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Chapter Title: Management and Sale of Foreclosed Properties

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Management and Sale of Foreclosed Properties

FOR nearly a decade the management of properties acquired by foreclosure or voluntary transfer of title by deed was one of the major problems of the Home Owners' Loan Corporation. By June 30, 1937, one year after the original lending had ceased, the HOLC owned, or had effective jurisdiction over, 70,000 properties, sufficient to provide housing for over a quarter of a million people (Chart 1).¹ In the next twelve months, the number grew to about 103,000, remained there until the spring of 1939, and then fell gradually; in June 1942 it had about 38,000 houses on hand, but by June 30, 1944, the Corporation held less than 6,000.

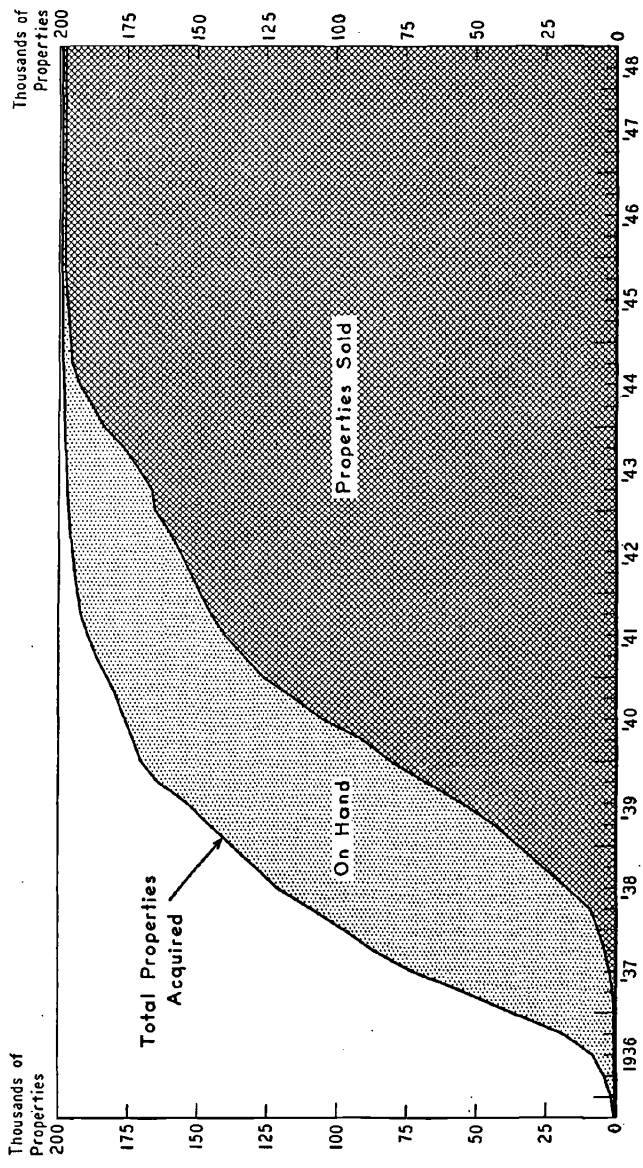
There was no precedent for a real estate management situation of this size and complexity. Most of the foreclosed properties presented difficult problems of repair, reconditioning, rental, insurance, tax payment, and eventual sale. They were widely distributed geographically, many were twenty years old when acquired, and virtually all had been neglected by their defaulting owners.² While many were classified as in "good" condition, all needed some outlay for repair and maintenance, and most properties required considerable expenditure to make them suitable for rent or sale;³ some presented problems of obsolescence. Furthermore, just as the HOLC program of sale was well started, new construction began to increase at costs which made sale of old houses at a profit, or even at a small loss,

¹ The figures in this chapter generally include properties subject to redemption, although foreclosure action had been advanced on them to the point of judgment or sale. Such properties were owned, so far as the practical problems of management were concerned. Excluded, however, are properties on which foreclosure had been authorized but to which title (or possession under procedures described in Chapter 6) had not been taken.

² For a geographical distribution of all foreclosed properties, see Table 19.

³ The HOLC was free to make outlays for repair and reconditioning of its properties without Congressional appropriations.

CHART 1 — NUMBER OF PROPERTIES ACQUIRED BY THE HOLC, SOLD AND ON HAND, CUMULATIVE BY QUARTERS, SEP-TEMBER 30, 1935-JUNE 30, 1948^a



^a Properties acquired and on hand include those in process of acquisition. Data in Appendix Table B3.

often impossible when the investment was as heavy as the HOLC's.⁴ Competition with new housing was further intensified by the fact that relatively small down payments and modest monthly instalments made it feasible for people to purchase new dwellings.⁵

POLICIES AND METHODS OF PROPERTY MANAGEMENT

Each HOLC house was treated, to a considerable extent, as a case in itself, with special consideration to the property and its immediate neighborhood. As a general principle, the Corporation avoided quick sale which would adversely affect the local market, yet the ultimate objective was sale. (An important decision made early in the HOLC's planning was to rely heavily upon local real estate brokers for the supervision, repair, rental, and sale of properties.) A staff to manage acquired properties was organized in 1935, and the drafting of plans for handling properties began well before the original lending had ceased. The details of the organization and its procedures varied from time to time and from region to region, but the general features may be summarized briefly.

When attempts to forestall the acquisition of a property appeared to have failed, the HOLC began to plan for its management. A thorough examination of the property and its neighborhood was made, and an estimate of its probable net rental income (but not the value) was made by the service representative. A new appraisal was then made, generally by a fee appraiser. In this instance, in contrast to the original loan appraisal, the object was to establish a value in line with the price obtainable in the market under stated conditions of repair. Special emphasis was placed on net, as contrasted with gross, rental income; moreover, expected future net rental income was capitalized to help give an estimate of value, and care was taken to

⁴ It is impossible to say how market values at the time of foreclosure compared with those current when the loan was made. There had been some rise, but in the areas where foreclosures were numerous the rise had probably not been to the levels of the original HOLC appraisal. Since the HOLC loans were generous in relation to market values, and since large interest and tax delinquencies had accumulated by the time of foreclosure, the HOLC "investment" in its properties undoubtedly tended to be high relative to current market values.

⁵ Until 1939 loans insured by the Federal Housing Administration, for example, were being made with longer amortization periods than the HOLC would allow.

get estimates of value both with and without reconditioning plus the estimated cost of repairs.⁶

With this information the Analysis Section of the Property Management Division submitted recommendations to a regional property committee—whose members either concurred or stated their reasons for disagreement—and the recommendation was then referred to the regional manager. A final decision was usually rendered a few days after submission of the recommendation.

In anticipation of a property acquisition an attempt—frequently successful—was made to obtain the appraisal, with its estimate of reconditioning costs, and the report of the service representative, before the HOLC actually obtained jurisdiction over the property. Consequently, as soon as it was legally able to act, the HOLC was prepared to do so. In some cases, however, the HOLC representatives were not able to obtain legal entry before legal acquisition, and in other cases property was abandoned without advance notice to the HOLC. Also, delay occasionally resulted from difficulties in evicting the occupant.

INITIAL MANAGEMENT ACTIONS

As soon as possible after a property became vacant, the HOLC had the utilities disconnected and posted warnings against trespass and vandalism. Since an HOLC employee could not always be on the scene, contract brokers were employed to take these initial steps. Service representatives and brokers were authorized to spend up to \$25 for emergency repairs and servicing; tax records were searched promptly if a recent report were not available, and any amounts due were generally paid. Occasionally, an attempt to compromise what appeared to be excessive tax accruals was made, but this was seldom successful. The Corporation was somewhat more successful, however, in obtaining a reduction in tax valuations.⁷

⁶ As in the original appraisal, the final result was an average of current market price, capitalized rentals, and reproduction cost minus depreciation; however, in the new appraisal greater emphasis was placed on probable future changes in market price and rental value.

⁷ *Manual of Rules and Regulations of the Home Owners' Loan Corporation, Property Management Division* (March 27, 1939) Chapter 3, p. 42. "In 1940, HOLC filed approximately 2,760 special advance applications for reduction in New York City. . . . The total reduction . . . was \$3,027,675, or over 17%. . . ." *Assessing for Taxation in New York State, Second Report . . . of the Joint Legislative Committee on Assessing and Reviewing of the State of New York* (Albany, January 1942) Legislative Document (1942) No. 33, pp. 104-105.

Except where legal complications stood in the way, or immediate sale was in prospect, properties under the jurisdiction of the Property Management Division were offered for rent. In a few cases, the community vacancy rate was such that properties were held vacant for a time lest rents be depressed generally.

RENTAL RECORD

In June 1937, the HOLC had more than 30,000 dwelling units rented.⁸ The number grew to 77,000 in June of 1939 and then fell as sales increased (Chart 2). From early 1938 to late 1941, it had, at all times, at least 5,000 units vacant and for rent. Vacancy rates varied from around 17 percent in 1936 and early 1937 to somewhat less than 10 percent from 1940 to 1943 (Chart 2).⁹ Average rentals rose fairly steadily from \$21 in July 1936 to \$35 monthly in June 1941 (Chart 2).¹⁰ These rentals were on a month-to-month basis in view of the HOLC's desire to sell, which meant perhaps some lowering of rental rates.¹¹ On the whole, the rental was made by an authorized broker acting for the HOLC and in direct contact with the tenant. Monthly reports were made by the broker, and he was responsible for all details of management except payment of taxes and insurance, which were handled by the HOLC directly. The broker was responsible for seeing that the property was kept in repair. He was authorized to spend up to \$25 a month for repairs and supplies without ob-

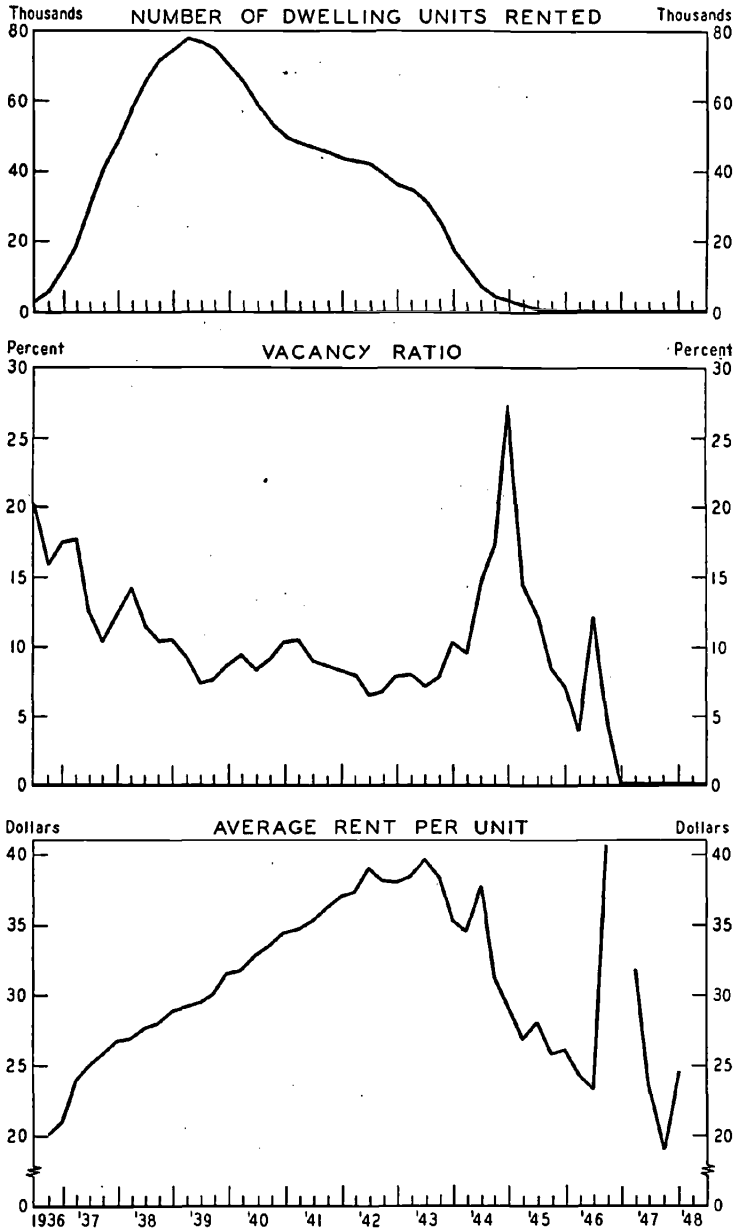
⁸ The number of properties was smaller because one out of five properties had more than one dwelling unit. The figures used in computing vacancy ratios do not include properties which had not yet been offered for rental.

⁹ For a time in 1944, the vacancy rate rose sharply. The Office of Price Administration's regulations made it easier to sell a vacant than a rented property because in defense areas a buyer was not permitted to evict a tenant unless a down payment of one-third was made by the prospective buyer.

¹⁰ The properties involved were not, of course, the same from month to month. The increase was due not only to improving economic conditions but also to the availability of more attractive properties, greater concentration of properties in areas with relatively high rental levels, and better management methods.

¹¹ The average original loan on properties foreclosed by the HOLC was about \$4,000. Assuming that the loan was 70 percent of the HOLC valuation, the average original valuation was about \$5,700. Taking the average number of dwelling units (families) per property, 1.3, one gets an average monthly gross income of \$32 per property in mid-1937, \$39 in July 1939, and \$46 in July 1941. The number of months gross rent needed to equal the total original valuation would have been 178, 146, and 124, respectively. All but possibly the last of these figures are much above the capitalization rates used in the original appraisal. However, the rental used in the original HOLC valuations was the average of the preceding ten years, not the current or estimated future rental.

CHART 2 — NUMBER OF DWELLING UNITS RENTED BY THE HOLC, VACANCY RATIO, AND AVERAGE RENT PER UNIT, END OF QUARTER, 1936-JUNE 30, 1948 ^a



^a Data in Appendix Table B4.

taining prior HOLC approval, to make emergency outlays on repairs up to \$100, and to purchase fuel and necessary utility and janitorial services. Replacement of equipment requiring expenditure of more than \$25 had to have HOLC approval.

Some brokers maintained their own organizations for making repairs and reconditioning buildings, and the HOLC permitted such brokers to make repairs of less than \$25 without competitive bids. The broker, however, received no payment for supervisory services in such cases; when the cost of repairs or reconditioning exceeded \$25, he was generally required to submit details of the work contemplated to the regional manager for approval. Competitive bids were called for if more than \$50 were to be spent, but this requirement was frequently waived where speed was desired or where there was slight prospect of getting more than one bidder. The same rule applied to the purchase of equipment, such as stoves and heating units; in these cases the HOLC insisted on cash payments to get the most favorable net price and prohibited the broker's taking any rebate, discount, or commission. An attempt was made to have each property inspected by a service representative at least once a year to check on the broker's maintenance and the care given to the property by the tenant.¹² In all these matters the HOLC was largely free from the restraints generally associated with government operations; this flexibility was a condition essential to the effective accomplishment of its task.

RECONDITIONING AND MAINTENANCE

The properties acquired by the HOLC were generally far from new, and most were in need of repair. Some repairs had to be made at once, others were postponable, and still others—probably the most numerous—were actually dispensable. These, if made, would improve the dwelling but would cost more than they would add to the potential selling price. A major problem, therefore, was how much should be expended on property repairs and in what ways. On this question the HOLC stated its policy as follows: "The policy of the Corporation with respect to the reconditioning of acquired properties shall be to effect such reconditioning as will place the property in a condition to invite sale or rental and to compete favor-

¹² *Manual of Rules and Regulations of the Home Owners' Loan Corporation*, Property Management Division (October 27, 1937) Chapter 3, p. 41.

ably with comparable properties within the immediate neighborhood." ¹³ Yet the general practice is not easily described. With few exceptions, emergency repairs were made promptly, and most properties were refurbished to improve their livability. In some cases, however, little, if anything, was done; in others there was basic remodeling. Large properties were frequently remodeled into smaller units. In a few areas, where a number of properties were acquired in a single block—notably in parts of Baltimore and in the Bronx in New York City—fairly comprehensive repairs and modernization were undertaken. Other mortgagees sometimes joined the HOLC in a rehabilitation program; or sometimes they followed the HOLC's example after its success had become apparent.

Through March 31, 1951, the HOLC spent \$89 million on reconditioning and repairing its properties and \$27 million on maintenance (Table 32). The former was added to capital value, and the latter was deducted from rental income as a current operating expense. These totals amounted to an average of \$451 per property for reconditioning and \$135 per property for maintenance.¹⁴ The outlay on reconditioning averaged 11 percent of the amount originally loaned on the properties acquired, probably little if any more than the depreciation accrued between the date the loan was made and the date the property was acquired by the HOLC, and slightly over 12 percent of the selling price of the properties (exclusive of selling expenses). As shown in Table 32, the average amount spent in reconditioning properties was somewhat higher in New York (\$699) and in New Jersey (\$742) than for the country as a whole; but since loans in these states were of larger original amount than the national average, the reconditioning costs bore about the same relation to the original amount loaned (12 and 13 percent, respectively) as the average relation for the country as a whole.

Maintenance expenditures charged to current expense averaged 19 percent of rental income for the country as a whole (Table 32). In Missouri the rate was 36 percent, in Illinois 30 percent, in Ohio 26

¹³ *Ibid.* (October 20, 1937) p. 13. Special attention was paid to the elimination of fire hazards. In some cases the service representative checked on particular items of equipment or proposed repairs, investigated brokers' vouchers, checked on tenant delinquency, and compared charges of different building contractors.

¹⁴ Something was spent on almost every property. Painting, repair of walls, floor, roof, or foundation, and installation of new heating equipment or utilities were common; rearrangement of rooms or addition of space was attempted infrequently.

TABLE 32 — RECONDITIONING AND MAINTENANCE EXPENSE ON ALL PROPERTIES SOLD BY THE HOLC, BY CENSUS REGION AND STATE, AS OF MARCH 31, 1951 ^a

<i>Census Region and State</i>	<i>Number of Properties Sold</i>	<i>Reconditioning and Repair ^b</i>			<i>Maintenance ^c</i>	
		<i>Total (000)</i>	<i>Amount per Property</i>	<i>In % of Original Loan</i>	<i>Total (000)</i>	<i>In % of Property Income</i>
<i>New England</i>	15,600	\$8,930	\$572	11.7%	\$3,705	19.0%
Maine	675	193	287	9.6	46	15.6
New Hampshire	422	183	434	13.3	54	15.7
Vermont	392	163	416	12.0	30	12.7
Massachusetts	10,245	6,143	600	11.8	2,710	19.7
Rhode Island	1,456	663	455	9.5	296	20.0
Connecticut	2,410	1,585	658	12.7	569	16.6
<i>Middle Atlantic</i>	59,576	38,918	653	12.0	14,008	17.3
New York	34,734	24,287	699	11.8	9,473	18.2
New Jersey	14,108	10,467	742	13.1	3,396	15.6
Pennsylvania	10,734	4,164	388	10.9	1,139	15.9
<i>East North Central</i>	43,207	14,070	326	8.3	3,960	24.9
Ohio	12,548	4,888	390	10.6	1,432	26.4
Indiana	6,688	1,503	225	8.7	368	24.5
Illinois	9,197	3,080	335	6.8	1,013	29.9
Michigan	7,267	2,121	292	7.3	590	22.6
Wisconsin	7,507	2,478	330	7.8	557	18.7
<i>West North Central</i>	26,177	7,167	274	10.3	1,946	29.1
Minnesota	2,891	965	334	11.4	151	20.1
Iowa	3,007	719	239	9.7	96	22.7
Missouri	6,887	2,564	372	10.3	1,314	35.7
North Dakota	1,269	233	184	7.9	25	13.6
South Dakota	1,942	393	202	11.0	67	16.8
Nebraska	4,210	1,109	263	11.8	133	22.9
Kansas	5,971	1,184	198	9.1	160	24.0
<i>South Atlantic</i>	12,335	4,904	398	12.2	948	17.9
Delaware	234	57	244	6.6	5	10.2
Maryland	3,489	1,799	516	15.2	404	14.4
Dist. of Columbia	239	89	372	5.4	6	9.5
Virginia	2,125	841	396	11.0	191	21.3
West Virginia	779	281	361	11.1	42	17.8
North Carolina	1,643	545	332	10.5	85	22.0
South Carolina	646	236	365	13.7	19	14.4
Georgia	1,813	610	336	13.0	137	26.6
Florida	1,367	446	326	11.4	59	26.8

(concluded on next page)

TABLE 32 -- (concluded)

Census Region and State	Number of Properties Sold	Reconditioning and Repair ^b			Maintenance ^c	
		Total (000)	Amount per Property	In % of Original Loan	Total (000)	In % of Property Income
<i>East South Central</i>	8,333	\$3,122	\$375	12.9%	\$534	23.0%
Kentucky	1,549	549	354	10.2	127	24.9
Tennessee	2,275	880	387	13.3	220	22.8
Alabama	3,139	1,211	386	13.3	124	32.6
Mississippi	1,370	482	352	15.4	63	13.6
<i>West South Central</i>	18,672	6,111	327	12.2	1,045	17.9
Arkansas	1,715	530	309	14.8	84	16.0
Louisiana	2,393	740	309	9.3	222	18.2
Oklahoma	6,195	2,098	339	12.9	339	17.6
Texas	8,369	2,743	328	12.4	400	18.4
<i>Mountain</i>	5,043	1,531	304	10.9	291	29.2
Montana	343	50	146	5.9	4	11.8
Idaho	432	104	241	11.4	12	27.9
Wyoming	140	18	129	4.9	2	15.4
Colorado	1,289	340	264	10.9	62	16.9
New Mexico	204	40	196	7.1	7	23.1
Arizona	958	389	406	12.2	63	33.3
Utah	1,624	583	359	12.0	137	42.9
Nevada	53	7	132	2.9	4	57.1
<i>Pacific</i>	9,246	4,592	497	15.8	329	33.1
Washington	2,664	1,148	431	18.8	89	35.3
Oregon	942	336	357	13.8	34	23.9
California	5,640	3,108	551	15.2	206	34.4
United States ^d	198,200	\$89,345	\$451	11.2%	\$26,766	19.3%

^a Data made available by the HOLC. The number of properties reported as sold is less than the number of individual parcels of property actually sold by the Corporation by the number of cases in which the property acquired was divided in some manner and sold in separate parcels.

^b Includes expenses incurred in reconditioning acquired properties for sale or rental.

^c Includes expenses of operating properties prior to sale.

^d Includes eleven properties sold in Puerto Rico.

percent, in New York 18 percent, and in Pennsylvania 16 percent. While these differentials cannot be explained fully by the data now available, they may have been due to differences in state policy, to cost differentials, and to differences in vacancy rates and the need for maintenance.

INSURANCE¹⁵

When it became apparent that borrowers could not be counted upon to maintain adequate insurance against losses from fire and other hazards, and as the HOLC itself became an owner of property, the Corporation was forced to make provision for the necessary protection. After seeking terms from several companies, the first insurance arrangement—a blanket policy—was made with the Hartford Fire Insurance Company. With this arrangement, the HOLC automatically purchased a policy and charged the borrower after the latter had allowed his own policy to lapse; when a new policy was required on HOLC-owned property, this was written by the same company. In both situations the net cost to the HOLC was below the standard market rate. (The HOLC was, in fact, performing the functions of the agent and receiving somewhat less than the equivalent of the standard agent's commission.) The fact that this arrangement involved some shift of insurance from other companies to Hartford was far from agreeable to the insurance industry as a whole, and in 1935 a contract was made with the Stock Company Association for renewal or purchase of policies as required by the HOLC; a similar contract was made some time later with the Mutual Company Association. Under these contracts, policies were almost always renewed with the original company. The HOLC came to feel, however, that it should insist upon more favorable terms inasmuch as the losses on its properties were exceptionally low.

On the basis of an HOLC analysis showing that fire losses on its properties (and also on the properties on which it held mortgages) were low compared with the premiums being charged, a new contract was made in May 1940 with the Stock Company Association, the lowest of twenty-nine bidders. Under the new contract, the Stock Company Association issued an open policy to the HOLC for each state (and territory). Properties on which the insurance had been allowed to lapse were covered, and new policies were purchased from the Association, which allocated the business among its members. The hazards covered varied from state to state, depending upon the HOLC's analysis of its needs. The borrower was still permitted to designate a local agent to receive the commission, which was set at

¹⁵ This account of insurance experience is based largely upon discussions with HOLC officials, and on material in various issues of the *Eastern Underwriter*.

15 percent, somewhat less than the standard commission, and the HOLC was to receive 25 percent as payment for its services. New policies were written for only the amount of the HOLC's mortgage, the borrower being made responsible for obtaining any additional coverage.

Several state insurance commissioners declared that the contract violated the anti-rebate provisions of state law, that the commission to the agent plus the payment to the HOLC was excessive, and that state requirements for standard terms were not met. After several months of discussion, the terms of the contract were revised, reducing the payment to the HOLC to 18 percent of the premium. Partly to avoid possible charges of rebating, the new contract specified that the payment to the HOLC was for its services in fire prevention and premium collection.

In June 1940, the HOLC, after analyzing its experience, decided to carry its own insurance on owned properties, in this respect following the established self-insurance policy of the federal government. Outstanding policies on its properties were canceled, and for several years insurance was terminated upon the acquisition of a property. A reserve account was set up to which an amount was credited each month equal roughly to half the standard insurance premium. Losses were charged to this account. The HOLC felt justified in following this policy when it owned a large number of widely dispersed properties; in 1945, however, when the number of properties held had declined greatly, it reverted to its original practice of insuring privately. On the basis of its own accounting, the HOLC's policy of carrying its insurance risks proved profitable, net costs being considerably less than the standard charge for insurance.¹⁶

The favorable insurance experience was due in good part to the care that was taken by the HOLC to prevent losses. Working independently and with the insurance industry, causes of fires were studied carefully, and methods of fire prevention were planned and incorporated into the loan-servicing and property management programs. As part of their regular routine, and occasionally as part of a special campaign, service representatives explained to borrowers how

¹⁶ No attempt has been made to compare total HOLC costs with the costs of private insurance. It is doubtful that HOLC records are available in enough detail to permit valid comparison when overhead costs, costs of capital funds, time of service representatives and brokers, free postage, and other items not charged directly to insurance are taken into account.

fires were most likely to start and how they might be prevented, making recommendations for the elimination of specific hazards. Contract management brokers, who were supposed to see that tenants did not ignore conditions that created fire hazards, made inspection tours, and corrections were made where necessary. On several occasions, brochures and publicity material on fire prevention were included with monthly statements to borrowers.

The adjustment of losses was ordinarily left to the borrower and the insurance company, although in special cases the HOLC participated. The HOLC, however, was more active in planning repairs where there was considerable damage. Representatives of the HOLC were often able to suggest ways of rebuilding to obtain better value; additional funds were advanced by the HOLC where it was believed that this would put the property in correspondingly better condition.

SALE OF PROPERTIES

Although the original discussions of the HOLC gave only incidental attention to how its operations would eventually be brought to a close, the HOLC believed and acted as though its eventual destiny was to be complete liquidation. At a very early date, it was established that properties would be sold as soon as reasonable terms could be obtained, that the Corporation would not hold properties for speculative gain, nor dump them on the market. Since the former owner had generally tried unsuccessfully to sell, even with HOLC aid, it was reasonable to expect that the Corporation might take a loss if the property were sold at once. A broad and vigorous sales program might have depressed real estate values.¹⁷ Furthermore, prices in some areas, notably around New York City, were low in relation to probable long-run values, and there was a feeling that the upward movement of real estate prices which had started before 1936 would continue. Finally, the HOLC felt that with good management and some reconditioning properties would yield enough rental income to cover their operating costs. Congressional pressure to hasten liquidation began to be exerted on the HOLC by 1940, however, with the result that the HOLC pressed the sale of properties more intensely than it might have if it had followed its own inclinations.

¹⁷ It is impossible, of course, to estimate whether the HOLC had enough houses to effect the market significantly, but in some communities its holdings undoubtedly were a significant market element.

As part of the appraisal of a foreclosed property, probable selling prices were indicated, varying with the amount of necessary repairs. The regional manager would then select, on the recommendation of the Analysis Section of the Property Management Division, a minimum sales price representing the full current market price (assuming no forced sale) but without regard to the HOLC's investment in the property. If the recommended price were \$1,000 or less, and if it represented a loss to the HOLC, or if the price were above \$1,000 and represented a loss of less than 35 percent of the HOLC's ledger value plus accrued and unpaid charges against the property and the broker's commission, review by a special Regional Property Committee was required. If the recommended price were over \$1,000 and the loss involved thereby were over 35 percent, the matter was referred to a Home Office Property Committee.¹⁸

Having set a minimum sales price, the HOLC kept the figure confidential. With few exceptions the figure at which the property was listed with brokers was higher—often considerably higher—but seldom above the HOLC's investment. The price might be reconsidered later, if additional reconditioning outlays were made, but an increase was not mandatory.

In the sale, as in the management, of properties the HOLC relied chiefly on private real estate firms. Contract sales brokers were appointed on the same basis as contract management brokers; more often than not they were the same individual or firm. In addition, approved sales brokers were appointed; ordinarily, these included all members in good standing of the local real estate association.

The contract sales broker was required to notify all approved sales brokers, giving them the descriptive details. The property was listed for sale with whatever defects of title, liens, easements, or other exceptions, attached. The broker was expected to pay for whatever advertising he desired, though when the HOLC conducted special campaigns in a community it assumed about half of the advertising expense. Brokers were generally allowed a commission of 5 percent, the standard prevailing in most communities; in addition, the contract sales broker received a 2 percent overriding commission on sales made by any approved sales broker acting under his general jurisdic-

¹⁸ *Manual of Rules and Regulations of the Home Owners' Loan Corporation, Property Management Division* (August 24, 1939) Chapter 3, p. 5.

tion.¹⁹ Inasmuch as the HOLC was attempting to get good prices rather than to offer its properties at distinct bargains, salesmanship was required, and the standard commission rate of 5 percent was presumably appropriate to this. The rate may have been somewhat generous, however, when in major drives, such as that in New York State in 1944, the HOLC itself helped develop considerable buyer interest and even made special price concessions.

An occasional sale was made at auction, but, typically, negotiations were with individuals and sales were consummated on a real estate sales contract basis. Generally, a price would be offered below the HOLC's minimum, and the broker would so notify the HOLC, usually making a recommendation which was carefully reviewed. Eventually, a formal offer would be obtained stating the price, the cash down payment, and the terms desired. A credit report would be obtained on prospective purchasers not offering to pay in cash, for the HOLC placed considerable emphasis on the moral risk as well as on the prospective buyer's economic prospects.

Generous credit terms were offered to purchasers, a fact which aided materially in making sales. Since the Federal Housing Administration system was in operation, new houses could be purchased with modest down payments, with repayment periods up to twenty years, and at interest rates that were low by earlier standards. It was necessary, of course, if properties were to be sold, for the HOLC to meet the terms being offered by private lenders on the disposal of foreclosed properties, and in this respect the HOLC was fortunate that it could act with freedom from statutory limitations.

Regulations of the HOLC required that potential purchasers on terms try to obtain credit from other lenders, but few purchases were privately financed inasmuch as private lenders were seldom willing to assume the risks that the Corporation felt were justified. This would be expected, of course, since the HOLC had an investment in the property and did not stand to increase its risks, whereas the new lender was free to choose other investment outlets. Moreover, institutional lenders in making new loans were commonly limited by state laws to terms more conservative than those the HOLC could offer. Other factors making costs higher for purchasers on terms under non-

¹⁹ *Ibid.* (October 27, 1937) p. 21. Exceptions to these rates were made occasionally; a condition of appointment as a sales broker was that he would accept arbitration of a dispute over the determination of commission.

HOLC financing were the costs of such financing, including legal fees, title examinations, surveys, and the like, eliminated in the HOLC sale, and the higher interest rates of other institutional lenders compared with the lower interest rate on HOLC loans (5 percent to October 1939 and 4½ percent thereafter). Sales were made either under a purchase money mortgage or a sales contract, depending upon the amount of the down payment and the cost and difficulty of foreclosure under purchase money mortgages in the particular state as compared with the cost of mere repossessions under sales contracts.

The minimum acceptable down payment varied with the amount of the sale, the prevailing community standards, the buyer's credit rating, the costs of eviction, repossession and foreclosure, and other factors. A minimum was set that would protect the HOLC against losses from foreclosure costs, accrued interest and taxes, and from such other costs as might be incurred during the period needed to reacquire a property. In general, a cash payment of at least 10 percent was required, with the balance payable in monthly instalments over a period not exceeding fifteen years.²⁰ If less than 10 percent were paid in cash, the subsequent monthly instalments (excluding payments for taxes and insurance) could not be less than 1 percent of the balance unpaid when the sale was closed. If 33⅓ percent were paid in cash at the time of purchase, no additional amortization of principal would be required for five years, but the total had to be retired in fifteen years. However, only an insignificant number of property sales were closed under this plan. Whenever credit was extended, the purchaser was required to provide, at the time of sale, for taxes and insurance due in the following twelve months and to establish a tax and insurance account.²¹

The average credit sale involved a cash payment of 13.6 percent of the total sales price (Table 33). In New York the average was 17.0 percent and in New Jersey 15.6 percent. Since the total for these two states was so large, it raised the national average. The average for all other states was 12.2 percent; the average ratio in nearly three-fourths

²⁰ A 10 percent down payment would cover average selling costs (6½ percent) and roughly four months' rent. If it is assumed that the average gross rentals just covered the HOLC costs, which was probably not the case in the early years, the four-month protection was perhaps inadequate, since a somewhat longer period normally passed between the date of a purchaser's first default and the installation of a tenant.

²¹ *Manual of Rules and Regulations of the Home Owners' Loan Corporation*, Property Management Division (February 24, 1941) Chapter 3, p. 33.

TABLE 33 — RATIO OF CASH PAYMENT TO TOTAL SALES PRICE IN ALL INSTALMENT SALES OF PROPERTIES BY THE HOLC, BY CENSUS REGION AND STATE, AS OF MARCH 31, 1951^a

<i>Census Region and State</i>	<i>Cash Payment In % of Total Sales Price</i>	<i>Census Region and State</i>	<i>Cash Payment In % of Total Sales Price</i>
<i>New England</i>	13.4%	North Carolina	12.0%
Maine	15.1	South Carolina	11.7
New Hampshire	13.1	Georgia	11.5
Vermont	15.5	Florida	11.6
Massachusetts	13.1		
Rhode Island	13.7	<i>East South Central</i>	11.4
Connecticut	13.7	Kentucky	13.4
		Tennessee	11.4
<i>Middle Atlantic</i>	16.2	Alabama	10.7
New York	17.0	Mississippi	10.0
New Jersey	15.6		
Pennsylvania	13.5	<i>West South Central</i>	11.6
		Arkansas	11.4
<i>East North Central</i>	12.2	Louisiana	12.1
Ohio	12.2	Oklahoma	11.8
Indiana	12.5	Texas	11.4
Illinois	12.2		
Michigan	12.2	<i>Mountain</i>	11.6
Wisconsin	11.8	Montana	12.8
		Idaho	11.8
<i>West North Central</i>	11.3	Wyoming	11.3
Minnesota	11.1	Colorado	11.3
Iowa	11.1	New Mexico	11.0
Missouri	11.3	Arizona	11.9
North Dakota	11.4	Utah	11.3
South Dakota	11.2	Nevada	14.1
Nebraska	11.3		
Kansas	11.4	<i>Pacific</i>	12.2
		Washington	12.0
<i>South Atlantic</i>	12.6	Oregon	12.0
Delaware	12.3	California	12.3
Maryland	14.1		
Dist. of Columbia	12.4		
Virginia	12.0		
West Virginia	12.5	United States	13.6%

^a Data made available by the HOLC.

of the states seldom varied more than one percentage point from this over-all average.

As the HOLC emphasized, these terms were so favorable that a buyer's monthly payments (including taxes and insurance) were little, if any, more than rent for the same property, despite the fact that the buyer would own the property in fifteen years.²² Even on a more sophisticated accounting basis—recognizing maintenance costs, obsolescence, risk, cost of resale if necessary, loss of income from the cash down payment, investment and subsequent outlays not required of a tenant, and, for some, loss of income tax benefits—the balance of economic factors, quite apart from intangible benefits, probably favored purchase.

As of March 31, 1951, the total gross sales price of 198,200 properties was \$738 million, an average of \$3,722 per property.²³ The answer to the question—How did the HOLC fare on these transactions?—is very difficult to give, depending upon the accounting methods followed and the criteria of accomplishment that are set up. On its own accounting, as shown in Table 34, the HOLC reported that to the original amount loaned on the foreclosed properties (\$797 million) was added \$63 million in advances for insurance, taxes, maintenance, foreclosure costs, and miscellaneous costs plus \$54 million of interest converted to principal or accrued but unpaid at the time of property acquisition. From this total are deducted \$31 million of principal repayments, placing HOLC's investment at time of property acquisition at \$882 million. To this must be added the \$152 million of charges for insurance, taxes, reconditioning, foreclosure costs, and miscellaneous items made during or after foreclosure, giving a net investment (total capitalized value) of \$1,026 million after the deduction of \$9 million of receipts from various sources. Deducting commissions and selling expenses of \$48 million from the total sales receipts of \$738 million gives a loss of \$337 million. The figures given above do not include the cost to the HOLC of the funds invested in its own properties—approximately \$54 million. They do include,

²² The HOLC made special and often successful efforts to get tenants to buy the houses in which they were living. Sales would be made to former borrowers only if the price covered all HOLC outlays. Rarely did the HOLC accept other property in exchange, and then only property on which it already held a mortgage. Options were not granted except with the consent of the home office. Separate sale was sometimes made of personal property.

²³ See Table 32, footnote a.

TABLE 34 — SUMMARY ANALYSIS OF INVESTMENT IN 198,200 PROPERTIES ACQUIRED AND SOLD BY THE HOLC, AS OF MARCH 31, 1951 ^a

<i>Investment Analysis</i>	<i>Total Amount (000)</i>	<i>Amount per Property ^b</i>	<i>In % of Original Loan</i>
ORIGINAL AMOUNT OF LOANS	\$797,036	\$4,021	100.0%
<i>Advances</i>	<i>116,632</i>	<i>588</i>	<i>14.6</i>
Insurance	3,285	17	.4
Taxes	55,918	282	7.0
Maintenance	807	4	.1
Interest ^c	54,118	273	6.8
Foreclosure costs	2,026	10	.2
Miscellaneous	478	2	.1
<i>Repayment of Principal</i>	<i>31,255</i>	<i>157</i>	<i>3.9</i>
NET AMOUNT LOANED AT TIME OF PROPERTY ACQUISITION	882,413	4,452	110.7
<i>Capital Charges</i>	<i>152,084</i>	<i>768</i>	<i>19.1</i>
Insurance	187	1	^d
Taxes and assessments	34,635	175	4.3
Reconditioning and capital repairs	89,345	451	11.2
Miscellaneous	2,339	12	.3
Foreclosure costs	25,578	129	3.2
<i>Capital Credits ^e</i>	<i>8,605</i>	<i>44</i>	<i>1.1</i>
Rents	2,902	15	.4
Collection of deficiencies	2,577	13	.3
Other	3,126	16	.4
NET INVESTMENT IN PROPERTY AT TIME OF SALE ^f	1,025,892	5,176	128.7
<i>Selling Price</i>	<i>737,756</i>	<i>3,722</i>	<i>92.6</i>
Instalment sales:	688,042	3,730	86.3
Initial payment	93,698	508	11.7
Extended terms	594,344	3,222	74.6
Cash sales	49,714	3,233	6.2
<i>Commissions and Selling Expenses</i>	<i>48,410</i>	<i>244</i>	<i>6.1</i>
CAPITALIZED LOSS	336,546	1,698	42.2
NET OPERATING PROFIT	25,819	130	3.2
NET LOSS ON PROPERTY	310,727	1,568	39.0

^a Data made available by the HOLC.

^b Average amounts per property of instalment sales and cash sales are based on the number of properties involved in each transaction, 184,475 and 15,379, respectively; all other averages are based on total number of properties (198,200) originally acquired through foreclosure.

^c Includes interest converted to principal (\$759 thousand) and unpaid interest accruals at time of foreclosure (\$53,359 thousand).

^d Less than .05 percent.

^e Excludes proceeds from partial sales. Amounts disbursed and received in connection with partial sales are included in the appropriate accounts.

^f Capitalized value of properties at time of sale.

however, an approximately equal \$54 million of unpaid interest earned on loans before foreclosure, which does not represent an actual cash outlay.

The overhead cost attributable to property management was probably somewhat greater than would have been the loan service cost had the properties involved not been acquired and the accounts continued as loans. It might be fairly assumed that this excess of property management cost would be approximately equal to the \$26 million excess of property operating income over property operating cost. The net result of these items would leave the net loss on property sales at \$337 million (plus the cost of its funds invested in the properties, if such allowance seems proper).

The average capital loss was computed by the HOLC at \$1,698 per property, which was 42 percent of the original amount loaned on these properties, 38 percent of the total amount loaned when the property was acquired, and 33 percent of the net investment in the property at time of sale (Table 35). In New York State the average loss per property was \$3,360 (the reported operating profit of \$171 was probably offset by additions to overhead costs required for property management); in New Jersey the loss averaged about \$3,000 (Table 35). These two states accounted for a loss of \$159 million, 47 percent of the total. Also, loss, as a percentage of the total net investment at the time of sale, was highest in these two states—42 percent and 41 percent, respectively. The lowest average loss was in the state of Washington—\$600;²⁴ loss was not more than one-fifth of the total net investment at the time of sale in California, Delaware, the District of Columbia, Illinois, Minnesota, New Mexico, and Washington (Table 35).²⁵

Sales prices obtained by the HOLC amounted to 92 percent of what was originally loaned on the properties (Table 35) and about 65 percent of their estimated original appraised values. Advances for

²⁴ Yet even total operations in this state resulted in a slight loss rather than profit. It is of interest that reconditioning expenses relative to original amount loaned were unusually high in this state (Table 32).

²⁵ For a sample of loans made on one- to four-family dwellings by thirty-nine Massachusetts mutual savings banks, 1918-31, and subsequently foreclosed, the loss rate was 29.7 percent of the total amount loaned. HOLC losses in Massachusetts averaged half of the original loan. Distress loans transferred to the HOLC are not included in this figure. John Lintner, *Mutual Savings Banks in the Savings and Mortgage Markets* (Harvard University, 1948) Table 41, p. 362.

TABLE 35 — AMOUNT OF ORIGINAL LOAN, NET HOLC INVESTMENT, SALES PRICE, NET OPERATING PROFIT AND CAPITAL LOSS PER PROPERTY, AND RELATED RATIOS, BY CENSUS REGION AND STATE, AS OF MARCH 31, 1951^a

Census Region and State	Orig. Loan Amt.	Net HOLC Investment ^b	Sales Price	Operating Profit	Capital Loss ^c	Capital Loss in % of		Sales Price in % of Loan
						Loan	Net Investment ^b	
<i>New England</i>								
Maine	\$4,890	\$6,259	\$4,299	\$314	\$2,222	45%	35%	88%
New Hampshire	2,993	3,572	2,580	60	1,135	38	32	86
Vermont	3,251	4,227	3,032	146	1,390	43	33	93
Massachusetts	3,465	4,451	3,093	195	1,546	45	35	89
Rhode Island	5,084	6,517	4,220	283	2,564	50	39	83
Connecticut	4,771	5,879	4,445	332	1,663	35	28	93
	5,190	6,798	5,453	556	1,666	32	25	105
<i>Middle Atlantic</i>								
New York	5,443	7,155	4,553	207	2,903	53	41	84
New Jersey	5,940	7,909	4,871	171	3,360	57	42	82
Pennsylvania	5,644	7,314	4,623	289	3,004	53	41	82
	3,573	4,502	3,430	213	1,295	36	29	96
<i>East North Central</i>								
Ohio	3,924	4,943	4,090	93	1,126	29	23	104
Indiana	3,672	4,720	3,869	131	1,101	30	23	105
Illinois	2,584	3,326	2,533	69	971	38	29	98
Michigan	4,928	6,062	5,216	41	1,184	24	20	106
Wisconsin	4,011	4,893	4,323	106	854	21	17	108
	4,223	5,437	4,241	105	1,499	35	28	100
<i>West North Central</i>								
Minnesota	2,660	3,367	2,428	37	1,100	41	33	91
Iowa	2,925	3,852	3,283	40	763	26	20	112
	2,464	3,149	2,451	23	864	35	27	99

(continued on next page)

TABLE 35 - (continued)

Census Region and State	Orig. Loan Amt.	Net HOLC Investment ^b	Sales Price	Operating Profit	Capital Loss ^c	Capital Loss in % of		Sales Price in % of Loan
						Loan	Net Investment ^b	
<i>West North Central (continued)</i>								
Missouri	\$3,614	\$4,343	\$3,108	\$73	\$1,444	40%	33%	86%
North Dakota	2,320	3,116	2,247	49	998	43	32	97
South Dakota	1,846	2,386	1,580	42	915	50	38	86
Nebraska	2,234	2,874	1,973	21	1,029	46	36	88
Kansas	2,169	2,838	1,854	7	1,116	51	39	85
<i>South Atlantic</i>								
Delaware	3,246	4,157	3,224	91	1,135	35	27	99
Maryland	3,651	4,352	3,691	88	807	22	19	101
Dist. of Columbia	3,391	4,773	3,625	145	1,377	41	29	107
Virginia	6,906	7,649	6,766	76	1,254	18	16	98
West Virginia	3,587	4,388	3,361	143	1,239	35	28	94
North Carolina	3,265	3,945	3,103	115	1,022	31	26	95
South Carolina	3,146	3,852	2,925	56	1,101	35	29	93
Georgia	2,677	3,426	2,757	64	836	31	24	103
Florida	2,594	3,217	2,623	55	770	30	24	101
	2,877	3,667	2,737	-33	1,119	39	31	95
<i>East South Central</i>								
Kentucky	2,901	3,643	2,760	61	1,071	37	29	95
Tennessee	3,463	4,387	3,253	35	1,340	39	31	94
Alabama	2,898	3,647	2,854	98	983	34	27	98
Mississippi	2,900	3,520	2,692	42	1,025	35	29	93
	2,277	3,079	2,204	75	1,016	45	33	97

(concluded on next page)

TABLE 35 — (concluded)

Census Region and State	Orig. Loan Amt.	Net HOLC Invest- ment ^b	Sales Price	Oper- ating Profit	Capital Loss ^c	Capital Loss in % of		Sales Price in % of Loan
						Loan	Net Invest- ment ^b	
<i>West South Central</i>	\$2,676	\$3,304	\$2,599	\$117	\$869	32%	26%	97%
Arkansas	2,087	2,748	2,118	140	766	37	28	101
Louisiana	3,316	4,068	3,274	166	990	30	24	99
Oklahoma	2,631	3,347	2,474	124	1,033	39	31	94
Texas	2,646	3,167	2,596	92	734	28	23	98
<i>Mountain</i>	2,794	3,597	2,833	16	942	34	26	101
Montana	2,454	3,130	2,349	24	945	39	30	96
Idaho	2,122	2,829	2,150	9	817	38	29	101
Wyoming	2,699	3,267	2,752	4	674	25	21	102
Colorado	2,413	3,122	2,585	70	692	29	22	107
New Mexico	2,771	3,316	2,824	29	650	23	20	102
Arizona	3,342	4,349	3,192	-32	1,373	41	32	96
Utah	2,986	3,848	3,072	^a	968	32	25	103
Nevada	4,255	5,108	3,996	6	1,255	29	25	94
<i>Pacific</i>	3,135	4,194	3,632	-31	819	26	20	116
Washington	2,290	3,156	2,727	-10	600	26	19	119
Oregon	2,582	3,287	2,671	24	798	31	24	103
California	3,626	4,835	4,219	-50	925	26	19	116
United States	\$4,021	\$5,176	\$3,722	\$130	\$1,698	42%	33%	93%

^a Data made available by the HOLC.

^b Capitalized value of property at time of sale.

^c Includes losses on property sales, brokers' commissions and selling expenses.

^d Less than 50 cents.

reconditioning, repair, and maintenance were apparently less than the physical depreciation and the obsolescence that accrued during the period from loan to sale.²⁶ Assuming that the general level of real estate prices was at least as high when properties were sold as when the loans were made, there are two possible reasons, other than undermaintenance, for this deficiency: generosity in original appraisal and low sales prices—largely the former. If the HOLC had succeeded in selling its properties for the original appraised value, it would have covered its total costs on these properties (by the broadest accounting) within a few million dollars, one way or the other.

It is easily conceivable that the HOLC might have recovered far more from its properties had it delayed sales; all but a handful of the properties were sold before boom prices could be obtained—the majority by mid-1940—and well before personal incomes reached even half of their World War II peak. This is not to imply that the HOLC was at fault. The policy it established and followed was consistent with its interpretation of the job it had to do; Congress and the executive branch were fully informed and Congress pressed neither for delay in sale nor for higher prices. In fact, it was partly because of Congressional pressure that sales were pressed. This applied especially to the selling drives in New York in 1943 and 1944.²⁷

HOLC loss rates ran much heavier than those of life insurance companies. For a sample of urban mortgage loans on one- to four-family dwellings made by twenty-four leading life insurance companies during the period 1920-46, nearly one out of every twelve properties securing these loans was acquired through foreclosure. The net loss after disposal of the property was 9.4 percent of the

²⁶ The total outlay for these items was \$117 million. Assuming an average period of six years from loan to sale, the annual rate of expenditures was slightly under 2½ percent of the original amount loaned and 1 7/10 percent of the original valuation. Additional outlays for maintenance were sometimes made by borrowers. Considering the types of dwellings involved, the appropriate annual rate of depreciation on total value would probably range from 3 to 4½ percent. On an estimated original appraisal of \$1,125,000,000, the six-year depreciation at 3¾ percent a year would have been \$253 million, that is, \$136 million greater than the HOLC maintenance and other costs; this amount is about 12 percent of the original appraisal, and about 40 percent of the total capitalized HOLC loss. The range of possible error in these estimates is wide because of the uncertainty about the proper rate of depreciation and obsolescence.

²⁷ The later sales—those made after the wartime rise in incomes was well established—were mostly in the New York City area where for a considerable period housing conditions remained “easy” relative to most of the rest of the country.

original loan amount; the net loss on loans in the same sample made during the years 1920-29 and later foreclosed was 8.7 percent.²⁸ The HOLC average loss rate (42 percent) was more than four times as large as the life insurance company average loss rate. A comparison of the regional distribution of HOLC loss experience with that of the experience of the life insurance companies in this sample reveals both regional similarities and differences in loss rates. The HOLC and life insurance company loss rates were high in the New England and the Middle Atlantic regions and were low in the East North Central region (the life insurance companies, in fact, had a slight gain here) and in the Pacific region. Loss rates for life insurance companies, however, were very much above the national average in the South Atlantic and West North Central and West South Central regions, while the HOLC loss rates were below the national average in these regions. Since the sample for life insurance companies had few foreclosures on one- to four-family urban dwellings in each region (the number of foreclosures ranges from 14 to 148 in contrast to a range of 5,045 to 59,577 for the HOLC), and since the time periods covered by the two studies differ considerably (data for life insurance companies refer to foreclosures on loans made during 1920-29; HOLC data, to foreclosures on loans made in or after 1933), regional comparisons must be used with great caution.

Though it may not be possible to account for all of the differences in over-all loss rates between HOLC experience and that of the life insurance companies, and though it is clearly impossible to measure the causes of differences, some considerations should be noted. First, of course, the overwhelming bulk of HOLC loans were made in distress cases only; they were loans private lenders would not make or retain. Unless the judgment of private lenders was poor, these HOLC loans should not be expected to turn out as well as loans made and retained by the life insurance companies. On the average, HOLC loans were almost 70 percent of an appraised value, which—at least when the loans were made—was generous. The life insurance company loans made on one- to four-family dwellings during the period 1920-35, however, averaged 53 percent or less of an appraisal

²⁸ R. J. Saulnier, *Urban Mortgage Lending by Life Insurance Companies* (National Bureau of Economic Research, Financial Research Program, 1950) Tables 28 and 29, pp. 92-93.

that was presumably a realistic judgment of the value of the property when the loan was made.²⁹

Secondly, the HOLC was generally more lenient than the insurance companies in tolerating delinquency before foreclosing. The study of life insurance company loan experience does not reveal the number of months loans had been delinquent before they were foreclosed. A measure which is perhaps even better for our purposes is available, however; at the time of foreclosure, the life insurance company investment in the property averaged 7.1 percent more than the original loan.³⁰ The comparable HOLC figure was 10.7 percent, half again as high.

Differences in the time periods covered in the study of HOLC and life insurance company loan experience must be relevant, but the net effect is obscure. The geographical distribution of original loans was perhaps somewhat favorable to the life insurance companies.³¹ What is to be attributed to management policies and judgment—and to chance—cannot be determined. Whatever the reasons, the fact remains that HOLC loss experience was much worse than that of the life insurance companies on the most nearly comparable group of loans for which we have data.

²⁹ R. J. Saulnier, *op. cit.*, Table B5, p. 134. See also *ibid.*, pp. 94-95; the loss rate on the disposal of foreclosed properties for a sample of urban mortgage loans made on one- to four-family dwellings by twenty-four leading life insurance companies, 1920-29, was highest on properties with low loan-to-value ratios. The reason for this high rate is partially due to the fact that many of these twenty-two loans were made on high-priced single-family dwellings ranging in price from \$20,000 to \$40,000. The HOLC had no loans on such properties.

³⁰ *Ibid.*, Table 28, p. 92. Data are based on a sample of urban mortgage loans, subsequently foreclosed, made on one- to four-family dwellings by twenty-four leading life insurance companies, 1920-46.

³¹ Roughly, 20 percent of the sample of urban mortgage loans made on one- to four-family dwellings by twenty-four leading life insurance companies, 1920-29, were in the New England and Middle Atlantic regions, where foreclosure rates were highest; approximately the same number—22 percent—of original HOLC loans were in these regions. In the Pacific region, where experience was good, the respective figures for the life insurance companies and for the HOLC were 16 percent and 8 percent. R. J. Saulnier, *op. cit.*, Table 25, p. 87; Tables 5 and 19 in the present volume.