WEEK 4: U.S. Housing Policy Pre- and Post War

September 18, 2023
Adjunct Lecturer: Erin Lilli
URBST 222: Introduction to Urban Housing / URBST 723: Dynamics of Housing & Homelessness

Setting the Stage for this course...

- Today's lecture will take us from the New Deal Era up through roughly the mid 1960s.
  - Crisis of Great Depression (1929) → New Deal Era Housing Policies (1930s) to cope with fall out of GD and the evolution of the home mortgage.
  - Critical lens with attention the structural racism embedded in out housing system.
- In Week 6 (no class week 5), we'll pick up with 1968 Fair Housing Act and focus more on structural racism in the housing system:
  - segregation, urban renewal, racial steering, valuation and lending
- In Week 7, we'll pick up wit the Nixon era moratorium and devolution during the Reagan era then turn our focus to NYC-specific policies of the 1990s and 2000s
- In weeks 8, we'll circle back a bit to talk about Public Housing, its history, 1990s demise under Hope VI, and contemporary issues with NYCHA.

FEDERAL ERA: U.S. Housing Policy (overview)

- From 1933 to 1980 (until Reagan's presidential terms) the Federal Government was seen as the purveyor of housing for low-income Americans.
  - This responsibility started to shift (i.e. devolve) from the Federal Gov't on to local and state governments as well as become more focused on the private sector and non-profits (often in partnership with the private sector) to meet the needs of housing for the poor and low-income.
- The Great Depression (1929) created an economic crisis that demanded serious interventions from the public-sector in the form of Roosevelt's New Deal initiatives under the Federal Government.

FEDERAL ERA: U.S. Housing Policy

- There were 3 approaches to the U.S. federal housing policy during the Great Depression.
  1. Increase the efficiency of the private market
  2. A weak attempt at public housing production
  3. Private sector subsidies to spur the creation of affordable housing
- The Great Depression exposed serious flaws in how housing and real estate industries had operated up to that point.
  - The typical 2-5 year mortgages required a balloon payment at the end and covered only 50%-60% of the full cost of the home...second and third mortgages were a common practice.

FEDERAL ERA: U.S. Housing Policy

- Early policy efforts to salvage the economy from this financial disaster.
  - **1932 Federal Home Loan Bank Act** – Under Pres. Hoover to, “create a credit reserve intended to increase the supply of credit available to the housing market, thereby allowing people to buy and maintain homes”... (source). Essentially help people cheaply buy homes, it created entities to provide short- and long-term solutions.
    - Home Owners’ Loan Corp. (HOLC): created to refinance troubled mortgages, only operated for 4 years, yet introduced a new credit instrument...the long-term fully amortized mortgage. Also created racist redlining maps...more on that later.
    - Federal Home Loan Bank and Federal Reserve Bank: regulatory body to supervise and guide the savings and loans industry.
  - **1938 Federal National Mortgage Assoc.** – Also know as Fannnie Mae, created a more efficient credit system for home financing through providing a second market for mortgages by purchasing FHA and conventional mortgages and selling them to investors. This provided liquidity in the mortgage market so lenders could continue to provided new mortgages to homeowners.

FEDERAL ERA: U.S. Housing Policy

- With mortgages, you need mortgage insurance.
  - **1934 National Housing Act → Federal Housing Administration (FHA)** – the creation of the FHA meant the federal government would insure mortgages provided by private lenders.
    - This was a revolutionary change in housing and made monthly mortgage payments more manageable and the insurance program removed risk, thus making interest rates low and housing more affordable for the average person...except for African-Americans and other non-whites who were largely excluded from FHA assistance.
  - **U.S. Housing Act of 1937 (Wagner-Steagall Act)** – established the U.S. Housing Admin. to build affordable housing (for each new unit, one substandard unit must be removed, operations left to local authorities). Low maximum income requirements...lead to concentration of poverty. >>> Video on this later
  - **Housing Act of 1949** – "Declares that the general welfare and security of the Nation requires the establishment of a national housing policy to realize, as soon as feasible, the goal of a decent home and a suitable living environment for every American family. Authorizes Federal advances, loans, and grants to localities to assist slum clearance and urban redevelopment". In other words...**Urban Renewal**.

Federal Housing Administration

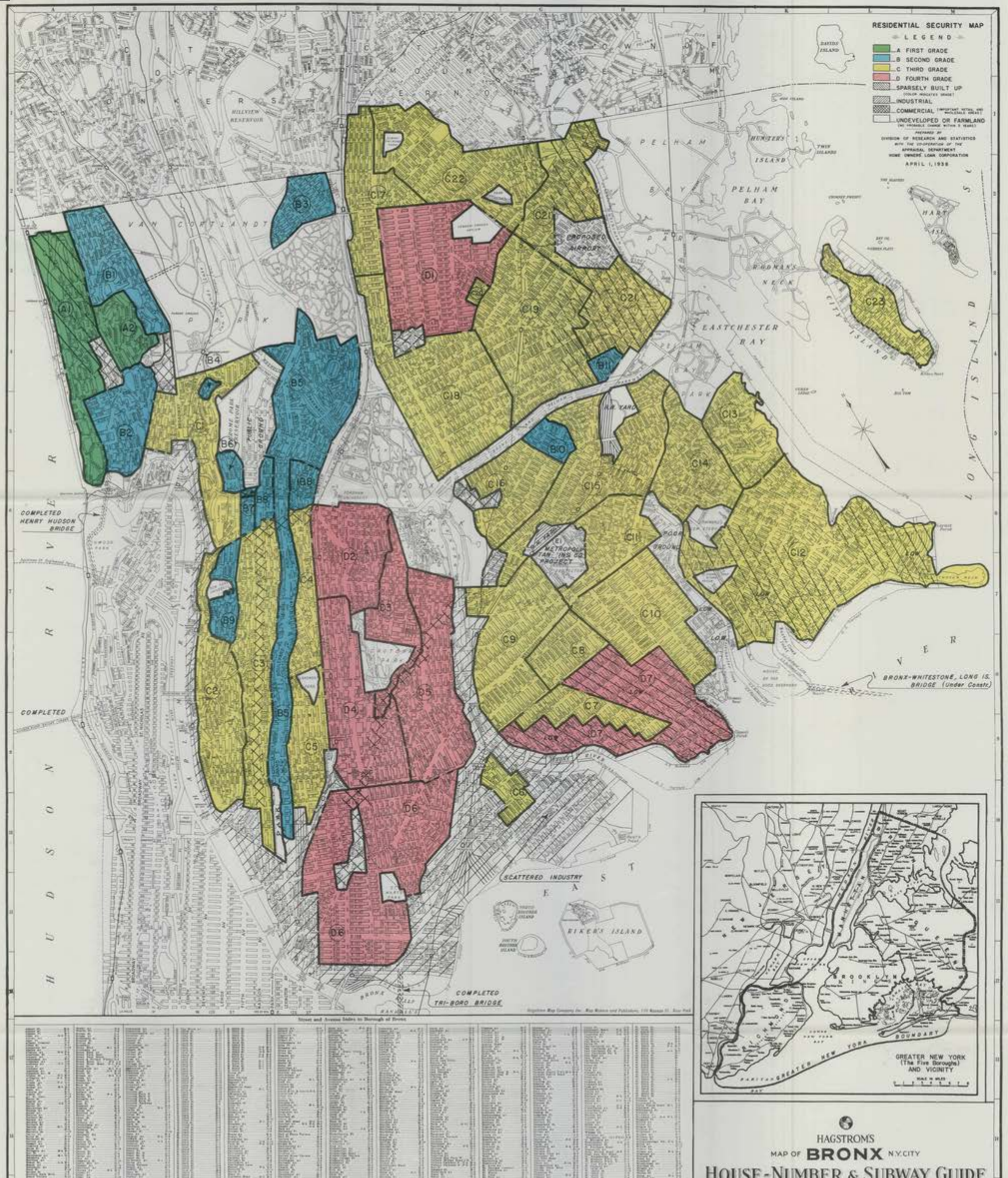
- The racially exclusionary practices of the FHA and other policies in the 1930s, “helped to catalyze urban uprisings by the 1960s” (Taylor, 2019, p. 32).
  - FHA policies discouraged homeownership among African-Americans and those living close to them, they also prohibited small home improvement loans made available to whites.
  - Example of racial provisions of the FHA Underwriting Manual, 1936
    - “Thus, although physical surrounds of a neighborhood area may be favorable and conducive to enjoyable, pleasant living in its locations, if the children of people living in such an area are compelled to attend school where the majority or a goodly number of the pupils represent a far lower level of society or an incompatible racial element, the neighborhood under consideration will prove far less stable and desirable than if this condition did not exist. In such an instance it might well be that for the payment of a fee children of this area could attend another school with pupils of their same social class”.

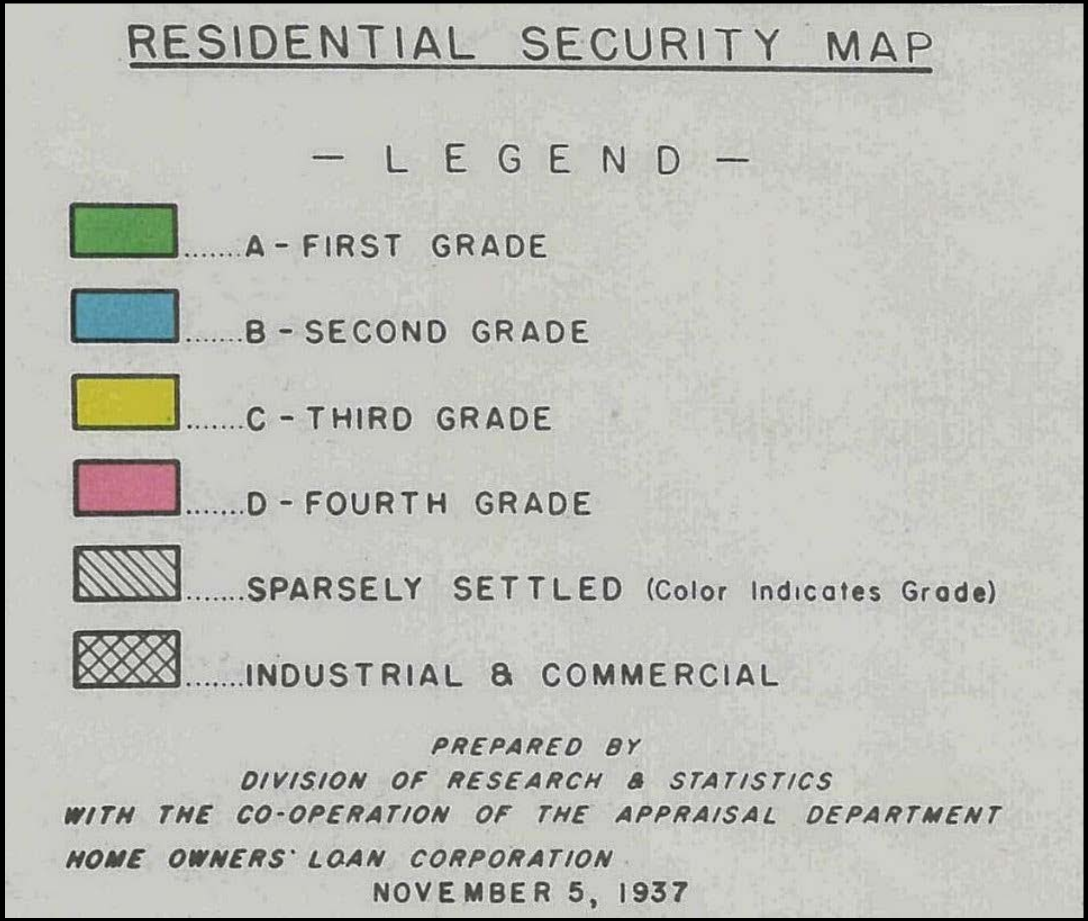
Federal Housing Administration: inception thru 1960s

- FHA Underwriting Manual , 1938 (here→ "rationale" for redlining e.g., sections 929, 932, 936-939)
  - In 1948 *Shelley v. Kraemer* banned the enforcement of restrictive (racial) covenants which had been commonly used after SCOTUS allowed them in 1926 (examples of covenants here).
    - Despite the ban, segregation and discrimination persisted.
  - Both the FHA and Veterans Administration (VA) excluded nearly all African Americans.
  - By 1959 less than 2% of FHA-insured properties went to non-whites while over the course of mid-1930s to mid-1970s FHA provided **$119B** in home mortgages.

Redlining

- Under the New Deal, the 1932 Federal Home Loan Bank Act was created to lower the cost of homeownership—through government-sponsored banks providing mortgage credit—to stave off the financial crisis that had ensued due to the Great Depression.
  - In 1933, the Home Owner's Loan Corporation (HOLC) was created to help people with distressed mortgages refinance by introducing long-term amortized mortgages. Between 1933-35 it supplied $3B toward this and created the appraisal process we know as redlining.
    - In 1934, the Federal Housing Administration (FHA) was created to insure these mortgages. The FHA worked with banks and continued using the redlining maps created by HOLC.
  - Between 1933-1951 redlining created an intentionally race-based appraisal system that explicitly denied mortgages and loans to African Americans.
  - Redlining was made illegal in the 1968 Fair Housing Act (FHA), but its affects persist today.


RESIDENTIAL SECURITY MAP
COMPLETED HENRY HUDSON BRIDGE
COMPLETED TRI-BORO BRIDGE
BRONX-WHITESTONE, LONG IS. BRIDGE (Under Constr.)
SCATTERED INDUSTRY
RIKER'S ISLAND
HUDSON RIVER
EAST RIVER
PELHAM BAY
EASTCHESTER BAY
CITY ISLAND
GREATER NEW YORK (The Five Boroughs) AND VICINITY
HAGSTROMS
MAP OF BRONX N.Y.CITY
HOUSE-NUMBER & SUBWAY GUIDE

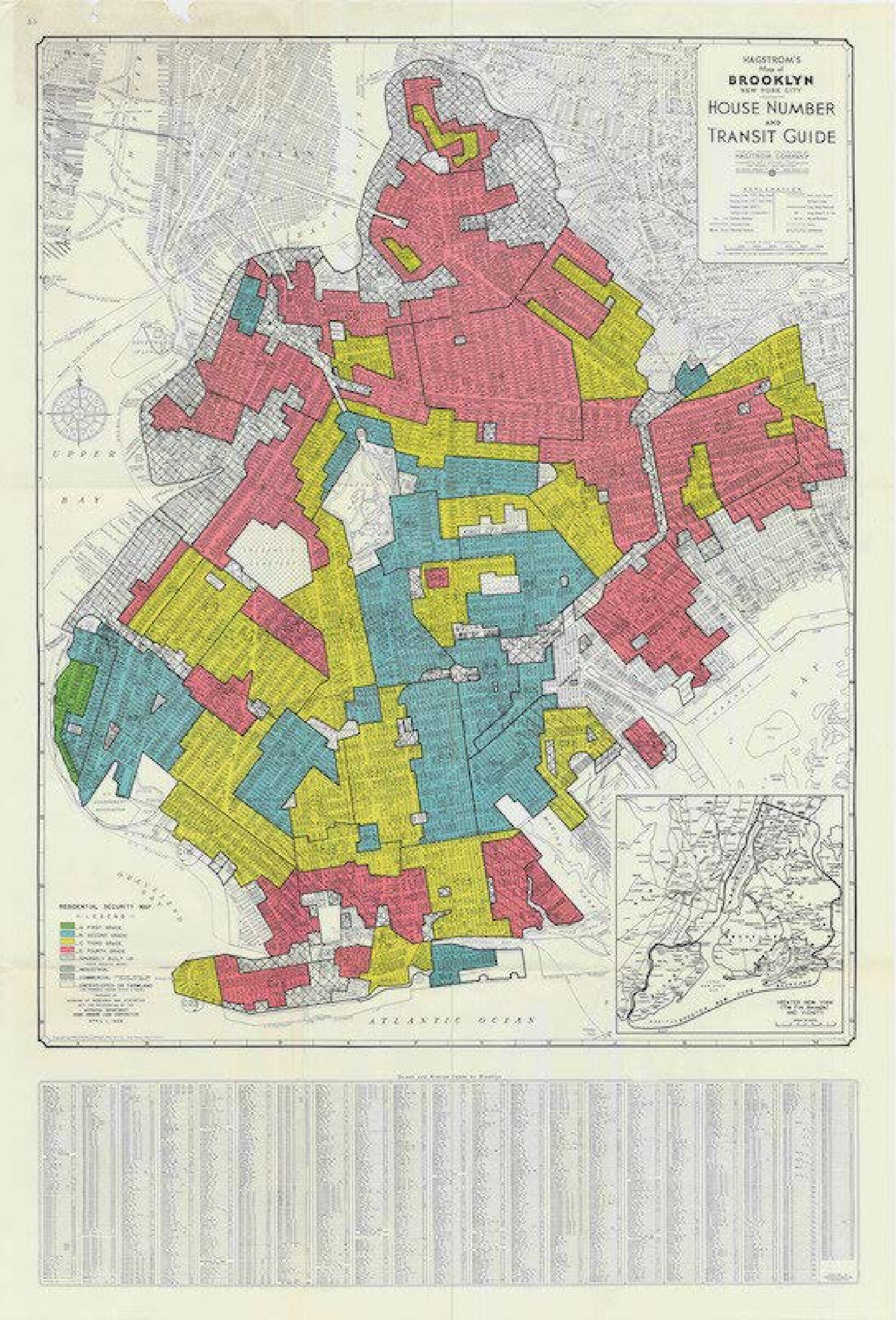

RESIDENTIAL SECURITY MAP
— LEGEND —
.......A - FIRST GRADE
.......B - SECOND GRADE
.......C - THIRD GRADE
.......D - FOURTH GRADE
.......SPARSELY SETTLED (Color Indicates Grade)
.......INDUSTRIAL & COMMERCIAL
PREPARED BY
DIVISION OF RESEARCH & STATISTICS
WITH THE CO-OPERATION OF THE APPRAISAL DEPARTMENT
HOME OWNERS' LOAN CORPORATION
NOVEMBER 5, 1937

Redlined Areas

According to the Preliminary Care Development Corp.

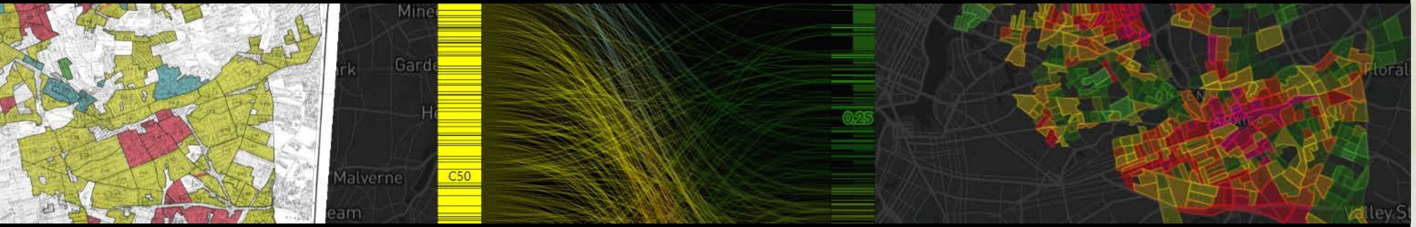
- **Poverty:** Formerly redlined areas have a poverty rate 3.6 times that of A-rated census tracts.
- **Segregation:** The proportion of Black residents in redlined areas is 9.1 time higher than that of A-rated census tracts.
- **Welfare:** 17.8% of adults in formerly redlined areas are uninsured, compared to 6.4% in A-rated census tracts.
- **Health**: 26.6% of adults in formerly lined areas are obese, compared to 16.2% in A-rated census tracts.

Source link

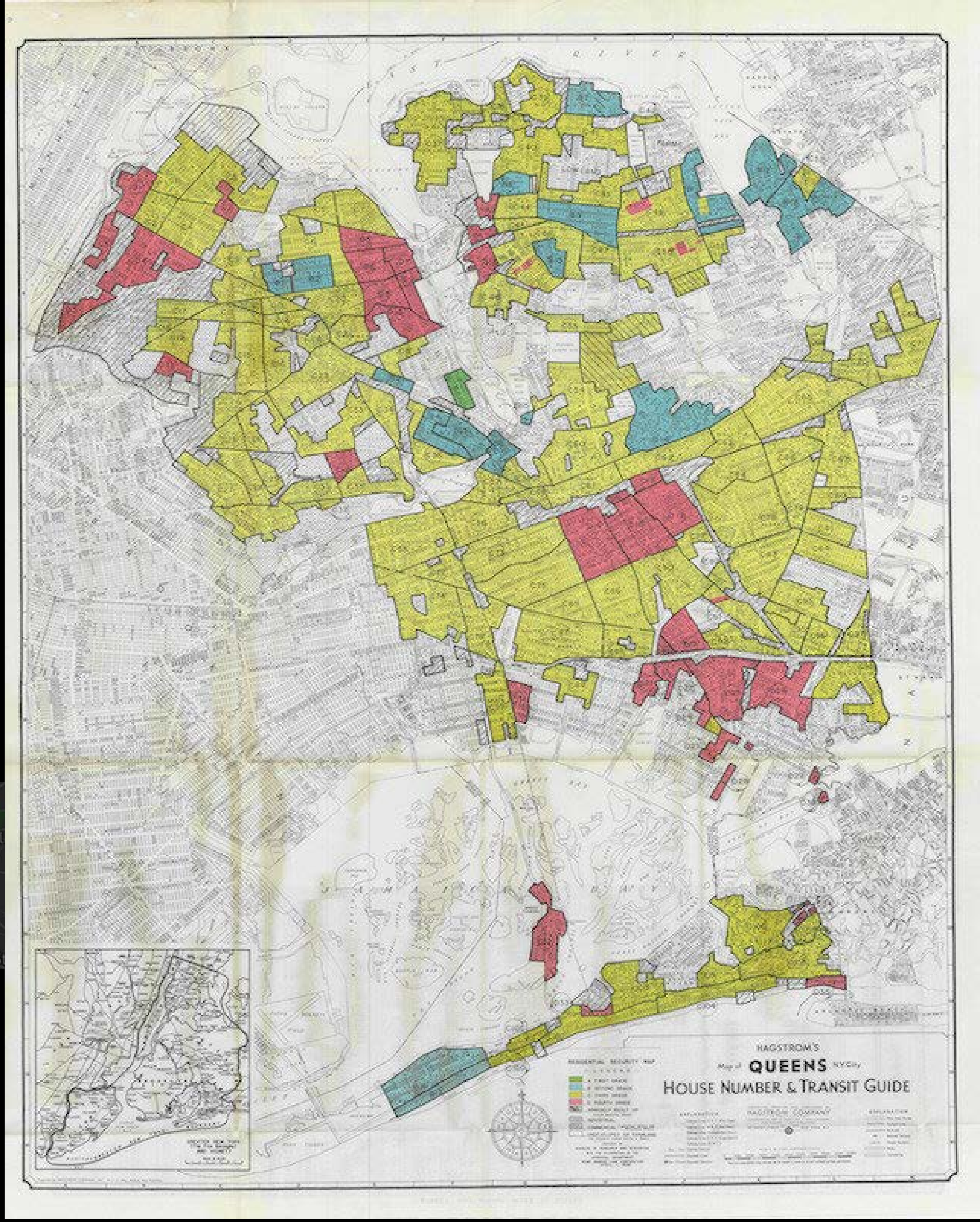


Redlining Legacies

- Explore HOLC grading and current social vulnerability scores here: [link]
  - Look at example of Queens and compare social indicators between redlined ('D' graded) areas and blue/green ('B'/'A' graded) areas.



https://www.britannica.com/topic/Fair-Housing-Act



Federal Housing Administration: inception thru 1960s

"From the 1930s until the late 1960s, U.S. housing policies were caught between innovation and regressive racial attitudes that produced a multilayered approach to public policy: homeownership and development for white residents, public housing or extractive and predatory tenancy for African Americans in the wake of urban renewal practices".

(Taylor, 2019, p. 28-9)

Federal Housing Administration: inception thru 1960s

- The impact of FHA policies was substantial.
  - Homeownership grew! By 1960, 60% of Americans were homeowners—this also created the foundation of a sound economy at the time.
- However, this growth was uneven.
  - Created conditions for a flourishing (mainly white) suburbia at the expense of inner-city urban development in which the Black population was largely trapped.
  - Second Great Migration: From 1940-1970, 5 million African-Americans migrated from the South to urban areas in the North, Midwest, and west Coast.
    - 10% of national population, occupying only 8% of housing
    - Living "doubled up" rose from 13.8% to 15.1% during the 1940s
    - 27% of Black housing was considered dilapidated versus 5% of whites'.
    - During this time cities were undergoing urban renewal (more on that in Week 6)

Federal Housing Administration: inception thru 1960s

- Black homeownership lagged behind that of whites by 35%-50% in the first half of the 20th century due to poverty, access, and discrimination.
- Yet, Black homeownership grew with post war migration and increased incomes.
  - By 1950, 1 in 3 Black, urban families owned their home—an increase of 137% over the previous decade compared to 84% for whites living in cities.
  - However, the costs were higher and quality lower for Black homeowners
    - Whites benefiting from the FHA received: reduced down payments and longer repayment periods even as home prices rose by 52% between 1952 and 1956.

Federal Housing Administration: inception thru 1960s

"The deterioration of urban neighborhoods was not simply a side effect of suburbanization or an "unintended consequence"; the two were dialectically connected. This connection meant that the proposition of a "dual market" was misleading. Duality suggested distinction and separation, as if the urban and suburban housing markets were not intimately related to each other. <u>Instead, there was a single United States housing market that was defined by its racially discriminatory, tiered access—each tier reinforcing and legitimizing the other"</u>.

(Taylor, 2019, p. 37, emphasis added)

FEDERAL ERA: U.S. Housing Policy

- In the 1960s, during JFK's administration, there were programs designed to offer private-sector owners and developers incentives to build affordable housing.
  - Sections 235 and 236 were eventually implemented in the inner cities (more on that in week 6).
- These programs offered inexpensive financing via loans at below-market interest rates and interest rate buy-downs.
  - Section 235—(FHA) mortgage insurance program designed to help new borrowers achieve homeownership by allowing them to take out government-insured mortgages with no money down on new properties.
    - On February 5, 1988, the Section 235 Program was terminated under section 401(d) of the Homes and Community Development Act of 1987.

FEDERAL ERA: U.S. Housing Policy

- Section 221(d)(3) –Below Market Interest Rate program (BMIR) allowed developers to obtain FHA-insured (at 3% rate) mortgages from private lenders, who then immediately sold the mortgages at face value to Fannie Mae.
  - The program targeted middle-income households who could not qualify for public housing where rents were based on operating costs and mortgage amounts.
  - Ended in 1968, the Section 221(D)(3) BMIR program was ultimately replaced by the Section 236 program.

FEDERAL ERA: U.S. Housing Policy

- Section 236—established by the Housing and Urban Development Act (HUD) of 1968, combined federal mortgage insurance with interest reduction payments to the mortgagee for the production of low-cost rental housing. Under this program, HUD provided interest subsidies to lower a project’s mortgage interest rate to as low as 1 percent.
  - This program no longer provides insurance or subsidies for new mortgage loans, but existing Section 236 properties continue to operate under the program.
  - The interest reduction payment results in lower operating costs and subsequently a reduced rent structure.

References:

- Goetz, Edward G. (1993). *Shelter burden : local politics and progressive housing policy*. Philadelphia : Temple University Press.
- Rothstein, R. (2018). The color of law. Liveright Publishing Corporation.
- Taylor K.-Y. (2019). Race for profit : how banks and the real estate industry undermined black homeownership. University of North Carolina Press. Retrieved September 11 2022 from https://public.ebookcentral.proquest.com/choice/publicfullrecord.aspx?p=5889896.

In 2 Weeks...

- Pick up with 1968 Fair Housing Act...what it was supposed to do versus what it did
- Look more closely at some discriminatory housing policies and their current impacts
- Learn about the impact of programs, like section 235, on housing inner-city residents, especially Black women
- Private sector programs