Prior to the Great Depression, non-amortizing mortgages were common, frequently with maturities of only three to five years. Interest rates were higher due, in part, to the lack of mortgage insurance. And lenders typically required large down payments, sometimes as much as half of the purchase price. As a result, it was common for home buyers to take out high-rate second mortgages. Frequently mortgage payments were only enough to pay accrued interest, leaving the full principal balance due at maturity.

Mortgage lending was a local business handled by local banks using deposits that typically came from their community. These banks held the loans themselves (known as holding a loan “in portfolio”) until it was paid-off, which was usually done by refinancing at maturity. Most borrowers needed to refinance every three to five years. Refinancing was easy during the 1920s, when incomes and property values were rising, but became more difficult—if not impossible—during the Depression. This led to dramatic foreclosure rates.

Footnotes


1.2.1 Before the Great Depression

Links