advisory Committee, CMHC, December 19, 1950, Re Joint Loans—Borrowers Equity Requirements (National Archives of Canada, RG 56: Records of C.M.H.C., vol 51, file 112-2.)
11. The principal author is examining the credit arrangements of Hamilton homebuyers after World War II. Thirty-two families have been interviewed, and their financing arrangements documented. Seven (22%) of these families obtained credit that was secured on their property but that was not registered against title. Many also obtained unsecured credit from lumber dealers.
12. Data reported for each year were adjusted subsequently. In most cases adjustments were minor. Estimates reported in 1953 for 1953, however, differ significantly from those for 1953 reported in 1954. The reasons are unclear.
13. The balance was held by the various levels of government.
14. It is likely that the declining share of the personal sector in total mortgage debt during the 1930s was also the result of the activities of the Canadian Farm Loan Board, a federal lending agency established in 1929 that soon became a major player in the farm mortgage market as institutions bailed out (Easterbrook, 1938; Easterbrook and Aitken, 1956).
15. Fell's (1940) estimate of the individual lender's share of total mortgage debt in 1937 (65%) was higher than that of CMHC. Apparently, the authors of the original CMHC report believed these errors to be large enough to prevent publication. In the absence of alternative data, however, they were soon used by Smith (1974, p. 86), (see also Morrison, 1979).
16. An informed observer judged that during the 1890s the personal sector was smaller in Canada than in the United States but labored under the misapprehension that in the latter country it accounted for more than 70% of mortgage assets (see Morris, 1896, p. 242).
17. This is consistent with what Paterson (1991, p. 68) found in Toronto, where roughly 7% of home sales in five

suburbs were financed by institutions between 1911 and 1941.

18. The figure for Hamilton's suburbs (25.3%) was very close to the national average (Canada, Dominion Bureau of Statistics, 1961, tables 65, 67, 68).
19. This procedure assumes a constant ratio in the relative importance of individual lenders in Hamilton compared with the country as a whole.
20. Preliminary results from a detailed study of three subdivisions in Hamilton's east end suburbs indicates that even as late as the early 1950s virtually none of the personal mortgage loans were amortized. Most were for five-year terms or less, and a number were repaid before the end of their term.
21. V. G. Moore, ''A Criticism of the Housing Act,'' Typescript, attached to a letter from V. G. Moore to Charles Stewart, March 7, 1936 (National Archives of Canada, RG 19: Records of the Department of Finance, vol. 3979, file H-1-3, vol. 2). Moore was secretary-treasurer of a millwork company in Toronto. The same idea was mentioned in the House of Commons, where it received a noncommittal response (Canada, House of Commons, 1934, p. 3646). It was not until 1960 that individuals were allowed to purchase NHA loans, a development that Bryant (1962, p. 73) judged to be ''undoubtedly . . . important and progressive.''
22. In 1955, 40% of individual mortgages were arranged between vendors and buyers. Among the remainder some would have been negotiated between family members or friends, but the majority were probably contracts between strangers (calculated from Canada, CMHC, 1956, table 36).
23. Letter from W. M. Bourke, of Hutcheson, Bourke and Stevenson (Notaries) to H. M. Moore, Sun Life Assurance Company, February 21, 1939, Typescript, 2 (National Archives of Canada, RG 19: Records of the Department of Finance, E3(h), vol. 3540, ''Housing'').
24. The importance of brokers for United States insurance companies is well-documented (Saulnier, 1950, pp. 31–32). The available Canadian evidence is anecdotal. Apart from using agents and brokers, Canadian insurers employed the services of credit agencies to assess their mortgage applicants. Letter from J. A. Richards, division manager, Retail Credit Company, to Bennet J. Roberts, comptroller, Department of Finance, July 12, 1935 (National Archives of Canada, RG 19: Records of the Department of Finance, vol. 710, 203-1A-1 to 25).

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