

Race and Mortgage Redlining in the United States

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Redlining, the uniquely American phenomena where large swaths of center city neighborhoods are deemed unsafe for home mortgage investments, is an intriguing phenomena that has captured the imagination of urban historians and social scientists alike. Perhaps the fascination lies in the fact that redlining was initiated and sanctioned by administrative agencies of the national state, that this was documented in a set of maps that were hidden deliberately from public view, yet these same secret documents had been shared selectively to some bankers or other elites in the real estate industry.¹ And, in the 1950s and 1960s, when racial neighborhood transition flashed through so many white, ethnic communities as the over crowded ghetto inexorably expanded, neighborhood activists and journalists, and finally, a highly visible federal commission reported the existence of a set of maps—maps that literally drew red lines around neighborhoods—indicating where mortgage loans could and could not be made.² Then, some years later, Kenneth Jackson discovered the “Residential Security Maps” that had been assembled by an obscure New Deal agency, the Home Owners’ Loan Corporation (HOLC). These maps, vividly colored, especially in the all too prevalent red and yellow (representing, respectively, “Hazardous” and “Definitely Declining” community real estate markets), were, to many, clear and convincing evidence that the federal government, with the collusion of banks and other regulated financial institutions, had instituted and executed this program of home mortgage redlining.³

The Prevailing Analysis of Redlining

Numerous scholars scoured these HOLC Residential Security Maps and wrote scores of articles and monographs. In these three decades of the new historical analysis of American cities, urban historians and social scientists have adopted several beliefs as near conventional wisdom. These can be quickly formulated in four linked assertions:

First, the disinvestment of home mortgage loans (redlining) was widespread in all American central cities. This coordinated disinvestment played an important role in cities’ decline, contributed significantly to overall population losses, changes to the racial makeup of the population, the deterioration of cities’ housing stock, and played an important role in America’s urban crisis.⁴

¹ Craig Wilder, *A Covenant With Color: Race and Social Power in Brooklyn* (New York, Columbia University Press, 2000), 185, 192.

² National Commission on Urban Problems [Douglas Commission], *Building the American City* (Washington, D.C.: GPO, 1968), 102-103.

³ Kenneth Jackson, *Crabgrass Frontier* (New York: Oxford University Press, 1985).

⁴ Peter Dreier, John Mollenkopf, and Todd Swanstrom, *Place Matters* (Lawrence: University of Kansas Press, 2001), 107-117; David M.P. Freund, *Colored Properties: State Policy and White Racial Politics in Suburban America* (Chicago: University of Chicago Press, 2007), 99-135; Robert O. Self, *American Babylon: Race and the Struggle for Oakland* (Princeton: Princeton University Press, 2003), 1, 16-19; Mark Gottdiener, *Planned Sprawl* (Beverly Hills: Sage, 1977), 35-46.

Second, redlining was almost exclusively the result of lending discrimination towards non-whites. In fact, during the formative years of the modern American metropolitan complex (1946-1968), there was a dual housing market in which non-white borrowers found it difficult if not impossible to borrow while in the white housing market, in contrast, home mortgages were readily available.⁵

Third, redlining is an outgrowth of the decidedly racist ideology and actions taken by an array of national state agencies—most importantly, the Federal Home Loan Bank (FHLB)(through its subsidiary the HOLC), and the Federal Housing Administration (FHA). These New Deal agencies were but different arms of a single government sharing a common analytic framework that highlights the over-riding importance of the social characteristics, especially the ethnicity and race, of the residents of the community in determining the present and future value of real estate in these neighborhoods.⁶

Fourth, the FHA and the HOLC, especially in their initial incarnations, were but the public, administrative arms of financial and real estate interests (and interest groups, particularly the important National Association of Real Estate Boards [NAREB]). These powerful agencies that so dramatically transformed the American housing market were “captured” by private interests of the industries they ostensibly regulated—finance and real estate. The revolution of American real estate markets and the financing of these markets were done at the behest of and for the benefit of real estate professional and financial interest groups. The fusion of private interests and public administration is evident by the manner in which the HOLC’s Residential Security Maps were developed and then used. To create these maps HOLC contracted with thousands of local realtors and bankers to create all elements of the maps—the boundaries of the sub-markets, collection of data, analysis of this information, and the assignment of the mortgage risk grade. Furthermore, the maps were at least occasionally shared between the HOLC and the FHA as well as with banks and other lending institutions. In this way, these maps shaped mortgage lending in the decades following the conclusion of WWII when the American housing market returned to health and vitality.⁷

Weaved together, these assertions form a comprehensive and compelling account of the creation, and consequences, of home mortgage redlining in American cities.

Mortgage redlining was formulated in no small way as a response to the first Great Migration of rural African-Americans from the South to Northern cities. Beginning with the First World War, labor shortages began to plague industrial centers. This was both a result of native workers leaving the labor force to join the military and the closure of European immigration. Labor shortages were further exacerbated by the increased demand for a vast array of materiel required for the war effort from the federal government. Black migration began under these circumstances aided by aggressive recruitment by manufacturing companies for workers to replace employees now in the military. Restrictions on blacks in urban housing and employment

⁵ Freund, *Colored Properties*, 128-135.

⁶ Freund, *Colored Properties*, 54-57; Charles Abrams, *Forbidden Neighbors* (New York: Harper and Brothers, 1955), 116, 156; Rose Helper, *Racial Policies and Practices of Real Estate Brokers* (Minneapolis, University of Minnesota Press, 1969), 188-202.

⁷ Kevin Fox Gotham, *Race, Real Estate, and Uneven Development* (Albany: SUNY Press, 2002), 54-55.

markets and access to public services and facilities soon followed. Denying the growing black community access to credit, including home financing, was but one small piece of a set of discriminatory practices imposed on the small but growing black communities in Northern cities.⁸

With the renewed (and a significantly larger) in-migration of African-Americans into the metropolitan centers of the industrial North, coupled to the fact that racially restrictive covenants were rendered null and void, racial change dominated the demographics of American cities. Especially in the 1950s and 1960s, central city ghettos expanded their geographies dramatically which in turn set off extensive racial neighborhood transition across a large footprint of the nation's central cities. White city residents responded by large-scale abandonment of their city neighborhoods. They escaped to newly developed housing in the quickly growing suburban municipalities surrounding the nation's cities—new housing that was both underwritten by substantial subsidies by federal agencies (especially the FHA) and supported by an array of federal subsidies and mortgage insurance programs.

Importantly, the FHA consistently (until Congress explicitly prohibited racial discrimination in housing financing in the Housing Act of 1968) denied non-whites, most notably African-Americans, mortgage insurance. The FHA's underwriting standards, from their earliest incarnations, were premised on the unshakable belief handed down from the work of Fredrick Babcock and Homer Hoyt that racial integration structurally leads to the decline in housing values. As a result, blacks and Latinos were denied access to the huge number of new homes constructed throughout the post war economic boom.⁹ Instead, the housing available to the growing number of non-whites living in central cities was older, already existing homes, previously occupied by whites in what had been all-white neighborhoods. In these areas mortgage insurance, and consequently standard mortgage lending, was not available.¹⁰ The racial transformation of central city neighborhoods took place, in other words, outside the sphere (in a vacuum) of conventional mortgage lending.

The basis of these real estate principles can be found in the works of Fredrick Babcock and Homer Hoyt, each a prominent analyst of real estate value and appraisal at the time.¹¹ Hoyt and Babcock both took high-level positions respectively in the FHA and HOLC. Consistently, they argued that in the dynamic, expanding, and private market driven American city, a number of factors inevitably brought about the decline of real estate values, especially residential housing

⁸ James R. Grossman, *Land of Hope* (Chicago: University of Chicago Press, 1989), 69-97 ; Charles Abrams, *Forbidden Neighbors*, 20-26, 84-90; T.J. Woofert, Jr., *Negro Problems in Cities* (New York, Doubleday, Doran & Co., 1928), 28-30, 37-39.

⁹ Michael Shill and Susan Wachter, "The Spatial Bias of Federal Housing Law and Policy: Concentrated Poverty in Urban America" *University of Pennsylvania Law Review*, vol. 143, no. 5 (May, 1995): 1310-1311.

¹⁰ Louis Hyman, *Debtor Nation: A History of America in Red Ink* (Princeton: Princeton University Press, 2011), 64-67; Douglas S. Massey and Nancy Denton, *American Apartheid: Segregation and the Making of the Underclass* (Cambridge: Harvard University Press, 1995), 53-57.

¹¹ Homer Hoyt, *One Hundred Years of Land Values in Chicago: The Relationship of the Growth of Chicago to the Rise of its Land Values, 1830-1933* (Chicago: University of Chicago Press, 1933); Homer Hoyt, *The Structure and Growth of Residential Areas in American Cities* (Washington: Federal Housing Administration, 1939); Frederick M. Babcock, *The Appraisal of Real Estate* (New York, Macmillan, 1927); Frederick M. Babcock, *Real Estate Valuation* (Ann Arbor: University of Michigan Press, 1932).

values. Adopting the general findings of Robert Park and Ernest Burgess and others in the Chicago School of Sociology, Babcock and Hoyt argued an early version of the trickle down theory of housing use and neighborhood based values. The age of housing and the ethnic and racial makeup of neighborhood residents, along with access to transportation and the provision of public facilities and services fundamentally determined the present, and more importantly, the future expected value of housing and commercial properties in American cities. Housing was first developed, they consistently argued, for wealthy and upper middle class residents. When constructed these homes had those features and amenities best fit the expressed needs and interests of the wealthier elements of American society. Such housing was situated in the more desirable and accessible areas of the city at the time. As the local economy grew and developed in cycles which mimicked the dynamics of the aggressively cyclical growth of the national economy, so too did the building and expansion of the housing stock of cities that grew at explosive (if uneven) rates in the post Civil War era.

With dramatic population growth, fueled by massive in-migration of labor from Europe as well as internal migration from rural to urban areas within the U.S., American cities grew explosively, especially the industrial cities of the North. The housing stock of these areas grew at uneven but again volatile rates. The development of new housing consistently, Hoyt and Babcock noted, occurred in a decentralized fashion prompting the wealthier elements of the urban population to abandon their former neighborhoods and take up residence in newer homes, again built to the standards of the time in terms of amenities and construction. As upper and upper middle income families came to occupy these new structures, their previous places of residence were filtered down to families somewhat lower down the income ladder, and as these families moved up the ladder, their previous homes, somewhat devalued as a result of the constantly expanding supply of housing, came to be occupied by families and groups of individuals further down the economic ladder, and so on.

Babcock and Hoyt were able, in other words, to identify the process and importantly the descriptive content of those elements were structurally undermined the value of homes. These were: age of housing, the social class, ethnic and racial composition of a neighborhood's residents, and the mixing of economic and residential uses. There was not only a sorting of land use by the income and social characteristics of residents but increasingly, they noted, the sorting of the economic functions into a spatial division of labor of economic functions and, following the findings of Park, Burgess, and their students, a sorting of the American city's population into neighborhoods more or less by distinct and identifiable ethnicity and race. What undercut the present and future value of real estate in the American city was both the age of housing and the stark difference in communities where economic functions were, on a continuum from specialized and serving only one use in contrast to the mixing of functions, the age and obsolescence of buildings (and their geographical arrangement), and the uniform use of housing by one social class and ethnic group to the extensive mixing of families by income class, ethnicity, or race. Those areas which were organized around one specialized economic function, or those residential neighborhoods which were occupied by upper and middle income groups (and importantly were communities composed primarily of native whites) and were likely, even in the highly dynamic American city, to maintain these values over the foreseeable future had the highest value. Those communities, in contrast, that indiscriminately mixed industrial, commercial, and residential functions, and those that intermixed different ethnic and racial

residents were both on the lower rungs of the real estate value ladder and all too likely to diminish in value entirely in the near future.¹²

Real estate appraisal standards were, especially as popularized by Hoyt, explicitly founded in a Nativist and racist calculus. Responding to the in-migration of both foreign born and non-white (overwhelmingly African-American) populations into cities, Hoyt had little hesitation in expressing present and future real estate values along a scale of ethnic and racial continuum where Native born whites were at the apogee of this scale and blacks and Latinos were most emphatically at its nadir. When Babcock and Hoyt had the opportunity to put this complex of analytic “findings” into an operational framework in the underwriting principles proposed by the FHA in their extensive (indeed exhaustive) *Underwriting Manuals* and the HOLC directives that underpinned the development of that agency’s Residential Security Maps, it was hardly surprising that these were thoroughly imbued with these prejudices, especially concerning ethnicity and race. Indeed, both the FHA and HOLC underwriting standards were consistently and thoroughly ethnically biased, anti-Semitic, and racist.¹³

Given the importance of both “incompatible uses” and the adverse effects of any level of racial integration on the value of properties, both agencies provide ample evidence that their activities and assessments were driven by these concerns. Thus, the FHA’s *Underwriting Manuals* provide strident approval of both the use of zoning and/or the use of racially restrictive covenants to maintain the all-white composition of a community’s residential composition. The pertinent views of Homer Hoyt, who played a crucial role in formulating the FHA appraisal standards, were articulated in his influential *100 Years of Land Value in Chicago*, published in 1933. While Hoyt emphasized the importance of ethnicity or race of the residents of a neighborhood, Chicago, like all American cities, he noted, were divided into individual communities that were distinct and identified by the predominant ethnicity and race of the residents. To Hoyt, ethnicity or race intimately commingled and as such it was but a small step, which he indeed made, to argue that non-white, and indeed non Native born and non-Northern European, had lower standards of living, were only able to pay lower rents, and therefore brought about clear and increasing levels of physical deterioration in those communities in which they concentrated. Speaking in nearly Edwardian terms, these groups (which, to Hoyt, includes Eastern European Jews, Southern Italians, Mexicans, and blacks), as a result of both poverty and their unique cultural values, are unstable tenants, enhance the difficulty in collecting rents, cause losses for landlords, and worse, their presence is repugnant to native whites, Northern European ethnics, and those in higher income groups. As a result, these groups flee the community compounding the decline in rental and real estate values. All in all, the entry of even small numbers of non-whites and lower class Southern and Eastern European ethnics, inevitably initiate or accelerate the uniform decline of those neighborhoods in which they reside.¹⁴

¹² Hoyt, *100 Years of Land Value*, 370-376; Babcock, *Real Estate Valuation*, 40-58.

¹³ Antero Peitila, *Not In My Neighborhood* (New York: Ivan R. Dee, 2010), 61-70; Charles Abrams, *Forbidden Neighbors* (New York: Harper and Brothers, 1955), 116; Rose Helper, *Racial Policies and Practices of Real Estate Brokers* (Minneapolis, University of Minnesota Press, 1969), 3-4, 26.

¹⁴ Homer Hoyt, *A Hundred Years of Land Values*, 314-317.

The role of the FHA is clearly central to these analyses, and it is easy to directly tie the racial base of real estate appraisal practices at this time and FHA's development and implementation of their underwriting standards. The FHA's primary mission was to administer mortgage insurance, a program that was created under Title II of the Housing Act of 1934. Hoyt's position at the FHA helped solidify and extend the appraisal standards expounded in his book into the practices of the new agency. The FHA adopted standards for overall risk that were shaped by the characteristics of the property, the neighborhood where it was located, the community's residents, the likely economic vitality of the city and region, and the presence of "incompatible" land uses or the likely "invasion by inharmonious property uses" that clearly included the occupancy by Jews, Latinos, or African-Americans.

This is a consistent and compelling narrative. It successfully links the dominant ideology late Progressive and New Era real estate and planning professions with policy-making and program implementation of the first years of the New Deal. Just as zoning and community planning standards were imbued with Nativist and racist analysis, New Deal housing financing programs adopted nearly identical standards in the implementation of mortgage insurance. New Deal agencies, especially the FHA and to a lesser degree the HOLC, were agents—in a critical, formative period—of racial segregation and consistently so along many fronts. Through its selective and racially informed implementation of mortgage insurance, the FHA actively helped create American Apartheid. The FHA would not extent mortgage insurance to any housing market—existing, newly constructed, or even to be developed in the future—where African-Americans or Latinos could purchase or rent housing. This narrative, then, also provides an analysis of racial neighborhood transition, a transforming process that organized white flight to the suburbs and brought about the wholesale expansion of an all black ghetto. The FHA selectively withdrew mortgage insurance as communities came to be threatened (viz., were immediately adjacent to the extant ghetto) with racial transition. In the absence of mortgage insurance, white home owners immediately saw a decline, sometimes steep, in home resale values and could not, because standard mortgages were not available, readily sell their homes. In this position, white owners were highly susceptible to the offers from speculators—i.e., blockbusters—who bought up a large number of homes, frequently at fire sales prices, and then selling these same homes to black buyers at highly inflated rates. Since no standard mortgages were available, these "sales" were financed through one of several rent to own schemes that both acted to hide the true costs of these ostensible purchases, were exploitative, and because the title of a property was not conveyed to the purchaser as in a mortgage but retained in the hands of the speculator, many black families were evicted as a result of just one or two missed or late payments.¹⁵

However convincing, this view should be revised. This now nearly universally accepted, account of home mortgage redlining relies far too heavily on the single factor of race, and the racialization of the American real estate market and home financing system, to explain mortgage redlining. This view is not wrong; it is incomplete. It is a one variable explanation where this one variable is but, at origins, a modest contributor to the process and outcome of disinvestment.

¹⁵ Lynne B. Sagalyn, "Housing on the Installment Plan (Cambridge, MA: MIT Ph.D. dissertation, 1980), 31-32, 71-80; Norris Vitcheck, "Confessions of a Block-Buster," *Saturday Evening Post*, 235, July 14, 1962, 15-16

A more adequate account, which I will attempt to outline in this paper, requires that the policy and programmatic sources of redlining be clearly identified, the problems to which these programs were created noted, and the motivation of policy makers recognized. Focusing, as this dominant view does, on the sole factor of race as the determinant of mortgage disinvestment, undermines our ability to recognize that the instigation of New Deal policies created structural changes that had widespread and dire consequences for all American cities.

The prevailing view should be challenged on several points.

First, racial lending discrimination should not be equated with redlining. Doing so, which is prevalent, involves two related assertions. One, redlining predates the New Deal's interventions into the banking regulation and home mortgage financing.¹⁶ Two, the geography of redlining and a) the location of non-white communities or b) the expected geography of non-white population are one and the same.

Second, the policy sources that created mortgage disinvestment are far too narrowly drawn. Most of the analysis of publicly initiated redlining is silent regarding the entire range of New Deal legislation, policies, and programs that lead to this policy. Most analysts rely on a narrow band of underwriting criteria found in the FHA's underwriting manuals. Instead of locating the entire sweep of policy sources that inevitably led to redlining, some 20 or so (out of nearly 2000) sections of the FHA Underwriting Manuals are highlighted. These overtly racially discriminatory sections in FHA underwriting standards are important but this is a radically incomplete narrative.

Third, many analysts assert that the maps developed by the HOLC were routinely shared with private lenders. This provides a direct link between the content of these maps and later lending decisions by financial institutions.

Finally, overall, the sole criteria motivating the logic of private mortgage lending was race. No other factors are highlighted. HOLC's maps, and their supporting documentation, provide information both quantitative and qualitative data that the agency used in determining a mortgage risk grade for an individual neighborhood. This includes information on the character, age, quality, price and amenities of the housing of each neighborhood. Nearly all analysts who have written on redlining, or the activities of the FHA and the HOLC, have largely ignored these housing issues—those very factors that were the most important factors in assigning mortgage risk grades to a community.

On each of these contentions, the prevailing analysis of urban historians and social scientists is incorrect. I will, for the remainder of the paper, show that each of these contentions is flawed. I will demonstrate that two programs initiated in the early years of the New Deal dramatically changed the permissible kinds of lending that regulated banks and later S&Ls were allowed to engage in, and changed the standard home mortgage in the country. In so doing, New Deal programs of deposit and mortgage insurance created an institutional system of mortgage

¹⁶ Dan Immergluck, *Credit to the Community: Community Reinvestment and Fair Lending Policy in the United States* (Armonk, N.Y.: M.E. Sharpe, 2004), 93.

lending in the U.S. that strongly encouraged and subsidized new home construction and at the same time undermined lending for most of the housing stock that existed at this time. Both HOLC and FHA maps, I will demonstrate, created a lending system that sorted neighborhoods into one of three types of outcomes: systematic denial of lending (redlining), lending for extant housing under more stringent rates and terms, and readily available lending for newly constructed housing. Using the example of the city of Chicago, I will show using both maps and quantitative analysis, that the racial composition of neighborhoods was only a modest determinant of mortgage risk grade while an array of variables that measure the type, price, amenities, and quality of the standing housing stock together represent a robust set of predictors of the mortgage risks (and subsequent lending) of neighborhoods.

Equating Racial Discrimination in Lending and Redlining

Many journalists, activists, and scholars have emphasized race as the determining factor to the exclusion of all others to explain home mortgage redlining. A few examples should suffice. Presentations on web sites are consistently strident. One, on Richmond Virginia, states that the HOLC map for that city has “little nuance”. There is but one important issue on the map: “race is everywhere and everywhere a determining factor.”¹⁷ Present day housing activists also emphasize racial discrimination as the sole factor contributing to mortgage disinvestment. The FHA, they assert, revolutionized the American system of mortgage investment, a system that “helped to solidify...racial segregation that still exists today”. FHA’s *Underwriting Manuals* “marked African-American neighborhoods as ineligible for FHA mortgages.” Finally, the maps developed by the HOLC “separated neighborhoods primarily by race” and “set the original precedent for racial discrimination” that became “institutional practice” in home lending in the U.S.¹⁸ Scholars have been only somewhat less shrill. While other factors are present, the race of residents is treated as the over-riding and determining factor precluding home financing in certain communities. All analyses refer directly or indirectly to HOLC’s Residential Security Maps. Guy Stuart notes that federal agencies including the FHA and HOLC “institutionalized the racial and class attitudes of the real estate industry.”¹⁹ A sociologist who analyzed the racial structure of Kansas City argues that the racial views of the real estate industry were largely replicated in federal agencies’ maps. Race of residents was all-important: “new, all White homogeneous communities were graded the highest, second grade to Jewish and White working class neighborhoods, third to racially mixed neighborhoods. The agency gave the lowest appraisal value to all-Black neighborhoods regardless of the age of the dwellings or the income of residents.”²⁰ Other analysts have directly linked banks and other financial institutions home mortgage lending decisions solely to the racial makeup of individual housing markets. “Neighborhoods that were mostly black or were located near black neighborhoods (which typically included Jewish neighborhoods) fell into the lowest categories, which led banks to

¹⁷ Robert K. Nelson, “Race and Redlining in Richmond,” <http://americanpast.richmond.edu/holc/pages/intro> [accessed March 25, 2011]

¹⁸ Boston Fair Housing Coalition <http://www.bostonfairhousing.org/timeline/1934-FHA.html> [accessed March 28, 2011]

¹⁹ Guy Stuart, *Discriminating Risk: The U.S. Mortgage Lending Industry in the Twentieth Century* (Ithaca: Cornell University Press, 2003), 46.

²⁰ Kevin Fox Gotham, *Race, Real Estate, and Uneven Development* (Albany, State University of New York Press, 2002), 53.

undervalue those areas and limit loans to them.”²¹ Finally, a recent history of the American city confirms that many factors went into federal agencies’ maps regarding mortgage risk. However, with “even a tiny black population”, the FHA would deny mortgage insurance.

However reasonable these contentions appear at first blush, equating racially based lending discrimination and redlining is premised on a) there is no significant difference in mortgage lending practices before and after New Deal interventions aside from the fact that these same discriminatory lending patterns are now sanctioned (indeed required) by agencies of the national state, and b) the geographies of extant ghettos in the 1930s and the areas designated for redlining in the HOLC maps should be similar. Neither contention is true.

Throughout the boom real estate market of the 1920s, home mortgage loans were widely distributed across the geography of older cities. There were no mortgage investment deserts. The chaotic character of home financing in the 1920s, with multiple, short term, balloon mortgages all requiring intermittent and on-going refinancing nonetheless provided financing throughout all areas of the 1920s metropolitan area.

There are three kinds of evidence that support this claim. First, building and loan associations (B&Ls) were the most active home mortgage lenders in American cities before the Crash. In the pre-New Deal system, these important mortgage lenders were found in all areas of the American city; so too were their mortgage loans. By 1927, there were nearly 13,000 B&Ls, most of whom were ethnic and/or religious based neighborhood institutions, located primarily in large cities. Ethnic groups characteristically, as famously described by Robert Park and Ernest Burgess,²² were clustered in identifiable enclaves across the city. These ethnic B&Ls were also widely distributed across the city. These small institutions (the average total assets of B&Ls in 1930 was only \$75,954) made modest mortgage and other loans overwhelmingly concentrated in the neighborhoods in which they were located.²³ Indeed, nearly all B&Ls were chartered by the states and by legislation and regulation were restricted to make loans only within relatively small areas within a set distance of their headquarters.

Second, this was confirmed in the HOLC re-surveys at the very conclusion of that agency’s City Survey Program in 1938-1940. HOLC analysts, discovered in the largest cities in the U.S. that B&Ls held large numbers and total dollar amounts of mortgages in central city housing markets the HOLC appraisers had determined to be “hazardous” or “definitely declining”. Such communities, the HOLC had previously established, represented a large portion of the city’s landscape, or about 65% or more of all housing. Indirectly, then, the HOLC effort as part of its City Survey Program, the very first analysis of the geography of mortgages in American cities to my knowledge, demonstrated that at least B&Ls mortgage lending had been geographically widely distributed across urban neighborhoods in the pre-New Deal system of real estate markets and lending.

²¹ Peter Drier, John Mollenkopf, and Todd Swanstrom, *Place Matters: Metropolitcs for the Twenty-First Century* (Lawrence, Kansas, University of Kansas Press, 2001), 108.

²² Robert Park and Ernest Burgess, *The City* (Chicago: University of Chicago Press, 1928).

²³ David L. Mason, *From Building and Loans to Bail-Outs: A History of the American Savings and Loan Industry, 1835-1995* (Cambridge, Cambridge University Press, 2004), 54-60.

Third, and especially striking, are the results of an analysis of mortgages on owner occupied housing provided as block statistics as a supplement to the 1940 Census of Housing. Crossney and Bartelt analyzed these data, which included both information on the amount, rates and terms, and lender, for both Pittsburgh and Philadelphia. One question they examined, following the earlier findings of Amy Hillier on HOLC lending, was whether the HOLC lending was concentrated primarily in more distressed areas of these two cities. They confirmed Hillier's earlier conclusions but perhaps more interesting, they documented that homes with mortgages were widely distributed across neighborhoods in Pittsburgh and Philadelphia. Indeed, in both cities, they found that over half of all mortgages were on properties that the HOLC had graded as "Hazardous" or "Definitely Declining".²⁴ Their conclusion was not only is their strong evidence that mortgages have been secured throughout all areas of the city, but in fact were concentrated primarily in the worst communities of these cities. In concert with the findings of HOLC analysts in their re-survey of 1938-1940, these authors note: "[HOLC] grades emerge as a weak explainer of mortgage allocation."²⁵

The geography of mortgage lending is very different in the post WWII era. A large expanse of built environment of all central cities in the U.S. became what, as one analyst expressed it, zones of "financial abandonment." Even casual examination of any of the HOLC maps reveals a stark discrepancy between the very large areas deemed to high risk for mortgage lending (the red "hazardous" and yellow "definitely declining") and the location and expanse of non-white neighborhoods (which are compact, densely populated communities at this time). To claim, as some analysts have that "race is everywhere and everywhere a determining factor"²⁶ of the HOLC maps is clearly a dramatic overstatement. Bluntly, a large proportion of the housing stock of American cities fell into areas that were deemed unsafe for mortgage lending while a relatively small area of the city and a modest share of its population is non-white. Redlining is not co-terminus even loosely with the boundaries of the existing non-white ghettos in American cities at the time when the spatial boundaries of mortgage insurance availability were initially outlined. Indeed, most striking is the fact that not only are those communities which are redlined overwhelmingly populated by whites, even decades later, most of the population in these redlined areas were predominantly white.

The disparity between the number of homes, population, and extent of the areas redlined on the HOLC maps and the comparable size of the black population is shown on Table 1. It is worth noting that as African Americans entered cities in the course of the first Great Migration, the local white response was uniform. Blacks were only permitted to live in very small areas of the city, neighborhoods where the housing stock was the oldest, poorly maintained, extraordinarily overcrowded, and clearly the poorest quality in the city. Real estate agents refused to show housing for rental or sale in any other community of the city, the white political power structure (likely to be ward based) was unified to maintain this rigid system of segregation, and neighborhood improvement councils were all too willing to use violence and

²⁴ Kristen B. Crossney and David Bartelt, "Residential Security, Risk, and Race: The Home Owners' Loan Corporation and Mortgage Access in Two Cities," *Urban Geography*, vol. 26., no. 8 (2005), see especially Table 5, 726. It is also worth noting that in both Philadelphia and Pittsburgh B&Ls were the lenders of the greatest number of mortgages (Table 6).

²⁵ *Ibid*, 728.

²⁶ Robert K. Nelson, "Race and Redlining in Richmond", *ibid*.

arson to prevent occupancy of black families in their all white communities. Even casual perusal of maps of Chicago, Detroit, and other Northern cities for the 1930 or 1940 census confirms that the black population was squeezed into a very small portion of these large cities.²⁷

Table 1: Summary of Population, Housing Units, and Square Mile by HOLC Mortgage Risk and Race, Sixty-Four Cities and Municipalities*, 1940 Census of Population and Housing

	Population	Percent	Housing Units	Percent	Square Miles	Percent
Hazardous	10,226,199	30.7	2,947,128	29.9	854.7	20.1
Definitely Declining	12,937,972	38.8	3,803,986	38.5	1,537.2	36.1
Good	7,731,964	23.2	2,341,143	23.7	1,137.2	26.7
Best	2,461,681	7.4	775,671	7.9	733.4	17.2
Under 35% Black	30,421,286	91.2	9,054,651	91.8	4,004.8	94.0
35% or more Black	2,936,530	8.8	813,277	8.2	257.7	6.0
Total	33,357,816		9,867,928		4,262.5	

Source: NARA II, RG 195; National Historic Geographic System

* Akron, Atlanta, Atlantic City, Augusta, Baltimore, Bayonne, Berkeley, Birmingham, Boston, Buffalo, Camden, Chicago, Cleveland, Dallas, Dayton, Denver, Des Moines, Detroit, Duluth, East St. Louis, Elizabeth, Flint, Gutenberg, Hartford, Hoboken, Houston, Indianapolis, Jersey City, Kearney, Kansas City, Los Angeles, Louisville, Macon, Memphis, Milwaukee, Minneapolis, Nashville, North Bergen, Newark, New Haven, New Orleans, New York City, Oakland, Oklahoma City, Patterson, Philadelphia, Pittsburgh, Portland, Providence, Richmond, Rochester, San Francisco, Seattle, Seacucus, St. Louis, St. Paul, Syracuse, Toledo, Trenton, Union City, Weewauken, West New York, Yonkers

The results shown in Table 1 provide a direct comparisons between the areas deemed “hazardous” and “definitely declining” on the HOLC maps and the geographies of existing black ghettos at the time these maps were created. As I have demonstrated previously for Chicago, Cleveland, and St. Louis, existing black residential areas have a small footprint while those communities redlined (whether we assume that only those areas judged “hazardous” [those areas shaded with red on the HOLC maps] or include as well neighborhoods scored as “definitely declining” [colored yellow]) represent a substantial portion of older cities’ geography.²⁸ Whether this is measured by the total population, or number of housing units, or finally, the total areas involved, largely black tracts represent under 10.0% of the total population and housing,

²⁷ See especially Karl E. Taeuber and Alma F. Taeuber, *Negroes in Cities* (New York: Atheneum, 1969), 256-275; Arnold Hirsch, *Making the Second Ghetto* (Chicago: University of Chicago Press, 1998), 6; Sargue, *Origins of the Urban Crisis*, 35.

²⁸ James Greer, “The Home Owners’ Loan Corporation and the Development of the Residential Security Maps,” *Journal of Urban History*, forthcoming.

and just over 5% of the total areas of these cities. In contrast the total population of “hazardous” areas exceeds 30.0%, the total number of housing is 29.9% and the total square mileage exceeds 20.0%. If we add the population, housing units, and areas of the communities HOLC graded as third rate real estate, or “definitely declining”, which I think is reasonable, the imbalance between the proportion of central cities minority population at that time and the extent of redlining is even more striking.

Public Policy Sources of Redlining

Early New Deal legislation was directly in response to the overwhelming financial and economic crisis the nation was facing. Legislation was passed and programs created to deal with one or another facet of the financial crisis. Two policies, created within 14 months of each other, underlie the creation of a geographically structured system of home mortgage investment in the U.S. The effect of these federal programs was to sort residential housing markets into three groups: those where lending will be available under excellent terms, areas where there is home lending was available but under more stringent rates and terms, and neighborhoods where home mortgage lending is nearly impossible.

New Deal initiatives transformed the American home financing system. The most important of these was the creation of deposit insurance in the Banking Act of 1933. This formed on the premise that the regulatory system was primarily to be protect the interests and ongoing viability of the nation’s financial system—financial institutions and, politically important, depositors. This new regime of financial regulation in general and deposit insurance in particular mandated that all financial institutions invest in ways that were sanctioned by agencies of the national state—initially the FDIC, and then the FSLIC—as safe, and prudent. With the constant and routine examination of the balance sheets and portfolios of all financial institutions that participated in deposit insurance, the collective risk of all loans and investments were scrutinized to assure that they were not in any significant degree so careless so as to threaten the ongoing viability of individual financial institutions or of the financial system writ large.²⁹ The FDIC and the FSLIC imposed sweeping regulation on financial institutions that were covered under these agencies.³⁰ The scope of the enforcement powers of federal banking agencies, beginning with the creation of the FDIC, was, as one economist characterized them, “remarkably extensive”. They included the seizure of an institution, placing it in receivership, revocation of charter, the

²⁹ J.M. Daiger, “Confidence, Credit, and Cash” *Harper’s Magazine*, (Feb, 1933): 286; Carter H.Golembe, “The Deposit Insurance Legislation of 1933: An Examination of its Antecedents and its Purposes,” *Political Science Quarterly* vol 75, no. 2 (June, 1960): 181-182; Eugene N. White, “The Legacy of Deposit Insurance: The Growth, Spread, and Cost of Insuring Financial Intermediaries,” in Michael D. Bordo, Claudia Goldin, and Eugene N. White (eds.) *The Defining Moment: The Great Depression and the American Economy in the Twentieth Century* (Chicago: University of Chicago Press, 1998), 89-90; Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States 1867-1960* (Princeton: Princeton University Press, 1963), 434-435.

³⁰ Homer Jones, “Some Problems of Bank Supervision,” *Journal of the American Statistical Association*, vol. 33, no. 202 (June, 1938): 334-335; Homer Jones, “An Appraisal of the Rules and Regulations of Bank Supervision, 1929-39,” *The Journal of Political Economy*, vol. 48, no. 2 (April 1940): 196; H.E. Hoagland, “Government and the Changing Mortgage Structure” *The American Economic Review*, vol 26, no 2 (June 1936): 230.

expulsion from the Federal Reserve (or later the FHLBB), and termination of deposit insurance.³¹

The second element in the New Deal's revolution in home financing—the creation of a mutual mortgage program—is of equal importance. Mortgage insurance, and the Federal Housing Administration (FHA) to administer this program, was created under Title II of the National Housing Act (1934). Insurance would only be available for mortgages that conformed to the new criteria of such loans included in this Act and sanctioned by the FHA—measures that covered the overall financial structure of the mortgage as well as exacting construction and community standards. Specifically, mortgages were required to be long term (20 years in the original legislation), low interest rate, high loan to value ratio, and fully amortizing where low monthly payments would pay off the principal and interest of the loan simultaneously over the entire life of the loan.³²

Deposit guaranty was premised on the assurance that all of the nation's financial institutions were engaged in cautious investment activities. In housing financing, home mortgages that were covered under mutual mortgage insurance (or mortgages explicitly designed to meet all the criteria of insured mortgages) were defined as safe and sound investments that were approved by regulators. Regulated financial institutions were given little choice but to finance homes using mortgages that were insured.

In the enabling legislation, and then in regulations that were promulgated in their *Underwriting Manuals* in 1935, 1936, and 1938, the FHA set the explicit conditions for mortgages to be covered this insurance plan. In standardizing the mortgage instrument, the FHA, consciously or not, removed flexibility from the practice of home lending. With these factors removed, lending became akin to a zero-sum game. Nearly all housing built before the advent of mortgage insurance in 1934 were rendered difficult if not impossible to finance using mortgages that could meet the rigid and inflexible provisions of the Act and FHA appraisal standards. Moreover, nearly all housing developed after the imposition of this program, housing built to the exacting standards of the FHA, could by definition be financed using this new standard of home financing. Mortgages meeting FHA standards, whether or not they were actually insured under the aegis of the mortgage insurance program, could be bought and sold on a secondary market that would increase the liquidity of lending institutions.

This revolution in financing dictated what became known as home mortgage redlining. Mortgage redlining involved the refusal—the inability—to offer *insured* home mortgages (or their equivalent) on the basis of location in most central city neighborhoods and older communities. Following the dictates of this system of insured fully amortized mortgages, financial institutions in the U.S. found it was economically prudent to make mortgage loans on new housing built that could for the most part only be developed in decentralized suburban tracts. It was equally cautious (and indeed required by a regulatory system that so highly prized institutional safety) to refuse to offer comparable loans for housing sales in most of central city

³¹ Lawrence G. Baxter "Fiduciary Issues in Federal Banking Regulation," *Law and Contemporary Problems*, vol. 56., no 1. (Winter, 1993): 10-11.

³² National Housing Act 1934, Sec 203 (b); Stuart, *Discriminating Risk*, 25, 46-50; Federal Housing Administration, *Rules and Regulations* (Washington DC: GPO, 1935), *passim*.

neighborhoods. This system created a set of geographically defined incentives and disincentives that drove mortgage investment decisions.

HOLC Maps Were Not Shared with Lenders

Contrary to frequent assertions in the historical and sociological literature, HOLC's maps and extensive documentation was not shared with private individuals. The HOLC Residential Security Maps were not available or distributed to members of the local real estate or financial community.³³ There are two ways, however, that realtors and lenders were cognizant of their existence and indeed of specifics, if sometimes imperfectly, of these remarkable maps. First, thousands of individuals from the local real estate industry, financing, and government were directly involved in the development of these maps. As employees or consultants to the HOLC, they were involved in all stages of the execution of these maps, a process that took place over two years or more at each location. Local housing experts defined and demarcated the housing sub-markets for the maps, collected data on these areas, analyzed this information, and assigned the final mortgage risk grade. Second, in the final years of HOLC's City Survey Program (1938-1940), the agency conducted a 're-survey' of a selection of the larger cities across the country. These re-surveys were primarily focused on the financial health and stability of lending institutions in these cities. In the course of this investigation, in many cities bankers were interviewed about their mortgage lending activities during this period immediately before the beginning of the war. Extant HOLC records reveal that in many instances, HOLC interviewers used drafts of the Residential Security Map for that metropolitan area in their queries of local lending officials. As HOLC researchers asked local lenders where and under what terms they were presently lending, respondents would not atypically answer with specific references to market areas on a draft or finished map by noting that their institution lend predominantly in area, for instance, 'A-22', 'B-10'. In other words, it is clear that many, perhaps hundreds, officials in lending institutions had been shown the local HOLC map in the process of their interview.³⁴

Clearly, then, a large group of real estate, lending, and local governmental officials were either directly involved in the development of HOLC's maps or had been exposed to them in the process of the final phase of HOLC's City Survey Program. While HOLC inexplicably and promptly ended the program in 1940 and apparently sealed their files that were later conveyed initially to the Library of Congress and then to the National Archives, many individuals had knowledge to these maps and to the extensive and detailed description sheets that accompanied them. Some of these local experts probably retired or were lost in the war effort, but probably a larger group remained active in the real estate industry in cities across the country in the 1940s and later. Given the largely pessimistic character of HOLC's maps (they were vividly and

³³ Forest R. Holdcamper, "City Survey Program: a review of the objectives, achievements, administrative operations, and related policies," NARA II, RG 195, Entry 39; Immergluck, *Credit to the Community*, 93. Amy Hillier, "Redlining and the Home Owners' Loan Corporation," *Journal of Urban History*, Volume 29, Issue 4, 2003, pages 398-402.

³⁴ See, for instance, the well documented interviews with William A. Marcus, Vice President of the American Trust Company, William Arnold, an Assistant Vice President at Anglo National Bank, and H.V. Allard, a Vice President of Bank of California all located in San Francisco. NARA II, RG 195, Box 63; see also Amy Hillier's discussion of the use of the Residential Security Maps in HOLC's resurveys, at *ibid.*

predominantly shaded red ‘hazardous’ or yellow ‘definitely declining’), it is all too likely that those active in real estate development and financing in the booming post-war era recalled their overwhelmingly negative characterization of most of central cities’ neighborhood housing markets.

In both cases, public power and administration was fused with private interests from the real estate and financing industry. In the case of the HOLC this process is well documented: not only were individuals from private industry aggressively recruited into positions at all levels of the HOLC, during the development of its City Survey Program from 1935 to 1940, HOLC appraisers sought the input and assistance from local real estate developers and realtors as well as officials in banking and the local S&L industry as well as prominent local officials. Dozens of local experts were routinely involved in all phases of the creation of these maps. Certainly, thousands of private individuals participated in the development of these maps—indeed, Corwin Fergus, HOLC’s director of this program once publicly stated that at least 5,000 private real estate agents and bankers were involved in the development of these maps.

The Over Riding Importance of Housing

Many factors, including the race of a neighborhoods’ residents, contributed to HOLC’s assignment of mortgage risk of communities. Most important, however, was the quality and upkeep of residential properties. Much of the standing housing stock in cities and rural areas alike was of poor quality, much of it of very poor quality. Several factors contributed to this rather sorry state of affairs. First, as had been emphasized by housing reformers since before the turn of the century, housing that had been built originally for working class families and others of very modest means were poorly constructed, lacked basic amenities, did not provide adequate access to clean air and light, provided water and toilets only in common areas (or even outside the structure) thus necessitating sharing among multiple families, and were dangerously overcrowded. Even upon initial occupancy, tenements, and even in lower density housing, were unpleasant, overcrowded, and of inadequate quality. With use, these conditions only deteriorated and working class housing became so seriously inadequate that they became uninhabitable. Second, as many reformers and early real estate appraisers emphasized, housing that had well built with the very best materials and techniques for upper income families at the time they were constructed, as ownership passed down to middle and lower income groups, were all too frequently subdivided. In this way, what had been high quality single-family dwellings were transformed into multi-family housing. Such sub-division was typically done through haphazard and poorly executed construction that, along with more intense use and poor maintenance, immediately downgraded the quality of the housing and assured a trajectory of physical deterioration. Third, the American housing market peaked in 1926. Housing values declined quickly spurring widespread foreclosures and caused the collapse of innumerable financial firms that specialized home and commercial mortgage securitization, upkeep and maintenance declined as well. Both new housing construction and constant reinvestment into the standing housing stock declined precipitously from the mid-1920s on. This, together with the all too typical doubling up of families in urban areas, contributed to the deterioration of the physical quality of homes across the country.³⁵

³⁵ Alanson A. Morehouse, “The Real Property Inventory of 1934” *Survey of Current Business*, Nov. 1934, 18-19

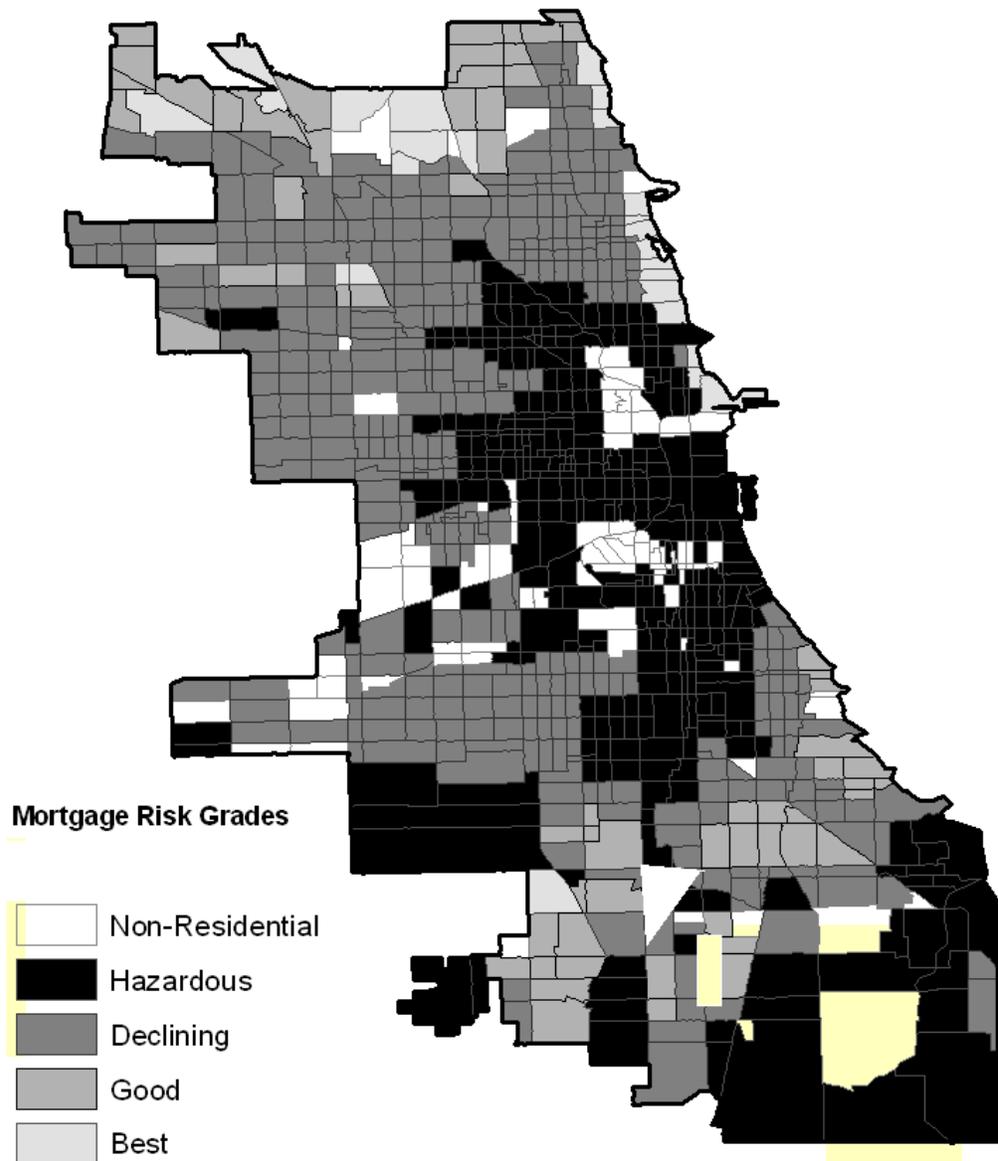
There are many reasons, then, that much of the American housing stock was physically suspect and likely to be able to retain or increase in value over a lengthy time horizon. First, many newly built homes were poorly constructed, assembled using inferior quality materials, and lacked many of what we would now consider basic amenities for the home. Multiple and single family homes were built without indoor plumbing or central heating, rooms were few and small, buildings were constructed in very close proximity to one another, and many times there were too few windows minimizing fresh air and light to the interior of these homes.³⁶ Second, even those properties that had originally been built with high standards using quality materials were many times in in-lying communities undergoing rapid change and population growth undergo further construction which would sub-divide the structure in many apartments that were then occupied by several not one family. Such investment and remodeling of the interior of what had been single family homes, while highly profitable for a landlord the short run led inevitably to a devaluing of the property over times, sometimes quite rapidly. Third, as these kinds of conversions occurred, property developers constructed additional new homes haphazardly in what had been vacant land—in alleys and front and back yards—and in so doing created a high density clutter of housing. With minimal zoning or the enforcement of even basic building standards, there was few resources a neighborhood could use to protect them from changes in land-use, the incursion of non-residential activities into their midst or prevent the flood of poorly constructed and frequently unsafe housing. Fourth, in many communities, but especially those with any non-white residents, basic public facilities would be allowed to deteriorate or close and public services would withdraw.

To further examine the role of the social characteristics of residents of a neighborhood, especially race, in addition to the character, quality, type, age, and pricing of real estate, I have chosen the city of Chicago for more detailed analysis. The two part Residential Security Map of Chicago was photographed and geo-referenced using ArcGIS, a micro-computer geographic information system that facilitates merging a raster image (the maps) onto an electronic file of the polygons of, in this case, the census tract map of Chicago that was used in the 1940 Census of Population and Housing. This electronic map along with all the published data at the census tract level was acquired via download from the National Historic Information System which is housed at the University of Minnesota. For the 1940 Census, Chicago had 935 census tracts of which 848 were in residential areas that were graded by the HOLC as either ‘hazardous’ (Red); ‘definitely declining’ (Yellow); ‘good’ (Blue); and ‘best’ (Green).

In the following section, I use illustrative thematic maps for the HOLC mortgage risk grades, the distribution of ethnic and racial groups in the city, maps showing the relationship between some basic underwriting factors used by the FHA, as well as examining a combination of factors as they are distributed across the geography of the city. Frequently, these data are examined in tables as well as a final quantitative analysis of these population and housing factors.

³⁶ Margaret Garb, *City of American Dreams* (Chicago: University of Chicago Press, 2005), 42-57; Raymond A. Mohl and Neil Betten, *Steel City*, Gary Indiana 1906-1950 (New York: Holmes and Meier, 1986), 17-25.

Figure 1: HOLC Mortgage Risk Grades, Chicago, 1940



Source: National Archives and Records Administration, RG 195, Boxes 120-121

A thematic map of HOLC's assignment of mortgage risk for the city of Chicago is presented in Figure 1. Each census tract was coded by the mortgage risk grade shown on these HOLC maps (0 for no code [non-residential areas], 1 for the red areas, or "hazardous", 2 for yellow areas, or "definitely declining, 3 for blue areas, or "good" and finally 4 for the green areas, or "best"). A map based on this tract level coding is provided in Figure 1 that portrays HOLC mortgage risk grades for the city of Chicago.

A few initial conclusions are evident. First, HOLC’s assessment of Chicago is overwhelmingly pessimistic: of the 935 tracts in the city, 354 (or 37.9%) are considered as “hazardous” for mortgage investments and another 406 (of 43.3%) are judged as “definitely declining” and highly suspect for prudent, safe mortgage investments by regulated lending institutions. Less than 10% of Chicago’s census tracts (88) are considered safe for mortgage lending, using HOLC’s risk grades. A summary of these is provided in Table 2

Table 2: Summary of Tracts, Population, and Housing Units by HOLC Mortgage Grade, City of Chicago

HOLC Grade	Tracts	Percent	Population	Percent	Housing Units	Percent
Non-Residential	87	9.3	128,994	3.8	36,550	3.7
"Hazardous"	354	37.9	1,188,653	35	333,129	33.7
"Definitely Declining"	406	43.4	1,646,256	48.5	483,189	48.8
"Good"	64	6.8	311,035	9.2	94,590	9.6
"Best"	24	2.6	121,870	3.6	42,045	4.2
Total	935		3,396,808		989,503	

Source: NARA II, RG 195; National Historic Geographic Information System

Second, there is a clear geographical pattern to these mortgage risk grades. The central core of the city in its entirety (excepting only non-residential areas devoted to manufacturing, wholesaling, and transportation) is graded as “hazardous” and was certainly redlined. Additionally, outlying communities on the far south and southwest sides, are also considered as high mortgage risk areas and also redlined. Generally, these are residential communities that are both the oldest communities in Chicago and inter-mixed with manufacturing or shipping activities. Surrounding these core, clearly redlined, areas is an even larger swath of the city reaching out to the north, west, and south where HOLC appraisers determined to be clearly “declining”. Mortgage loans in these areas are also considered risky; these communities are also likely, then, to be redlined by federally regulated financial institutions. Together, the areas deemed “hazardous” and “declining” represent a stunningly large proportion of Chicago’s neighborhoods. Third, it bears emphasis that a strikingly large proportion of Chicago’s population and housing stock (as shown in Table 2) are in those neighborhoods the HOLC deemed ineligible for mortgage investments. Thirty-five percent of the city’s population lived in areas clearly redlined (and over 33% of the housing stock) and nearly one-half of all Chicagoans (and nearly 49% of all housing units) were in neighborhoods that the HOLC graded as declining, and also almost as surely rendered ineligible for insured home mortgages.

A clear advantage of geo-referencing Chicago’s Residential Security Map is that this allows the results of the 1940 decennial census to be integrated with the tract based coding of HOLC’s risk grades. The 1940 census of population and housing was the most detailed and comprehensive of its type in the nation’s history. This census collected data systematically for the ethnicity and race of residents, employment, occupation, and industry, and, building upon the Real Property Inventories earlier conducted for the WPA, an exhaustive set of variables about

the housing stock including type of structure, housing value or rent, as well as a wide array of information on housing quality, home heating, plumbing, and density factors. This range of information allows us to describe those factors that underpin the HOLC risk grades.

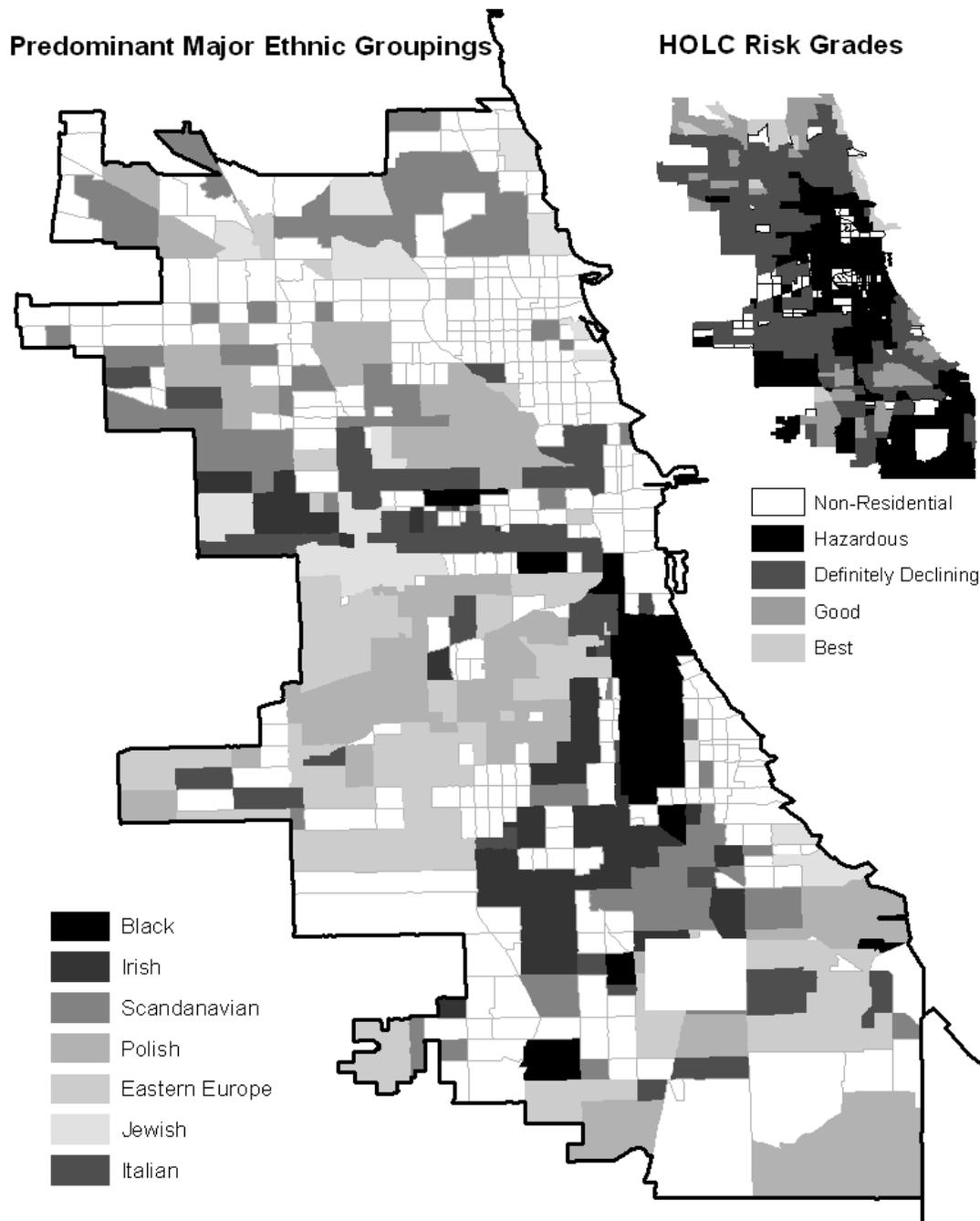
Race and ethnicity of a community's residents, we have seen, are commonly asserted as the primary determinants of HOLC's assignment of risk.³⁷ Description sheets accompanied all of the HOLC maps and one of the explicit criteria that HOLC appraisers were required to examine was the number of both non-white and foreign born residents in each housing market, as well as an assessment by the HOLC researcher on the likelihood of either non-whites or foreign born becoming residents of these neighborhoods in the foreseeable future. In addition to these standard questions, HOLC consultants were provided an opportunity to provide a narrative on each area they were assessing. Frequently, in these commentaries, HOLC appraisers express overt racist or Nativist opinions regarding the residents or likely future residents of communities. As many historians and sociologists who have examined these documents have noted, any and all neighborhoods, which housed even a small number of African-American or Latino residents were described derisively and invariably poorly graded in terms of their mortgage risk. Indeed, with stunning consistency, housing markets with any non-whites are almost always graded as fourth rate housing market with 'hazardous' risk to lending institutions. Other distinct ethnicities fare nearly equally badly in these narratives by HOLC appraisers. Adverse evaluations of Italian, Irish, Jewish, as well as residents of Eastern European decent abound in HOLC's documentation. Based solely upon a qualitative examination of HOLC documents, in other words, it seems clear that the race and (certain) ethnicities of residents is in fact the predominant determinant of the HOLC assessment process.

To examine these assertions, racial and ethnic variables available in the 1940 census for the city of Chicago were analyzed together with the HOLC mortgage risk grades of the Chicago Residential Security Map by 1940 census tracts. Since the publication of Park and Burgess *The City* in 1920, the influential Chicago School of Sociology had persuasively asserted that Chicago was the ideal-typical American industrial city. It was, in their famous argument, a city that was economically successful in large part because of a geographical economic division of labor. The city, as a result of economic and residential development, developed into rings of concentric development. Furthermore, a city was composed of neighborhoods of identifiable ethnicities and of race. Competition and all too frequent conflict over space rules this typical American industrial city but descriptively Chicago was a set of communities where one ethnic group or race prevailed.

Originally formulated in 1920, these assertions appeared to basically true some twenty years later as evidenced in the 1940 census. Figure 2 provides a map of concentrations of Chicago residents by ethnicity as recorded in that year's census. Also included in Figure 2, in an additional panel, is the map of the HOLC mortgage risk grades presented in Figure 1, for direct comparison between the geography of ethnicity at that time and the HOLC Residential Security Map which was developed from the inception of HOLC's city survey program in 1935 and finalized in 1940.

³⁷ Jennifer S. Light, "Nationality and Neighborhood Risk at the Origins of FHA Underwriting" *Journal of Urban History*, September 2010; vol. 36, 5: pp. 634-671

Figure 2: Ethnic Neighborhoods and Mortgage Risk Grade



Tracts were grouped, on this map, by predominant ethnicities and the results, as Park, Burgess, and their many students lead us to expect, are clear, distinct concentration of people of common ancestry. Perhaps clearest is the small, compact, and very densely populated South Side black belt, that was the primary site of black residences that developed with the first Great

Migration.³⁸ Predominantly Polish neighborhoods (Poles being among the most numerous of all ethnic groups in the city) were numerous across the city. Polish neighborhoods are located primarily on Chicago's northwest side (Logan Square and Irving Park) and across a large swath of the southside (in McKinley, Brighton, and Archer Heights). Irish neighborhoods are clustered primarily on the south side of the city in Bridgeport, Englewood, and Auburn and on the west side in Austin and Garfield Park, while Italians communities are located on the Near West Side, in the northwest of the city in Belmont-Creagan, and on the south side at 69th and Hermitage and 29th and Oakley.³⁹ Jewish communities are located in the far west side of Chicago in Lawndale and Garfield Park and in South Shore.

An initial and casual comparison between the distribution of major ethnic enclaves in Chicago against the geography of mortgage risk across the city appears to show only a modest relationship between ethnicity and ostensible redlining. Clearly, for some of the city's residents, all neighborhoods in which they reside are in areas that the HOLC graded as very poor risk. This is the case for all African-American neighborhoods. For all other ethnic groups, the picture is decidedly mixed: for all ethnic or racial groups other than blacks, some neighborhoods are graded very poorly while others receive high or very high mortgage risk grades.

Table 3, which shows the lowest and the highest, as well as the average, mortgage risk grade by racial and ethnic communities, illuminates this. The results show, a set of descriptive statistics for groups of tracts in Chicago where one race or ethnicity predominate—the lowest, highest, and average mortgage risk grade on the 1940 HOLC Residential Security Map (where best=4; good=3; declining=2; and hazardous=1). Only predominantly black census tracts were consistently graded as the worse quality real estate market by the HOLC. African-American neighborhoods were at this time extraordinarily overcrowded and uniformly had the worst quality housing, were all within the large swath of neighborhoods that were redlined. For all other groups, however, there is no apparent direct relationship, in contrast to Homer Hoyt's declarations in *100 Years of Land Values in Chicago*, between communities real estate markets, and expectations about the future of these markets, and ethnicity. According to HOLC appraisers Irish, Polish, Eastern Europeans, and Italian communities scored from very worse ("hazardous") to "good", while Scandinavian, and even Jewish neighborhoods were rated from the very worse to the very best in the city. The average risk grade score is especially interesting. Italian communities fare only somewhat better than the African-American ones (1.2), and predominantly Polish and Italian communities score below 'declining' on the HOLC maps, and even Scandinavian and Jewish neighborhoods (that have tracts scored across the entire HOLC spectrum) average only slightly above this 'declining' assessment. While race in Chicago clearly translated into HOLC assessments of high risk, the ethnicity of Chicago's neighborhoods do not show a clear relationship to mortgage risk on the Chicago Residential Security Map.

³⁸ Allan Spear, *Black Chicago* (Chicago: University of Chicago Press, 1967); St. Clair Drake and Horace Clayton, *Black Metropolis* (Chicago: University of Chicago Press, 1945); Nicolas Lehman, *Promised Land* (New York: Knopf, 1991).

³⁹ Dominic Candeloro, *Italians in Chicago* (Chicago, Arcadia Press, 2001), 8; See also the "Social Science Research Maps" of residential patterns in Chicago in the 1920s and 1930s completed under the auspices of the Sociology faculty at the University of Chicago at www/lib.uchicago.edu/e/su/maps/ssrc.

Table 3: Variance of HOLC Mortgage Risk Grade by Predominant Ethnicity, City of Chicago

	HOLC Mortgage Risk Grade*			Number of Tracts
	Lowest	Highest	Average	
Blacks	1	1	1	60
Irish	1	3	1.6	61
Scandinavian	1	4	2.1	94
Polish	1	3	1.5	115
Eastern Europe	1	3	1.7	83
Jewish	1	4	2.1	49
Italian	1	3	1.2	91

* "Hazardous"=1; "Definitely Declining"=2; "Good"=3; "Best"=4

Source: NARA II, RG 195, Boxes 120-121

The Federal Housing Administration (FHA) was created with the clear Congressional intent to administer the new mortgage insurance program. The FHA developed and promulgated a very detailed set of underwriting criteria that were first published in 1935, but later slightly revised and republished in 1936 and 1938.⁴⁰ These underwriting standards were detailed (totaling nearly 2000 sections) and were, in their totality, administered consistently and apparently inflexibly. Many scholars have pointed to the FHA's unequivocal and overt acceptance of racially restrictive covenants, zoning, or other legal or contractual methods designed to sustain racial segregation.⁴¹ These sections, while important, cover only a very few of the nearly 2000 sections that provide in uncommon detail, the specific criteria required of housing units to be eligible for mortgage insurance. These include characteristics of the property, amenities and public goods of the neighborhood, access to systems of transportation, soil and sub-soil conditions, adherence to building codes, set back from the street, and innumerable sections dictating the minimal physical characteristics of the home. These include inviolable standards for the basic structural systems of the house including the plumbing, heating, and electrical systems. Explicitly excluded from mortgage insurance are homes, whether of new or old construction, that are defective in construction or fail to meet building code standards, those that do not have sufficient number of rooms or bedrooms or that do not provide a minimal number of cubic feet per occupant, or those that are deficient in any way in the basic electrical, water, or heating systems.⁴²

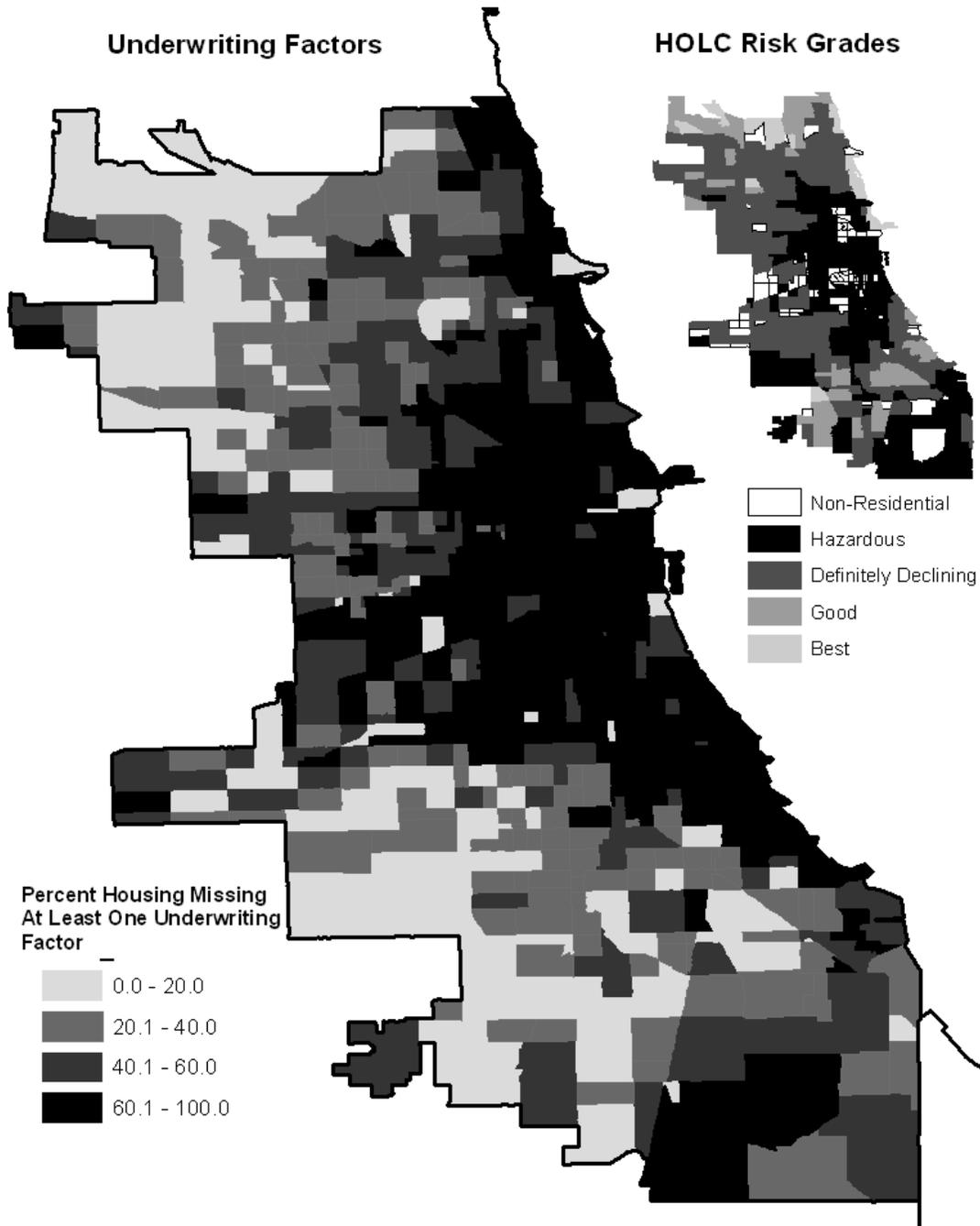
⁴⁰ Federal Housing Administration, *Underwriting Manual: Underwriting and Valuation Procedure Under Title II of the National Housing Act* (Washington, GPO, 1935, 1936, 1938).

⁴¹ Isaac N. Groner and David M. Helfeld, "Race Discrimination in Housing," *Yale Law Journal*, vol. 57, no. 3 (Jan. 1948), 433-436; Michael Jones-Correa, "The Origins and Diffusion of Racial Restrictive Covenants" *Political Science Quarterly*, vol. 115, no. 4 (Winter, 2000-2001), 543-544.

⁴² Federal Housing Administration, *Property Standards: Requirements for Mortgage Insurance Under Title II of the National Housing Act* (Washington: Government Printing Office, 1936), defective conditions are discussed at sec. 525, adequate plumbing and sewage disposal at sec. 207e and 526; adequate hot water and heating system at sec. 207d and 533; privacy and number of bedrooms at sec. 203d, 504, and 511.

The 1940 Census of the Population and Housing collected data by tract in over sixty cities across the country. In nearly all of these metropolitan areas, the HOLC also assembled a Residential Security Map. In those areas where both are available, the HOLC mortgage risk scores have been coded by tract and merged with the extensive number of variables included in the census. Among the housing data are three sets of variables that directly address some of the clearest FHA underwriting standards: housing requiring major repair, whether or not the home has central heating, and the plumbing including most importantly the bathrooms of the house. For each tract, we can calculate the total and percent of housing units that meet each of these criteria—first, in need of major repair, second, without central heating, and third, housing missing any basic plumbing. Given that these census data are provided in aggregate numbers, we can calculate iteratively the percentage of housing that are deficient in each of these underwriting standards and then scan the three scores and assign the highest of the three as a reasonable summary for any one tract. Clearly, it is likely that houses that are deficient in terms of central heating will also have less than adequate plumbing as well as possibly be judged by census takers as in need of major repair, but it is unlikely that the correlation is perfect. As a result, this summary measure will undercount the number of homes in any one tract that do not meet one of these three underwriting standards.

Figure 3: Underwriting Criteria and Mortgage Risk Grade



The distribution of this measure, using these three underwriting factors, is shown for the city of Chicago in Figure 4 along with the HOLC mortgage risk map in a separate panel.

What is immediately striking is the extent of housing in Chicago at this time that lacked minimal plumbing or central heating and hence would be unable to qualify for mortgage insurance. Poor quality is widespread throughout the nearly 1 million housing units in the city and is especially concentrated in a very large portion of the central core of Chicago where 60% or more of housing are deficient for any of these FHA underwriting standards. This is a result of the age of housing in these areas. The center of the city was developed initially (and rebuilt after the fire in 1871) and is composed of the oldest housing in the city. Additionally, even what had been well build single family homes, constructed in the late nineteenth century (and might have met these underwriting criteria), had been converted into multi-family housing where heating devolved to individual room coal heaters and bathrooms and running water shared among several families. Along with the conversion into tenements, the increased residential density all too frequently translated into the dramatic physical deterioration of these homes further amplified by a lack of maintenance by landlords. As of the 1940 Census, most of the housing in the city of Chicago did not meet one or more of the minimal standards of FHA administered mortgage insurance.

There is, furthermore, a clear relationship between the geography of housing quality and amenities, or their absence, and the mortgage risk grade assigned by the HOLC. For those areas where a very high proportion of the housing stock does not have central heating or adequate plumbing facilities, these are also communities that HOLC determined were highly risky for mortgage investments on the part of regulated lending institutions. Those tracts where 40% or more of all housing units did not meet these minimal underwriting standards closely approximate those communities that HOLC appraisers determined to be either 'hazardous' or 'definitely declining' and as a consequence represented a high risk to regulated lending institutions for home mortgages. These neighborhoods would likely be redlined. In contrast, areas where the percentage of housing units that do not meet these minimal standards is significantly lower are also those communities that the HOLC graded as either first or second grade real estate markets. In these areas, mortgage loans could secure mortgage insurance under Title II, and, with the exception of specific homes that could not meet these standards, would not be redlined. All in all, the geography of housing quality and basic home amenities closely approximates the mortgage risk grade in the HOLC Residential Security Map of Chicago.

Table 4: Basic Underwriting Factors by HOLC Mortgage Risk Grade, City of Chicago 1940 Census

	HOLC Mortgage Risk Grade			
	Hazardous	Definitely Declining	Good	Best
Number of Tracts	354	406	64	24
Need of Major Repair	15.06	6.09	3.18	2.43
Lacking Adequate Plumbing	41.38	13.78	5.89	6.33
No Central Heat	53.06	24.19	4.35	0.98
High Density (5 units plus) Housing	32.16	28.76	31.65	58.79

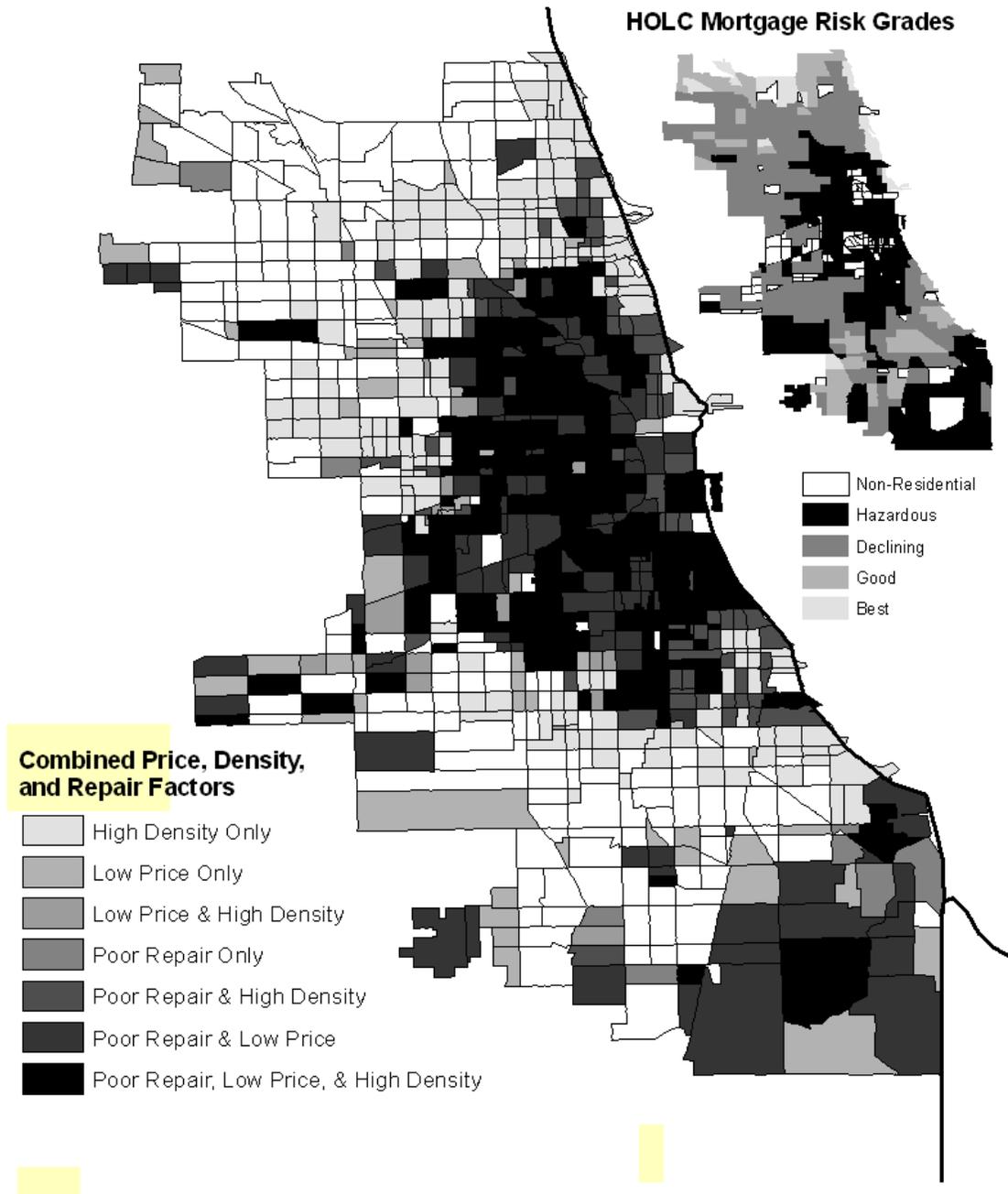
N=848

Sources: National Historic Geographic System, 1940 Census of Housing and Population; National Archives and Record Administration, RG 195, Boxes 120-121

The findings presented in Figure 3 provide a summary of these basic underwriting standards by HOLC mortgage risk grades in Table 4. Shown in this fashion, each of these factors is significantly higher in those housing markets the HOLC graded as having the highest risk and diminished sharply in those communities that the HOLC graded better. For instance, over 15% of housing in those real estate markets graded poorest (“hazardous”) were assessed by census workers in the 1940 Census as being in need of “major repair” while less than 3% of homes in neighborhoods graded as 2nd or 1st rate markets (“good” or “best”) are judged as such. Similarly, and perhaps even more striking, over 40% of housing units in the worst areas by the HOLC’s assessment lacked adequate plumbing compared to less than 7% for homes in the better graded neighborhoods. Finally, over half of all housing in the communities HOLC graded as worst had central heating compared to less than 1% in the very best residential housing markets of the HOLC map.

The data presented in Figure 4 shows combination of three separate indexes—one capturing population density, another summarizing real estate pricing, and a final one examining several factors involving housing repair and amenities. For density two variables are considered: persons per square mile and number of individuals per room. Housing price is a combined index of a weighted average value of housing and median rent. Finally, home repair and amenities is an index based, in addition to the underwriting criteria displayed in Figure 3 (homes in need of major repair, and absence of central heat, and deficient plumbing), the absence of mechanical refrigeration, and lack of a radio in the household. These three sets of factors display distinct geographical patterns in Chicago, many times overlapping but in other areas less so. Highlighted in Figure 4 are tracts with, respectively, lower overall housing values, higher densities, and lower housing quality (and fewer basic amenities). Each index is bifurcated and all combinations of all three indexes are displayed here.

Figure 4: Combined Housing Factors and Mortgage Risk Grade, City of Chicago



The results are revealing.

First, again the oldest areas of the city are those communities where all, or nearly all, of these adverse housing factors conflate. Low housing values (and rents), high densities, and large numbers of housing units in poor repair and/or lacking one or more basic amenities are clustered

in a very large area stretching from 4.5 to 6.5 miles to the northwest, southwest, and south from Chicago's central business district, the Loop. While this was the area of the city that experienced population losses during the booming economic and housing markets of the 1920s and even during the Depression (when sociologists at the University of Chicago, housing reformers, and HOLC appraisers noted the extensive "doubling up" of families, and families taking on boarders to offset housing costs), population densities were among the highest in the city.⁴³

Second, the factors highlighted in this map largely coincide with those areas that were deemed 'hazardous' in the HOLC map of Chicago. These are residential housing markets that share all or nearly all factors that, in the mind of HOLC appraisers, undermine the present and future value of residential properties. Not only are these communities with the oldest housing stock in Chicago, housing values and rents are low and declining compared to the remainder of the city. Additionally, density both overall (persons per square mile) and within households (persons per room per household) is elevated in these central communities of Chicago. The subdivision and over-crowding of housing units is evident. It is little surprise that HOLC analysts graded these core residential communities as exceedingly risky for home mortgage investment.

Third, low housing prices, high densities, and poor amenities—neighborhoods that were redlined according to the HOLC Residential Security Maps—bear little clear relationship to ethnicity of residents. These negative factors do, however, are strongly related to race (specifically African-American) of residents. This is hardly surprising. By every account, as the first Great Migration of African-Americans took place and blacks moved from rural (or secondarily from Southern urban areas) to Northern cities, non-whites were forced to reside in neighborhoods with the very worst housing of the city. Overt or tacit agreements among the local real estate industry, collusion with political and local administrative officials, and, not to be under-estimated, the capacity of white, ethnic communities to use violence, all enforced a rigidly segregated racial system of housing availability that restricted blacks to a very small geography of the city, and one where housing conditions were the very worst.

These relationships are quite clear when they are tabulated across the HOLC mortgage risk grades. This is provided in Table 5 that shows the percentage of single family dwellings, housing which includes a place of business, median and average home value, median rent, and overcrowding across mortgage risk grades. Single family housing is much less prevalent in those neighborhoods graded poorest by the HOLC (13.9%) compared to communities with a much higher proportion of this type of housing (42.1 and 23.8% in the higher rated housing markets, respectively, by the HOLC assessment). More striking is the patterning of multiple family dwellings with a business included in the same building. Here the relationship is especially straightforward: homes where a business operates on the premises are nearly nine times more prevalent in neighborhoods graded very poorly by the HOLC than in communities that were considered good or best. Housing values (both home values and median rent) are directly to HOLC mortgage risk grades. Home values in the lowest graded areas are less than

⁴³ See especially the map of population change from 1920 to 1930 at <http://www.lib.uchicago.edu/e/su/maps/ssrc/G4104-C6E24-1930-U5.html>; doubling up of families at: <http://www.lib.uchicago.edu/e/su/maps/ssrc/G4104-C6E73-1934-U52.html>; and population change between 1930 and 1940 at <http://www.lib.uchicago.edu/e/su/maps/ssrc/G4104-C6E24-1934-U51.html>.

30% those in the very best real estate markets. Average values increase step wise from lowest to highest graded communities—from just under \$3,000 in worst areas to over \$10,000 in the best neighborhoods. The increase in median rent is less dramatic. Median rent in the poorest graded neighborhoods was under \$25.00 per month and increased to just below \$55.00 for the best communities.

Table 5: Housing Type, Value, and Overcrowding by HOLC Mortgage Risk Grade

	HOLC Mortgage Risk Grade			
	Hazardous	Definitely Declining	Good	Best
Tracts	354	406	64	24
Single Family Dwellings	13.9	24.7	42.1	23.8
Two to Four Unit Dwellings with Business on Premises	9.3	4.7	1.8	1.1
Median Housing Value	1,346	2,948	5,987	4,405
Average Housing Value	2,991	4,371	7,601	10,307
Median Rent	24.05	34.86	45.21	53.97
Overcrowding	22.6	15.2	10.4	13.2

N=848

Sources: National Historic Geographic System, 1940 Census of Housing and Population; National Archives and Record Administration II, RG 195.

Finally, a set of variables was selected to examine relative importance of the race and ethnicity of residents, population density, type, quality, upkeep, and price of housing in the determination of the HOLC mortgage risk grades. These variables were entered into regressions, one for all cities where there is an existing HOLC map and those municipalities where the Census collected census tract level data in the 1940 Census of Population and Housing, and other separately solely for tracts in the city of Chicago.⁴⁴ Non-residential tracts were excluded from the analysis. These results are provided in Table 6.

⁴⁴ For a list of these localities, see note to Table 1 above.

Table 6: Ordinary Least Squares (OLS) Estimators of Home Owners' Loan Corporation (HOLC) Mortgage Risk, All Cases and City of Chicago, Dependent Variable HOLC Mortgage Risk Grade*

	All Cases**	Sig.	Chicago	Sig.
Persons Per Square Mile	-0.099	0.001	-0.101	0.001
Black	-0.069	0.001	-0.060	0.037
Latino	-0.047	0.001	0.017	0.552
Northern European Ancestry	0.041	0.001	0.093	0.023
Eastern European Ancestry	-0.087	0.001	0.106	0.025
Greek and Italian Ancestry	-0.033	0.003	0.018	0.639
Unemployment Rate	-0.177	0.001	-0.211	0.001
Single Family Dwellings	0.196	0.001	0.100	0.019
High Density Housing	-0.067	0.001	0.116	0.021
Average Housing Value	0.351	0.001	0.300	0.001
Median Rent	0.120	0.001	0.156	0.000
Housing Needing Major Repair	-0.046	0.001	-0.024	0.379
Housing Without Private Water	-0.041	0.001	-0.149	0.001
Housing Without Central Heating	-0.014	0.234	-0.086	0.063
Adjusted R-squared	0.546		0.571	
F-statistic	525.71		79.24	
N =	6119		848	

* HOLC Risk Grade: "Hazardous"=1; "Definitely Declining"=2; "Good"=3; "Best"=4

** Sixty-four cities and municipalities, see previous table for details

Source: NARA II, RG 195 and National Historic Geographic System, Census of the Population and Housing, 1940 Census

These results, both for all cities and the city of Chicago, are robust, and in the case of Chicago, are in agreement with the results shown in Figures 3 and 4. The results in both equations are similar. In both, housing price, whether measured by average housing value or median rent, is a strong predictor of the HOLC grade. Higher priced real estate is primarily located in neighborhoods HOLC grades as first quality; low and very low priced housing is concentrated in areas graded as poor, or “hazardous”. In Chicago, this is clear in Figure 4 where the least valued real estate is congregated in the central core of the city that coincides with the numerous neighborhoods the HOLC graded as poor risks for lenders. The unemployment rate (in 1939 when these census data were collected) is also, both in the larger sample and that solely for Chicago tracts, a strong estimator of the risk grade assigned by the HOLC ($b^* = -.177$, and $b^* = -.211$, for all, and only Chicago tracts, respectively). Clearly, high unemployment is concentrated in both the lowest cost real estate markets and in housing markets where the HOLC has determined that the risk is the highest for lending institutions. To the agency, widespread

unemployment for a community systematically undermines the ability of residents in a neighborhood to pay off mortgage loans and, as such, this would lead the HOLC to score such areas poorly. Additionally, however, the unemployment rate and income are likely to be inversely related. Low unemployment and higher income communities were likely to receive better risk rating.

Together, race and ethnicity and the array of housing quality (and factors which would or would not meet basic FHA underwriting criteria) are comparable and more modest estimators of HOLC mortgage risk grades. Looking first at the results for race and ethnicity, it is clear that both percent black and Latino are modest, negative, and significant correlates of HOLC's risk grade (for the national sample, $b^* = -.069$, and $b^* = -.047$, respectively). In the Chicago estimate, percent black is a comparable estimator ($b^* = -.060$) while percent Latino is not significant. The results for other ethnic variables are modest and vary between the national sample and the case of Chicago. Nationally, residents of Northern European ancestry are modest but positive correlates of the HOLC grade ($b^* = .041$) while both Eastern and Southern European ancestry residents are negative estimators of the grade ($b^* = -.089$, and $b^* = -.033$, respectively). In contrast, in Chicago, each of these ethnic groups is moderately and positively related to HOLC's risk grade. Both Figure 2 and Table 3 provide an explanation for this apparent aberration in Chicago. Both the maps provided in Figure 2 and the data summary shown in Table 3 indicate that in Chicago, with the sole exception of the city's black population, ethnic clustering does not exactly or even closely overlap with one kind of housing market. Especially the city's Scandinavian, Jewish, Polish, and Eastern European groups occupy neighborhoods in many areas of the city while the Irish and Italians so do to a lesser degree. This is especially evident in the results shown in Table 3 that provided the low, high, and average risk grades by ethnic group in Chicago. These predominant ethnic groups live in both high and low quality-housing markets.

Housing quality factors, while similarly modest, are consistently negative estimators of the HOLC risk grade. Understandably, tracts that have a significant number of housing units that are in need of major repair were scored poorly. Also, tracts lacking one or more of the basic underwriting criteria—here lacking access to a private bathroom with running water or a notably proportion of homes without central heating—were understandably negative correlates of the HOLC assessment. Tracts a higher number of housing units lacking private access to water represents a consistent and negative correlate of the HOLC risk grade—for the national sample $b^* = -.041$, and in Chicago a much more robust $b^* = -.149$.

Conclusion

Since the discovery of the Residential Security Maps assembled by the HOLC, scholars have established and largely agreed upon a narrative that relies heavily on race and the racialization of the American real estate market from the New Deal to this day. This is, as I have tried to portray, a powerful and convincing account but one that relies so heavily on this one factor to the exclusion of other considerations, including, oddly, the makeup of the housing stock. Empirically, and reflected in the evidence I have presented on Chicago, while race played an important role in the structuring of mortgage investment and disinvestment in the nation's

housing markets, other factors, perhaps even weightier, contributed to the growth of suburban areas and housing and the equally important decline of central city housing.

The alternative approach I propose is both more comprehensive and sensitive to the historical development of the nation's financial system as well as to policies that were put in place, many of them at the state level, to deal with the increasingly strong boom and bust cycles of the American financial, real estate, land speculation, and business systems. Many of the policy sources of redlining predate the New Deal by decades. The racialization of the American real estate market should not so much be discounted as augmented by the all important role the Depression directly played in the creation of the policies and programs to deal with this economic cataclysm and the vivid understanding the public as well as policy makers had as to its specific causes. New Deal financial policies, especially the two shaped redlining, were made in the midst or and against the backdrop of an economic disaster that had persisted and deepened for four years.

New Deal policies and programs were adopted in an environment of extraordinary financial crisis and against an immediate history (the entire 1920s financial and real estate system) of repeated, overt, and extreme violations at an institutional level of "moral hazard". The history of the American financial system throughout the 1920s—in stocks, mortgage banking, real estate financing, and investment banking—was replete with example after example where individuals and financial institutions engaged in unduly risky behavior and did so because no adverse consequences could befall these individuals or institutions. The systematic misdeeds of the country's financial system and moguls were highlighted in the extensive, if unevenly effective, hearings of the Senate's Committee on Banking that started hearings in March 1932. Within less than a year (in January 1933, Ferdinand Pecora became the Committee's chief counsel and his aggressive, and frequently colorful, investigations of Wall Street and the nation's banks, repeatedly became the centerpiece of the nation's news cycle. Not only did Pecora so effectively dominate these hearings (so much so that they have come to be known as the Pecora hearings), but he provided the nation a steady diet of examples of the lords of Wall Street engaging in clear, vivid, and exceedingly damaging examples of the adverse consequences of moral hazard.

New Deal policies, especially those attempting to deal with the breakdown of the nation's financial system, were created in this environment where the public (and the nation's policy makers) were all too cognizant of the problem of moral hazard. Not only was legislation adopted in an environment of sensitivity to the plaguing problem of moral hazard, New Deal financial programs were created as the nation left the gold standard, adding yet one further element of uncertainty to the creation of new programs.

Both New Deal programs that played a critical role in restructuring the home mortgage system were insurance programs. Congress adopted a national deposit guaranty system in the Banking Act of 1933 and a mortgage insurance program in the National Housing Act of 1934. In both cases, the federal government was insuring first deposits and then the value of mortgages against the full faith and authority of the finances of the U.S. federal government—the first time this was done after leaving the Gold Standard. In both cases, and with both new agencies created to administer these programs (the FDIC and FHA, respectively), in entering these uncharted

areas of policy administration, and against the recent history replete with examples of the financial misdeeds throughout the American financial community, these federal agencies choose to formulate their rules and regulations very cautiously to protect the now exposed financial backing of the federal government.

To insure deposits, the newly created FDIC chose to implement extremely conservative and inflexible regulations. Their explicit aim was to prevent any financial institution from making any loans or engaging in any financial activity that could *possibly* threaten the on-going viability of that institution. As such, the FDIC was both concerned about the size of any possible loan or investment as well as the type of loan. The Agency sought to prevent any bank from making any loans that were so large that if they failed, these non-performing loans could threaten the life of the firm. Also, the FDIC was concerned about the types of loans an institution made—some were deemed to be too risky, regardless of their size.

The creation of mortgage insurance further exposed the federal government finances. The newly created FHA was not only saddled with the responsibilities incumbent from protecting the sanctity of the credit of the federal government, but Congress in the legislation dictated in rigid detail the exact mortgage instrument the agency would insure. These details—that the mortgage must be a low interest rate, high loan to value ratio, long term, and fully amortized loan—further complicated the Agency's responsibilities. This added another critical element to the conservative stance the FHA had to adopt—namely, the property had to retain or increase its value throughout the entire term of the mortgage. To assure that this was accomplished, the Agency created a set of fully articulated and elaborated standards covering all feasible elements of housing development and home construction. The FHA accomplished this by developing and publishing its *Underwriting Manuals* in the mid-1930s.⁴⁵ The fundamental requirements of FHA's underwriting were extraordinary. These manuals were composed of nearly 2000 sections covering all feasible aspects of housing development and construction. These requirements included standards on sub-soil, soil, and landscaping, foundations, walls, number of rooms, number and dimensions of bedrooms, bathrooms, kitchens, living and dining rooms. The *Manuals* covered as well requirements for windows, dimensions of windows, and indeed the requirement to have a picture window on a particular wall. Also mandated were the requirements of the plumbing and sewer discharge, central heating, and the electrical system. Also, as nearly every analyst who has read these long, dull bureaucratic documents, these *Underwriting Manuals* included community standards including most clearly a proscription against any racial integration. Indeed, the *Manuals* (until *Shelley v. Kraemer* overturned racially restrictive covenants), the FHA strongly recommended that all properties be protected by such segregationist legal protections.

The only way the FHA believed it could administer mortgage insurance was to establish very high, extensive, and inflexible standards that would assure that all housing built to these exacting standards would reasonably be expected to maintain their value over the entire 20 years or more of the insured mortgage. The FHA, by creating these demanding construction standards, and by approving mortgage insurance based on these standards (indeed, issuing pre-construction mortgage insurance approval based upon blueprints and developers documents), facilitated

⁴⁵ Federal Housing Administration, *Underwriting Manual: Underwriting and Valuation Procedure Under Title II of the National Housing Act* (Washington, D.C.: GPO, 1935, 1936, 1938).

extensive new construction, and high quality construction, in the post WWII era as economic growth returned. These same underwriting standards that, while easily adapted by developers and builders for new construction, was ill suited to offer mortgage insurance for much of the housing that had been built before the creation of the Agency. The majority of homes in America at this time lacked one or many of the requirements set down in FHA underwriting standards: homes lacked central heating, they did not have complete plumbing systems, even in cities, outdoor privies were prevalent in some neighborhoods, many homes had running water only in the kitchen, hookups to utilities (water, sewer, natural gas, or electricity) were uneven. Many homes lacked the sufficient number of bedrooms, or a separate living room, or other internal requirement of the FHA. Or, finally, homes were too closely placed together, or the setback from the street was inadequate, or the home was located on an alley, or the neighborhood included residents that were non-white, or were “threatened” with an “invasion” from one or more non-white family.

The extraordinarily detailed—and inflexible—underwriting standards adopted by the FHA were initiated to protect the financial backing of the federal government in this mortgage insurance program. These underwriting standards, however, rendered a very large proportion of the standing housing stock in the country permanently ineligible for mortgage insurance. The inability to secure mortgage insurance is the material base, and largely based on the character, quality, and amenities of the housing stock, of home mortgage disinvestment.

The other necessary element in creating and sustaining redlining is bank and S&L financial monitoring conducted by the FDIC and FSLIC respectively. These agencies of the national state, in order to execute their mandate to protect the full faith and authority of the finances of the federal government, lead them to require all financial institutions under their purview to only engage in loans and investments that are safe and secure. In home financing, this translates into requiring regulated banks and S&Ls to only make mortgage loans that are protected by FHA administered mortgage insurance.

The combined effect of deposit guaranty and mortgage insurance, both motivated to protect the financial authority of the federal government, was then to create large investment deserts across the heart of central cities. There were very large expanses where the standing housing stock was not eligible for mortgage insurance. In these areas of “financial exclusion” standard mortgages were not available and financial institutions had no other alternatives to offer home mortgage loans. Both deposit and mortgage insurance, public agencies initiated, sustained, and led the programs that necessarily and inevitably led to home mortgage redlining in many (perhaps most) central city neighborhoods. These geographical uneven and fragmented areas of disinvestment and investment were the outgrowth of federal policy and the use of insurance programs to facilitate these programs.

Given these New Deal programs, the results are structural. Even if the U.S had been a single race society, the creation of a system of differential geographical mortgage availability would have taken place. These policies channeled mortgage investment: newly developed areas would enjoy high levels of mortgage financing; some already developed communities would have limited access to home lending; while the majority of older neighborhoods would find themselves starved of mortgage lending. These communities, representing a large proportion of

the standing housing stock, were redlined. It was New Deal public policies that created and maintained the financial and investment vacuum in large portion of the central cores of American cities. However, America was and is a racially divided society and one where housing segregation was a clear and potent objective of public policy. The investment and lending deserts created in all cities enclosed the small, compact, if over-crowded then existing ghettos—indeed, in cities such as Chicago an investment vacuum extended for miles surrounding all non-white residential enclaves. When the ghetto expanded, and with the renewed in-migration of Southern blacks into Northern industrial cities this was inevitable, blacks moved into communities where standard mortgage lending was not available. To purchase real estate, other, non-standard, means of financing had to be arranged. With the extraordinary demand for housing on the part of moderate and middle income blacks seeking to escape the over-crowded and inferior housing of black neighborhoods, this created a special niche market for land speculators to harvest super-profits by facilitating racial neighborhood transition from white to black home occupancy. As racial transition rapidly expanded across and into the financial vacuums that were creations of federal policies, race and redlining perfectly coincided and created a spatially fragmented market where African-Americans paid inflated prices under extremely adverse financing. In many cities, and it has been well documented especially in Chicago and Baltimore, the primary mode of “financing” for home purchase by blacks in previously all-white communities was the installment land contract. Because conventional mortgages were not available, this was, aside from cash exchanges, the only way in which non-whites were able to acquire housing.⁴⁶

This is not the only way that the programs of federal agencies enabled the racialization of the American housing market. Deposit and mortgage insurance intersected to create de facto financial disinvestment that was so devastating to both individual families that were exploited and cities whose neighborhoods were ravaged as racial transition took place in the investment desert that these policies created. Much worse, a de jure policy of the FHA and especially odious, was the FHA’s adamant refusal to provide mortgage insurance even on newly constructed homes if these homes were available for non-white occupancy. African-Americans and Latinos were, by administrative fiat of the FHA, denied access to the newly constructed homes insured and subsidized by the national mortgage insurance program administered by this agency of the national state.⁴⁷ This decision by the FHA, rooted in the analytic work of the American real estate industry in the 1920s and early 1930s exemplified in the work of Fredrick Babcock and Homer Hoyt, was the most potent and consequential consequence of the racialization of American housing markets as housing construction and sales exploded in the post WWII era. FHA policies, in other words, as they organized American housing markets in the booming 1950s and 1960s provided a plethora of benefits to white home purchasers across a wide range of income strata, while condemning black purchasers to attempt to arrange financing for housing in areas that were investment deserts thus condemning them to be exploited by land installment contracts or some equivalent of rent to own arrangements.

⁴⁶ Antero Peitila, *Not in My Neighborhood*, 98-104.

⁴⁷ Sagrue, *Origins of the Urban Crisis*, 44.