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CHAPTER 11

Financial Liquidation of the Home Owners' Loan Corporation

At the time of the Home Owners' Loan Corporation's organization no one knew specifically how much money might be lost from operations, though some loss was expected, even by the sponsors of the originating bill, and some expected the deficit to be large.[1] While a purely financial accounting of losses for an activity such as that engaged in by the HOLC is obviously too narrow to be fully satisfactory as a basis for appraising the organization, it is interesting, nevertheless. Accordingly, the following sections summarize this financial record to the final liquidation in the spring of 1951 and the principal factors that affected it.

Financial Results According to HOLC Accounting

By its own accounting, the HOLC, through March 31, 1951, had received a total gross income of $1,417 million, of which 84 percent ($1,192 million) came from interest paid by its borrowers, about 5 percent ($73 million) from sources not being studied in this volume (dividends from savings and loan associations and the Federal Savings and Loan Insurance Corporation), nearly 10 percent ($139 million) from income from property (gross rentals), and the small balance—$13 million—from miscellaneous sources, including payment for services to other government agencies and for the handling of insurance accounts (Table 42).

Total expenses for the same period were $1,065 million, consisting of $661 million for interest on its bonds, $291 million for adminis-

[1] It was estimated in January 1937 by the Chairman of the House Subcommittee on Appropriations that losses would amount to from 15 to 20 percent of the amount loaned. Later, he mentioned 10 to 15 percent as the expectable loss. Other legislators privately anticipated a much larger loss rate. U. S. Congress, House, Hearings before the Subcommittee of the Committee on Appropriations on the *Independent Offices Appropriation Bill for 1938,* 75th Congress, 1st Session (1937) p. 644.

TABLE 42 — OPERATING RESULTS OF THE HOLC, AS OF JUNE 30, 1940 AND MARCH 31, 1951 [a]
(*in millions*)

Income and Expense Items	*June 30, 1940*	*March 31, 1951*
Income	*$828.3*	*$1,417.1*
Interest on accounts [b]	727.2	1,192.0
Dividends received [c]	26.3	73.0
Property income	72.9	138.6
Other income	1.9	13.5
Expenses	*717.5*	*1,064.9*
Interest on bonds	446.0	660.7
Administrative and general expenses	208.9	291.4
Property expense	62.6	112.8
Net Income	110.8	352.2
Total Losses [d]	139.1	338.0
Net Profit or Loss	–28.3	+14.2

[a] Data made available by the HOLC.
[b] Includes interest converted to principal ($6.7 million as of March 31, 1951) and interest capitalized in property accounts ($53.4 million as of March 31, 1951).
[c] Includes dividends from savings and loan associations ($44.7 million as of March 31, 1951) and from the Federal Savings and Loan Insurance Corporation ($28.2 million as of March 31, 1951).
[d] Includes losses on mortgage loans and vendee accounts, property accounts, insurance accounts. and other miscellaneous losses.

trative and general expenses, and $113 million for property expenses. Against the difference between gross income and expenses of $352 million, HOLC offset losses of $338 million (chiefly, on properties which it had foreclosed and later sold), leaving a net profit to March 31, 1951 of $14 million. Over a decade earlier (June 30, 1940), the corresponding figure was a loss of $28 million (Table 42). With only a few small items remaining—administrative expenses and salaries for a skeleton staff for a few weeks, terminal leave pay for some employees, and proceeds from the sale of remaining office equipment—these figures represent the final financial results of the HOLC's existence.

One relevant fact omitted in the above financial summary is that the HOLC, quite properly for its own purposes, has not charged itself with the costs of the $200 million capital advance which it received from the United States Treasury. On the assumption that the cost of

these funds would average 1 percent annually, the total cost through June 30, 1950 would be $34 million, without compounding. The appropriate rate, however, may not be 1 percent but the average of the annual interest rates paid by the Treasury over the relevant period—about 2.37 percent—which would raise the total cost through June 30, 1950 to $81 million. On the other hand, it might be argued that the rate to be used is that on short-term Treasury borrowing—probably the "marginal" element in its borrowing—in which case the 1 percent figure used above is not far wrong. In any case, the over-all cost of the HOLC to the date of its liquidation is higher than that shown by its accounting records by at least $35 million, and possibly by nearly double that amount.

Another factor affecting HOLC costs is that as a government agency it obtained free some services which would have been business costs to any private enterprise.[2] It is estimated that free use of the mails until 1946 saved the HOLC about $6 million, at a cost to the government of possibly $3 million. As for taxes, a comparable private agency would have paid state and local business taxes (the HOLC paid property taxes on the properties it acquired) but until 1949 no federal income tax because of its deficit.

Somewhat more important was the fact that the HOLC was not subject to social security taxes. Had it been required from 1938 to pay old age and survivors insurance at a rate of 1 percent and an unemployment insurance tax at an average rate of 2 percent (in each case, on payments up to $3,000 a year per employee), its total costs would have been somewhat more than $5 million higher than those recorded through March 31, 1951).[3] The HOLC may have obtained

[2] Of quite a different nature was the unusual power of the HOLC, as a government agency, to obtain huge amounts of uncompensated overtime from its employees, at least until World War II. Beginning in 1938, federal law required payment, at premium rates, for time worked beyond forty-four hours a week (beyond forty hours, beginning in 1940) by private employers generally. A comparison of HOLC's costs with those of a private organization should not ignore this item, but there is no basis for a reliable estimate of its magnitude.

[3] Under government accounting, costs for employee retirement allowances are not allocated to the separate agencies. The over-all average cost for the government has been about 5 percent of the salaries of covered employees; an increase in retirement allowances voted in 1948 raised the cost estimate to 6½ percent. The HOLC, however, was not brought within the retirement system until 1942, and many of its employees left federal government employment entirely without retirement claims. A few millions of dollars of liability for civil service retirement benefits was accumulated (and will accumulate) on account of employment for the HOLC, above amounts covered by employee payments.

some other cost-reducing advantages as a government agency, but these were not of great importance.[4] On the other hand, its staff members had to prepare many reports for review and audit that would not have been required of an independent private agency, and much time was taken in dealing with members of Congress.

Factors Affecting HOLC Financial Results

FALLING INTEREST RATES

Possibly the most important single factor affecting the HOLC's financial experience was the fall in the rate of interest which it paid on borrowings. Original plans called for the HOLC to pay 4 percent on its bonds. This rate was paid for a few months on a relatively small volume of bonds but was replaced by a 3 percent rate in 1934 when the government's guarantee was extended to principal.[5] Over the next few years, the HOLC was able to obtain a substantial part of its funds for 1½ percent or less, though higher rates were paid on some parts of the total because noncallable bonds had been issued.[6] This cost reduction was offset in part at least when HOLC's charge to borrowers was reduced in October 1939 from 5 to 4½ percent.[7] Yet the HOLC benefited greatly from the fact that its major item of money costs fell in relation to mortgage interest rates.[8] The spread between the average rates of interest received and paid by the HOLC

[4] The HOLC reimbursed the Treasury for the latter's costs in handling its bonds, checks, and coupons. Although the HOLC had the advantage of the Treasury's free advice on financing, it was compelled to deposit surplus cash with the Treasury, at no interest, and probably enjoyed no net advantage, on balance. Only a small fraction of its office space was obtained free of charge in government buildings; by far the largest portion was obtained by rental on a regular commercial basis.

[5] Mr. Fahey has told the author that he and some other members of the Federal Home Loan Bank Board were opposed to the 3 percent bonds. Had their judgment been accepted, the HOLC would have been able to take full advantage of low interest rates. The Treasury recommended the 3 percent rate. *Second Annual Report,* Federal Home Loan Bank Board (December 31, 1934) p. 81.

[6] See Chapter 10.

[7] This reduction was made, somewhat against the wishes of the HOLC, partly because of pressure from borrowers and partly because of a general policy of the Roosevelt Administration to lower interest rates to stimulate the housing market.

[8] From purely dollar-and-cents considerations it was unfortunate that the original plan provided for exchange of bonds for mortgages. The Treasury was then obtaining funds for less than the interest on the HOLC bonds. If it had borrowed the money needed and given cash to those who were transferring mortgages to the HOLC, the net interest cost to the Treasury would have been lower. Completion of loans would have been easier, and aid would have been effective earlier.

was about 2½ percentage points. As conditions have worked out, this spread has covered costs with little, if any, margin. The spread of 1 percentage point planned originally would, of course, have been very inadequate. The 2 percent and larger spreads made effective after the HOLC bonds were fully guaranteed in 1934 would have been almost sufficient, but the HOLC would not have been able to reduce its charge to borrowers by one-tenth (from 5 percent to 4½ percent) in 1939.

WAR PROSPERITY

An answer to the question of whether war-generated prosperity reduced the HOLC's losses is difficult to give. Since the HOLC's principal costs, other than interest, resulted from foreclosures, any condition reducing the foreclosure rate, or increasing the HOLC's ability to sell its properties at higher prices, would benefit its financial record.[9] However, 90 percent of all foreclosures had been completed before the summer of 1940, when armament expenditures began to be felt in the economy. And though the easing of credit terms granted under the Mead-Barry Act might conceivably have produced another surge of foreclosures had it not been for the income inflation caused by war expenditures, that possibility cannot be objectively demonstrated.

Nonetheless, it is clear that the HOLC's risks were reduced as increased incomes facilitated collections and increased repayments of principal. Also, operating costs fell as the need for loan servicing declined. In these respects, the HOLC benefited from war prosperity, but no one can say by how much.

The HOLC benefited somewhat, but not tremendously, from the improvement in the real estate market and the opportunity for disposition of foreclosed properties on more favorable terms. Properties were sold, on the average, about two years after their acquisition—generally in the late thirties; nearly two-thirds of the sales were made by the end of 1940, long before the great boom in residential real estate. The great increases in consumers' disposable income in the United States did not come until after 1941, by which time three-fourths of all the HOLC properties had been sold. The remaining

[9] Through March 31, 1951, losses on the sale of foreclosed properties were 15 percent greater than *all* outlays for administration and general expense and more than half as large as all payments of interest.

fourth doubtless brought higher prices than if disposable income had not risen, though it cannot be stated how much higher. Yet the total revenue from property sales was probably not much greater than that which would have been received even without the effect of the war on incomes. If, for example, the dollar volume of sales made after June 1940 had averaged one-fifth higher than prewar prices, the net realization by the HOLC would have been only $75 million greater. The postwar surge in real estate prices came many years after the HOLC had disposed of its holdings.

On the other hand, war and postwar prosperity adversely affected the HOLC's earnings by reducing loan balances more rapidly than had been expected, and by encouraging private financial institutions to make it possible for borrowers to shift their unpaid loan balances from the HOLC. Servicing and administration costs were reduced as balances fell, but not proportionately. Consequently, the HOLC suffered a loss of net income as a result of the high rates of debt repayment in recent years. Again, it is difficult to estimate the amount of the loss to the date of liquidation, but, as a crude estimate, it seems likely that the loss of net income will probably exceed the benefits resulting from the sale of properties at war-inflated prices.

Finally, the war had the effect of increasing operating costs—especially salaries. By the time war-induced increases in cost became large, however, the HOLC's operating budgets were much below their peak and declining. Nonetheless, an estimated increase of only one-third in general and administrative expenses for the years 1943-51—about $8 million—gives an amount that is large in relation to the net financial result of the Corporation's total activities.

Another interesting question is whether different operating policies might have produced substantially better results. For instance, would earlier foreclosure have reduced losses in individual cases? If the HOLC had foreclosed on the average a year earlier, and for this period had rented at an average of $25 a month per property, its gross earnings would have been nearly $60 million higher; [10] and most of this gross revenue would have been net earnings, since HOLC eventually paid most of the costs of taxes, insurance, and depreciation for this period. On the other hand, if it had consistently foreclosed

[10] If all family units in the properties (averaging 1.3) had been rented at $25 a month on the average, the increase in earnings would have been nearly $78 million.

after shorter periods of delinquency, it would have taken over many more properties and stood the chance of correspondingly heavier foreclosure losses. It is not unreasonable to assume, however, that on those properties that would have been acquired under less liberal policies the HOLC would have lost less on the average than it did on those properties actually acquired. If it had foreclosed in one-fourth more cases and had lost only half as much per case as it did on those it acquired, the additional loss would have been $42 million. The balance of these arguments is far from clear, in dollar terms, but in terms of the broader, nonmonetary objectives of the HOLC the smaller the number of foreclosures the better.

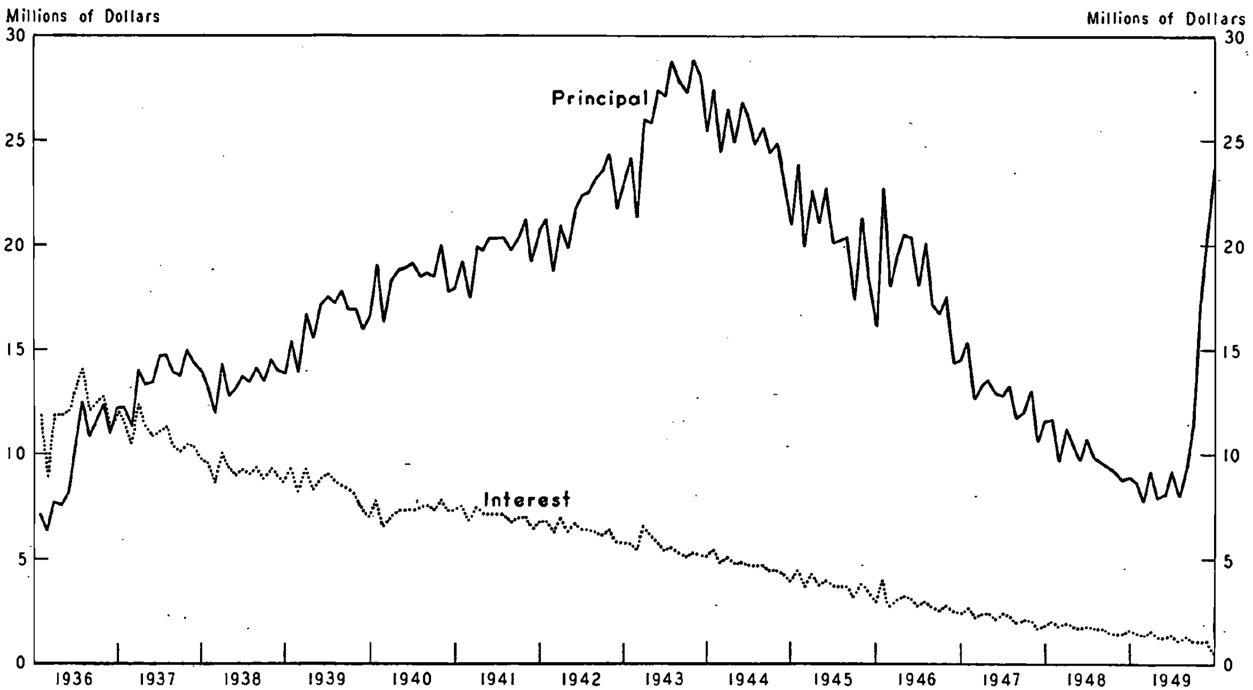
A closely related question is whether the large amount of personal servicing which the HOLC gave its loans was financially justified. In some cases, loan servicing, while it might have seemed expensive, prevented foreclosure and considerable dollar loss. How to balance these cases against those in which servicing costs were unavailing, no one can say. Yet in terms of the broader, nonmonetary objectives of the HOLC, the servicing expenses were doubtless well worth while in enabling families to keep their homes.

Timing of Liquidation

The progress of liquidation of the HOLC accounts can be traced from several different tabulations prepared by the Corporation. The first of these, given in Chart 3, shows collections of principal and interest to December 1949. Other data refer to the status of outstanding balances, whether delinquent or not (and, if delinquent, by how many months), and to the experience with sales of property.

Referring first to the record of collections, it will be noted that repayments of principal were small in the early years, which may be explained by the fact that contracts called for little amortization in any case, and for some loans none at all during the first three years. Although large numbers of loans were recast in regard to length of contract in late 1939 and early 1940 and the interest charge was cut, reducing the monthly payment, monthly collections not only did not fall but soon began to rise. This may be explained by the fact that sales of properties resulted in loans to purchasers and thereby increased the number of accounts outstanding and also by the fact that improved economic conditions enabled borrowers to retire their

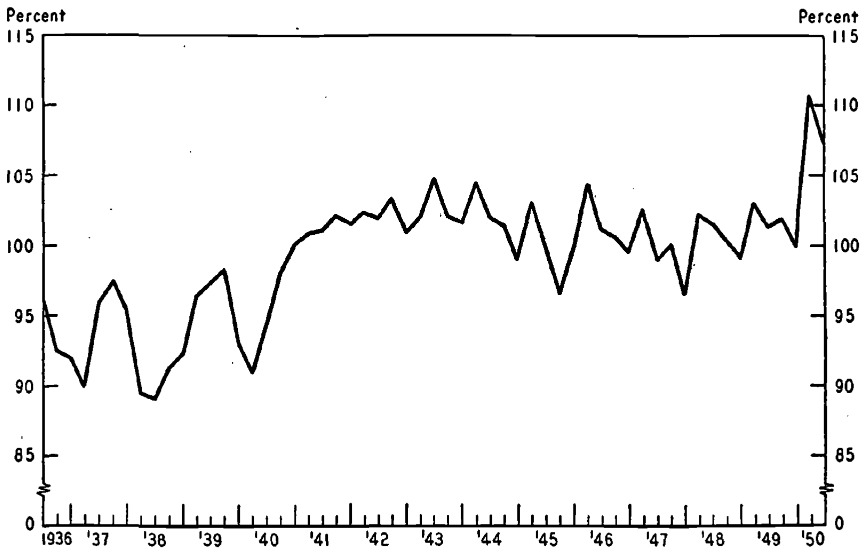
CHART 3 — PRINCIPAL AND INTEREST COLLECTIONS ON ORIGINAL AND VENDEE ACCOUNTS OF THE HOLC, MONTHLY, JANUARY 1936-DECEMBER 1949[a]



[a] Data in Appendix Table B7.

loans more rapidly than required by contract.[11] Another measure of the progress of liquidation, the average quarterly ratio of payments actually received to accruals, is given for the period since June 1936 in Chart 4. It will be noted that until the end of 1940 payments were not more than 10 percentage points less than accruals, but that since early 1941 they have generally run above accruals. In June 1936, the end of the period of original lending, amounts due and delinquent represented about 25 percent of the total amount due (Chart 5).

CHART 4 – RATIO OF INSTALMENT PAYMENTS TO ACCRUALS ON TOTAL DEBTOR ACCOUNTS OF THE HOLC, MONTHLY AVERAGES PER QUARTER, JUNE 1936-JUNE 1950 [a]

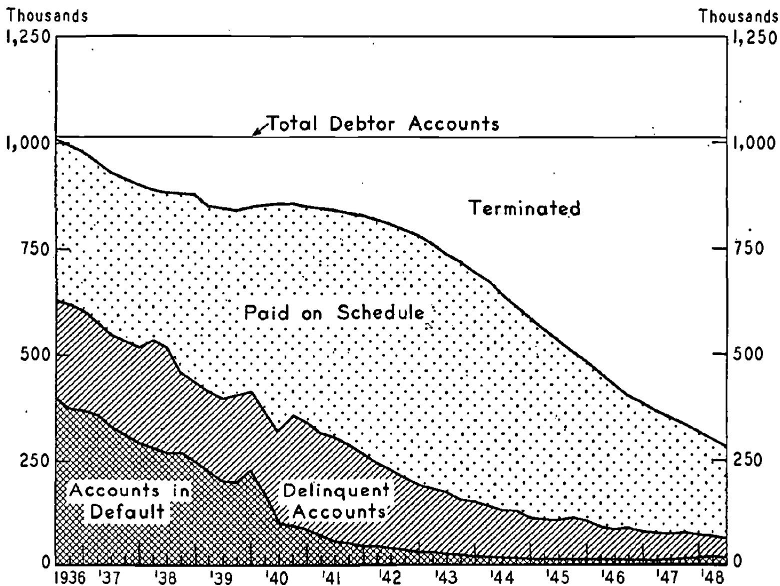


[a] Data in Appendix Table B8.

A better understanding of the problem of loan delinquency may be obtained from Chart 5, which gives quarterly data, from June 1936, on the total number of accounts paid on schedule (that is, within one month of the due date), those delinquent (that is, with arrearages up to three months), and those in default (that is, with arrearages of three months or more). At the end of its original lend-

[11] Amortization periods on vendee loans were shorter than on original loans with full Mead-Barry extensions. Also, since vendees were somewhat better credit risks than original borrowers, the shift of accounts from the former to the latter tended to increase monthly collections.

CHART 5 – Number of HOLC Accounts Paid on Schedule, Delinquent and in Default, End of Quarter, June 30, 1936-June 30, 1948 [a]



[a] Data in Appendix Table B9.

ing period, the HOLC had about 1,000,000 accounts, of which roughly 400,000 were in default and about 230,000 in a delinquent status. The number in default dropped fairly steadily through the late thirties but mainly because of foreclosures, which transferred the asset from the loan to the property account.[12] Partially offsetting this transfer was the fact that of the vendee accounts established by June 1939 on the sale of about 47,000 foreclosed properties, 40,000 were paid on schedule and slightly over 1,000 were in default.

The sharp decline in defaulted loans early in 1940 may be attributed mainly to the Mead-Barry extensions—amounts unpaid were added to principal, thus eliminating the basis of default. The rise in the number and percent of total accounts that were delinquent in the last half of 1940 may also be attributed to the shift of accounts from a defaulted to a current status via extensions, and not long thereafter to

[12] The cessation in late 1939 of the decrease (and slight rise) in the number of accounts in default is explained largely by the decrease in foreclosures as accounts were recast and extended. During this time, the ratio of instalment payments to accruals was as low as a year earlier when foreclosures were much higher.

a delinquent status; to the fact that some new vendee accounts became delinquent, and others went into a delinquent status while the borrowers were trying to get an extension; and, finally, to uncertainties growing out of the war.[13]

The Corporation's experience with vendee accounts has been generally better than that with original loan accounts, a result to be expected in view of the fact that properties were sold only to persons who showed good prospects of paying, while original loans were made only to persons in economic distress. In the late summer of 1940, about 5 percent of all vendee accounts and 10 percent of all original loan accounts were in default. Thereafter, the percentages of the two types of loans in default decreased and became more alike. On the other hand, delinquency rates on vendee accounts were generally about one-fourth below those on original loan accounts, and the percentage of vendee accounts paid on schedule was generally higher.

Defining total liquidation of the HOLC accounts as the sum of principal repayments, the cash proceeds of property sales, other property credits, and losses charged to reserve, the HOLC has reported that 100 percent of the amount of its original loans and subsequent advances had been liquidated by March 31, 1951. This was done in just three months less than the fifteen years originally contemplated by Congress. The financial results by this accounting showed a loss of over one-tenth of the amount of the original loans.

A liquidation figure taking full account of income and expense, however, is perhaps more significant. For the country as a whole, by the same methods of accounting as were discussed earlier in this chapter, this amounted through March 31, 1951, to a net profit slightly over 0.4 percent of the amount of original loans plus advances. As shown in Table 44, thirty-one states and the District of Columbia showed a profit, the rest losses. Illinois recorded the largest net profit, $29 million, or 10 percent of the total advanced, while in Ohio the net profit was $26 million (8 percent). The largest net loss was $60 million (12 percent) in New York; the New Jersey net loss

[13] There was a striking stability in the number of delinquent accounts, which fluctuated close to 200,000 from June 1936 to June 1942. The percentage of outstanding accounts that were delinquent increased, however, from 23 percent in June 1936 to 25 percent six years later. Even as late as December 1947, when economic conditions were highly prosperous, the percentage of accounts delinquent was about the same as in June 1936. The number of accounts in default did not fall below 50,000 from June 1936 until the summer of 1941, and in December 1947 totaled 10,562 accounts—3.3 percent of the total.

TABLE 43 – CAPITALIZATION AND LIQUIDATION OF DEBTOR AND PROPERTY ACCOUNTS OF THE HOLC, JUNE 13, 1933-MARCH 31, 1951 [a]

(in thousands)

ORIGINAL LOAN AMOUNT	$3,093,451
Additions	*405,449*
Advances	192,667
Interest [b]	60,092
Property charges	152,099
Charges to reserve	591
TOTAL CAPITALIZATION	3,498,900
Realization	*3,161,748*
Repayment of principal [c]	3,058,126
Cash proceeds of property sales [d]	94,481
Property credits	9,141
Losses Charged to Reserve	*337,152*
Losses on property sales	288,136
Commissions and sales expense	48,410
Principal and interest losses [c]	372
Property losses charged off	214
Discount on sale of loans	20
TOTAL LIQUIDATION	3,498,900

[a] Data made available by the HOLC.
[b] Represents interest converted to principal ($6,731,000) and interest transferred to property accounts ($53,361,000).
[c] Includes mortgage loans and vendee accounts.
[d] Net of commissions and sales expense of $48,410,000.

was $23 million (11 percent) and in neighboring Pennsylvania a slight profit had been realized. The loss rate in New Hampshire and Vermont was relatively high, about 8 percent, but the absolute amount was not large, approximately $400,000 in each state; Kansas recorded a net loss of 13 percent.

SALE OF LOANS

By early 1943, the pressure to have the HOLC sell some or all of its mortgages to private lenders had become very strong.[14] Many HOLC loans were then of excellent quality. Roughly 462,500 of the loan balances had been reduced to 70 percent or less of the original loan

[14] The pressure appears to have come mainly from some savings and loan groups. Little or no evidence has been found to suggest that insurance companies or banks were supporting the proposals.

TABLE 44 – OPERATING RESULTS OF THE HOLC, BY CENSUS REGION AND STATE, JUNE 13, 1933-MARCH 31, 1951 [a]
(dollar figures in thousands)

Census Region and State	*Total Income*	*Total Expense*	*Net Income*	*Total Loss* [b]	*Net Profit or Loss* Amount	% of Amt. Loaned [c]
New England	*$102,322*	*$79,271*	*$23,051*	*$35,027*	*$–11,976*	*–5.2%*
Maine	3,050	2,966	84	780	–696	–8.0
New Hampshire	2,090	1,890	200	597	–397	–7.6
Vermont	1,811	1,621	190	610	–420	–8.7
Massachusetts	60,650	47,981	12,669	26,499	–13,830	–10.4
Rhode Island	11,977	8,619	3,358	2,463	895	3.3
Connecticut	22,744	16,194	6,550	4,078	2,472	4.9
Middle Atlantic	*412,812*	*319,435*	*93,377*	*173,567*	*–80,190*	*–8.8*
New York	240,629	184,007	56,622	117,056	–60,434	–11.8
New Jersey	95,928	76,376	19,552	42,508	–22,956	–10.8
Pennsylvania	76,255	59,052	17,203	14,003	3,200	1.7
East North Central	*436,552*	*300,804*	*135,748*	*48,822*	*86,926*	*7.6*
Ohio	128,831	89,214	39,617	13,881	25,736	7.9
Indiana	44,836	33,389	11,447	6,515	4,932	4.1
Illinois	116,315	76,371	39,944	10,922	29,022	9.5
Michigan	95,707	65,455	30,252	6,234	24,018	9.3
Wisconsin	50,863	36,375	14,488	11,270	3,218	2.4
West North Central	*105,174*	*85,119*	*20,055*	*28,886*	*–8,831*	*–3.2*
Minnesota	20,585	15,291	5,294	2,217	3,077	5.8
Iowa	15,208	12,376	2,832	2,605	227	.5
Missouri	34,118	26,350	7,768	9,967	–2,199	–2.6
North Dakota	4,136	3,516	620	1,272	–652	–5.9
South Dakota	4,672	4,217	455	1,790	–1,335	–10.4
Nebraska	11,716	10,186	1,530	4,348	–2,818	–8.6
Kansas	14,739	13,183	1,556	6,687	–5,131	–12.8
South Atlantic	*103,666*	*78,440*	*25,226*	*14,060*	*11,166*	*4.4*
Delaware	2,127	1,592	535	189	346	6.3
Maryland	22,069	16,897	5,172	4,835	337	.6
Dist. of Columbia	4,785	3,068	1,717	300	1,417	11.1
Virginia	15,991	12,315	3,676	2,641	1,035	2.5
West Virginia	9,545	7,389	2,156	798	1,358	5.7
North Carolina	13,567	10,558	3,009	1,812	1,197	3.5
South Carolina	5,470	4,582	888	541	347	2.4
Georgia	15,301	11,743	3,558	1,404	2,154	5.9
Florida	14,811	10,296	4,515	1,540	2,975	8.9
East South Central	*47,942*	*39,462*	*8,480*	*8,957*	*–477*	*–.4*
Kentucky	10,671	8,178	2,493	2,091	402	1.4
Tennessee	14,601	11,460	3,141	2,244	897	2.6
Alabama	15,802	13,183	2,619	3,225	–606	–1.5
Mississippi	6,868	6,641	227	1,397	–1,170	–6.3

(concluded on next page)

TABLE 44 — (concluded)

Census Region and State	*Total Income*	*Total Expense*	*Net Income*	*Total Loss* [b]	*Net Profit or Loss* Amount	% of Amt. Loaned [c]
West South Central	*$90,898*	*$72,778*	*$18,120*	*$16,297*	*$1,823*	*.8%*
Arkansas	7,881	7,108	773	1,320	–547	–2.6
Louisiana	17,560	13,379	4,181	2,377	1,804	4.1
Oklahoma	22,410	19,095	3,315	6,446	–3,131	–5.1
Texas	43,047	33,196	9,851	6,154	3,697	3.3
Mountain	*37,691*	*30,107*	*7,584*	*4,775*	*2,809*	*2.8*
Montana	2,749	2,505	244	329	–85	–1.1
Idaho	3,355	2,713	642	354	288	3.2
Wyoming	2,139	1,643	496	95	401	7.0
Colorado	9,695	7,352	2,343	900	1,443	5.8
New Mexico	1,949	1,867	82	133	–51	–.9
Arizona	6,378	4,954	1,424	1,317	107	.6
Utah	10,254	8,092	2,162	1,580	582	2.1
Nevada	1,172	981	191	67	124	3.6
Pacific	*78,964*	*58,453*	*20,511*	*7,599*	*12,912*	*6.1*
Washington	15,656	12,570	3,086	1,606	1,480	3.5
Oregon	7,446	5,642	1,804	753	1,051	5.2
California	55,862	40,241	15,621	5,240	10,381	7.0
United States [d]	$1,417,098	$1,064,918	$352,180	$338,015	$14,165	.4%

[a] Data made available by the HOLC.

[b] Includes losses on mortgage loans and vendee accounts, property accounts, insurance accounts and other miscellaneous losses.

[c] Total amount loaned includes subsequent additions to original loan amounts and represents the total capitalized value of terminated accounts.

[d] Includes Hawaii and Puerto Rico.

amount, while another 132,900 had been paid down to between 70 and 80 percent of their original amount.[15] Over 100,000 of the loans were of the vendee type and were being paid on schedule. On the vendee loans, and probably also on most other properties securing HOLC loans, the value of the security was greater at that time than the amounts due on the loans. Moreover, property values were rising in many areas, borrower incomes were generally high, default rates were low, and principal was being repaid steadily, and in some cases rapidly. Servicing costs had been markedly reduced; an interest rate of 4½ percent was being obtained on loans of good quality, most of

[15] U. S. Congress, Hearings before the Joint Committee on Reduction ot Nonessential Federal Expenditures on the *Reduction of Nonessential Federal Expenditures,* 78th Congress, 1st Session (1943) Part 6, pp. 2214, 2221-23.

which had ten years or more to run, and on its entire portfolio the HOLC was earning a profit of about $1 million a month.

While private agencies were understandably attracted to the HOLC's assets, the Corporation opposed the principle of transferring its mortgages to private institutions.[16] For one thing, its officers naturally wanted to take advantage of the evident opportunity to liquidate with a financial profit. Furthermore, there was a feeling that the transfer would prevent the taxpayer's recouping the losses accrued in earlier years, that mortgages would not be sold at a sufficiently high price, and the possibility that the transfer might leave the HOLC with only the least attractive assets, on which the eventual liquidation experience might be very poor.[17]

The crucial question, in a sense, was the price private lenders were prepared to pay, but there were other and larger matters involved. Not the least was the question of the proper relationship between public and private institutions in the financial system, and whether an agency set up to aid private finance in time of economic depression was justified in holding on to the assets so acquired until their final liquidation in an improved economic climate. This question was raised directly or implicitly throughout the discussions. There was generally an acceptance of the principle that, other things being equal, private facilities should be used in preference to government. The fact that the government through the HOLC had materially assisted the nation's financial institutions was pointed out, presumably with the inference that these institutions would be inconsistent (and ungrateful) if they forced the HOLC to terminate its activities. Institutions that had accepted HOLC aid could not then cite basic principle as an argument against the propriety of the HOLC's existence. Or if they did, they should show why they had shifted position on principle.

[16] Representative Dirksen of Illinois, a leading Congressional advocate of quick liquidation, reacted to Mr. Fahey's statement that no concrete plans for purchase of HOLC assets had been proposed by circularizing financial institutions. The latter were asked whether they were interested in taking over HOLC loans, paying par (that is, the outstanding balance) and agreeing to maintain the 4½ percent interest charge and other provisions of the HOLC contract. The response showed that there was an apparent demand, extending even to all the loans in an area, good and bad. However, nothing seems to have been said about possible solutions to many practical problems.

[17] U. S. Congress, House, Hearings (Supplemental) before the Subcommittee of the Committee on Appropriations on the *Independent Offices Appropriation Bill for 1945*, 78th Congress, 2nd Session (1944) pp. 34-43.

The HOLC continually emphasized that it *was* liquidating, that its actions showed that it had no intention of perpetuating itself. Moreover, it was not making new loans except in the case of sales of properties and only after private institutions had refused them. Loans had been made to borrowers as a matter of aid rather than as a purely financial transaction—creating a *two-way* commitment. The HOLC argued that the terms of the loan would probably become less favorable to the borrower if the HOLC were forced to sell. Taxpayer aid to needy borrowers and assistance to financial institutions in distress was one thing; taxpayer contribution to the profits of such institutions was quite another matter.[18] *Savings and Loans,* the monthly publication of the United States Savings and Loan League, expressed the view that it was proper and acceptable for the government to take losses to help business in hard times, while turning the activity back to private ownership when operations became profitable; the government should not try to minimize its losses by retaining profitable accounts to help carry the costs of those that were unprofitable.[19] The argument was also made that, if the HOLC were permitted to hold on to its functions, a bad precedent would be set for the disposition of war plants financed by the government.

The controversy over the HOLC did little if anything to help resolve the fundamental problem of the relative spheres of private and government activity. The great issues of principle were seldom examined seriously and never exhaustively. For the economist one of the main issues would be the prospects of effecting real economies by the shift. The loans held by the HOLC had to be serviced until their maturity—1961 at the latest. Could the servicing be performed with a smaller total of real resources by private financial institutions than by the HOLC? An affirmative answer would provide an impressive argument for shifting the loans from the HOLC to private institutions. No evidence has been found to indicate that private institutions

[18] The arguments as expressed in these two paragraphs are the author's expression of what he believes the spokesmen for the HOLC had in mind. Their statements were less direct and explicit.

[19] See, for example, Ralph H. Cake, "The Future of Real Estate," *Savings and Loans,* Vol. 18, No. 3 (March 1943) pp. 17-19; U. V. Wilcox, "Opportunity Knocks on Fahey's Door," *idem,* pp. 7 ff.; A. L. M. Wiggins, "The Crossroads for Financial Institutions," Vol. 19, No. 1 (January 1944) pp. 4 ff. (a more moderate position); U. V. Wilcox, "Washington in War Time," a monthly article, with several statements to this general effect during 1943 and 1944.

would have done the work more cheaply in terms of real resources.[20]

On the other hand, there was an important real cost involved—that of transferring the loans. In many states institutions acquiring the HOLC mortgages would have to have up-to-date appraisals; the HOLC would have to prepare lists of its loans, provide data about loans, transfer the mortgage and the legal records, and familiarize new persons with the HOLC cases. Borrowers would be troubled by the uncertainty and occasionally embarrassed by the disclosure of payment record.

The HOLC emphasized other practical problems. It had many loans for which the value of the underlying collateral property was too small to permit private institutions under state law to lend as much as was still due the HOLC. This was especially true of loans on properties which the HOLC had sold. A very large number of its loans were too small to be attractive to private institutions (especially if an appraisal fee had to be paid in acquiring them). As a practical matter, it would be difficult to get competitive bidding for loans; the mechanics of providing the necessary information on loans and soliciting bids would at best be clumsy. In many communities there might be no bidders or only one; if the HOLC were *forced* to liquidate, it might have to accept some absurdly low prices. The HOLC had loans in towns where there were no local lenders, and in many more the HOLC had so few loans that sale on a "package" basis would not be practicable. In such cases effective competition of lenders could not be expected, especially where the loans in small communities were themselves small. The purchase of foreclosed properties still owned by the HOLC was not proposed; presumably, they were to be left with the HOLC for whatever might be salvaged. If the HOLC were left with properties, or with loans private lenders did not want, it would have to maintain an organization and thus incur overhead costs that would be high per loan or property. The circularization of data on the HOLC loans to potential buyers would enable the latter to get information to solicit refinancing of the good loans without any

20 By 1943, the HOLC had so routinized and mechanized its operations that its costs to the economy were probably more often lower than higher than they would have been in private institutions. One exception may be noted—institutions with unused capacity might have been able to add the servicing of some additional accounts with little or no real cost; this possibility was not discussed, however, and the author has no way of judging its significance. Some borrowers might have found it more convenient and cheaper to make payment locally in cash rather than by mail to the HOLC. It was by no means assured, however, that the loan would be acquired by a local institution.

obligation to take bad loans. Sale of its poorer loans at a discount would insure loss to the HOLC without giving any opportunity for recovery; if the loan were to be written down, the borrower should get the benefit, not private lending institutions. Finally, Congress in passing the Mead-Barry Act had deliberately forced the HOLC to slow down the rate and extend the period of its own liquidation.

In any event, in 1943, the House of Representatives passed an amendment to the HOLC appropriation bill directing speedy liquidation. The Senate substituted a provision, which the House eventually accepted, directing the HOLC to prepare and present to Congress by February 1944 a plan for its liquidation.

The plan presented by the HOLC consisted of a recommendation that the liquidation policies already in practice be continued, and the controversy was renewed. In reply to representations that private financial agencies were prepared to buy loans at par, the HOLC replied that a higher price was justified and that borrowers should be protected.

After considerable discussion, Congress decided against directing prompt liquidation, apparently convinced of the Corporation's determination to liquidate on what it regarded as an orderly basis. By the spring of 1944, the HOLC held only 10,000 properties, slightly less than one-third of the number held a year earlier,[21] and sales were being pressed. Furthermore, the Corporation was encouraging borrowers to speed up loan repayments, and balances were declining even more rapidly than scheduled. Finally, the Corporation was at that time earning an operating profit.[22] For several years the issue was dormant.

The HOLC continued to urge borrowers to repay their loans as rapidly as possible. It permitted repayment without penalty, even when funds were obtained through refinancing with other institutions. Up to the end of 1947, the Corporation opposed the direct sale of active loans to private financial institutions. About that time, and following the retirement of Mr. Fahey, who had opposed the sale of loans, the Home Loan Bank Board decided to expedite the HOLC's liquidation both through more intensive urging of borrowers to prepay their loans and through the sale of active balances to private

21 The HOLC had increased its efforts to sell quickly the properties still on hand, a large fraction of which were in the New York City area.

22 One block of loans—those in Hawaii—was sold in 1944 to local savings and loan institutions for cash at a 1 percent premium

financing agencies. There was no Congressional directive to hasten liquidation, but members of the key committees encouraged the action informally, and appropriations made specific provision of funds for liquidation operations.

The program of selling loans was changed somewhat after its initiation in the spring of 1948, but not in its main features. Sales operations have been largely on a state-by-state basis. The initial efforts were concentrated on the sale of loans in states in which only a few loans were outstanding, but there was some geographical selection also, an effort being made to sell loans in the West and in the upper New England areas, presumably to effect economies of operation. Next, the sales effort was concentrated on loans in the New York region, which had the largest total loan balances, followed rapidly by efforts in other large states.

After a state in which loans were to be sold had been selected, all borrowers were so notified by mail and told that they might repay the balance still due or, if they wished, arrange new private financing.[23] They were also informed that the interest rate on the loan would not be raised by anyone to whom the HOLC sold it, nor would other features, such as the amortization period or prepayment without penalty, be changed. Financial institutions were informed of the number and amount of loans involved, by counties, and asked if they were interested in buying loans. Later, this procedure was replaced by one merely involving public notice calling for bids. The general terms of sale set by the HOLC as of August 1949 were: (1) that assignment was made without recourse to the HOLC, (2) that assignment was subject to the right to discharge the indebtedness of the mortgagors with bonds of the HOLC at their face value (the amounts involved are very small), and (3) that the assignee should not demand, or be entitled to collect, interest on the assigned amount at an annual rate in excess of 4½ percent.

A few weeks were allowed for borrowers to arrange refinancing and for institutions to discuss the problem with the HOLC,[24] and

[23] Some borrowers objected to the sale of the loan by the HOLC, but they had no legal recourse.

[24] During this period, some private institutions took the initiative in trying to get the HOLC borrowers to refinance with them. In this way, the lender got only the best loans, could loan larger amounts than were owed to the HOLC, and avoided "red tape" involved in the purchase of loans from the HOLC. The HOLC did not furnish a list of its borrowers when circularizing institutions, but public records showed properties on which the HOLC held a mortgage.

then detailed negotiations were undertaken with those institutions that indicated a desire to buy loans.[25] A high proportion of sales were made to savings and loan associations and banks; life insurance companies, though often expressing an interest in buying loans, bought very few (Table 45). Typically, where more than one institution indicated a desire to purchase loans, those available were divided equally or to the limits desired by particular institutions.

As was expected, many institutions were reluctant to purchase loans on properties outside of their immediate communities, especially when the loan balances were small. The HOLC insisted, however, that all the loans in a general area, ordinarily consisting of the entire state, be taken as a single unit, or as parts of a single unit, regardless of the size of the loan balances. At one time, field teams were sent to try to sell accounts locally where there was no buyer for an entire state portfolio. The expense of this kind of sale seemed unjustifiably high, and it was discontinued.

In a few states the purchasing institution or group sold the accounts in areas where they did not want to try to provide servicing facilities; where the request was made of it, the HOLC arranged to make separate physical delivery of accounts. Purchasers were not always institutions in the same state. One large Pennsylvania bank bought the Connecticut and Michigan loans and contracted with others to service the accounts; the servicing companies in both cases had some former HOLC employees in key positions, making continuity of servicing policy easier to obtain.

Except for states with very few loans, the actual process of transferring a batch of loans took several weeks or months. The entire file except the HOLC ledger card was sent to the purchaser of the account. As it gained experience, the HOLC found that transfers could be completed more quickly than it had originally estimated. The last account was transferred in March 1951.

The loss to the government on this sale of assets is difficult to estimate. The two most important variables—future operating costs,

[25] Accounts were sold for par or more everywhere but in Maine and Puerto Rico. There were only about 45 accounts left in Maine and these were small, widely scattered, and costly to service. In Puerto Rico, the 4½ percent interest rate was not attractive to local lenders, and continental lenders wanted compensation for anticipated disadvantages of offshore lending. The attractiveness of accounts varied from state to state; in some states instalment (vendee) accounts were less attractive than in others because of the local custom of providing the buyer of the property with an abstract or title examination (at a cost of $25 or so) when the loan was fully repaid.

TABLE 45 — NUMBER AND PRINCIPAL BALANCE OF MORTGAGES ASSIGNED IN HOLC LIQUIDATION PROGRAM, BY TYPE OF ASSIGNEE AND STATE, AS OF MARCH 31, 1951 [a]
(dollar figures in thousands)

Census Region and State	*Insurance Cos.*		*Savings and Loan Associations*		*Banks*	
	No. of Loans	Principal Balance	No. of Loans	Principal Balance	No. of Loans	Principal Balance
New England	*45*	*$45*	..	..	*11,010*	*$22,726*
Maine	45	45	..	..	..	..
New Hampshire	..	..	..	..	..	..
Vermont	..	..	..	..	..	..
Massachusetts	..	..	..	..	7,323	15,073
Rhode Island	..	..	..	..	1,331	2,517
Connecticut	..	..	..	..	2,356	5,136
Middle Atlantic	..	..	*10,709*	*$13,366*	*48,712*	*118,007*
New York	..	..	..	..	36,617	92,140
New Jersey	..	..	..	..	12,095	25,867
Pennsylvania	..	..	10,709	13,366	..	..
East North Central	*3,519*	*3,073*	*23,200*	*37,043*	*8,477*	*11,917*
Ohio	..	..	9,099	11,648	..	..
Indiana	3,519	3,073	..	..	..	..
Illinois	..	..	9,634	18,351	..	..
Michigan	..	..	..	..	8,477	11,917
Wisconsin	..	..	4,467	7,044	..	..
West North Central	*1,932*	*2,038*	*5,794*	*5,072*	*3,628*	*4,403*
Minnesota	1,932	2,038	..	..	..	..
Iowa	..	..	1,722	1,488	..	..
Missouri	..	..	..	..	3,628	4,403
North Dakota	..	..	..	..	..	..
South Dakota	..	..	81	72	..	..
Nebraska	..	..	1,773	1,614	..	..
Kansas	..	..	2,218	1,898	..	..
South Atlantic	*1,835*	*2,080*	*2,966*	*3,591*	*3,699*	*4,695*
Delaware	..	..	..	..	..	..
Maryland	..	..	..	..	2,087	2,872
Dist. of Columbia	..	..	..	..	..	..
Virginia	..	..	1,336	1,573	..	..
West Virginia	..	..	..	..	..	..
North Carolina	..	..	1,630	2,018	..	..
South Carolina	..	..	..	..	..	..
Georgia	1,835	2,080	..	..	..	..
Florida	..	..	..	..	1,612	1,823
East South Central	*3,187*	*3,379*	*2,714*	*3,046*	..	..
Kentucky	..	..	1,028	1,334	..	..
Tennessee	..	..	1,686	1,712	..	..
Alabama	2,528	2,732	..	..	..	..
Mississippi	659	647	..	..	..	..

(concluded on next page)

TABLE 45 – (concluded)

Census Region and State	Insurance Cos.		Savings and Loan Associations		Banks	
	No. of Loans	Principal Balance	No. of Loans	Principal Balance	No. of Loans	Principal Balance
West South Central	*5,521*	*$5,136*	*1,900*	*$1,685*	..	..
Arkansas	688	624	..	..	..	..
Louisiana	1,357	1,688	..	..	..	..
Oklahoma	..	..	1,900	1,685	..	..
Texas	3,476	2,824	..	..	..	..
Mountain	*422*	*460*	..	..	..	..
Montana	..	..	..	..	..	..
Idaho	..	..	..	..	..	..
Wyoming	..	..	..	..	..	..
Colorado	422	460	..	..	..	..
New Mexico	..	..	..	..	..	..
Arizona	..	..	..	..	..	..
Utah	..	..	..	..	..	..
Nevada	..	..	..	..	..	..
Pacific	..	..	*2,489*	*3,316*	..	..
Washington	..	..	..	..	..	..
Oregon	..	..	..	..	..	..
California	..	..	2,489	3,316	..	..
United States [b]	16,571	$16,362	49,772	$67,119	75,526	$161,748

[a] Data made available by the HOLC.
[b] Includes principal balance of $151,000 on 110 loans outstanding in Puerto Rico assigned to insurance companies.

including the rate of interest paid on borrowed funds, and the amount by which loans would be reduced if they were not sold outright—are both unknown. Ignoring the costs of the transfer,[26] an average annual loss of profit of about $5 million for at least a few years was estimated by the HOLC. In terms of total lifetime HOLC profit or loss, the total loss from the sale of loans may be very large.

In some cases, buyers appraised the properties, but the speed with which they generally took over the accounts suggests that in many cases no appraisals were made or, at best, very hurried appraisals. The HOLC estimated that at the time of sale the average loan balance was from 20 to 25 percent of the current market price.

[26] Some of these costs had to be met eventually when the loan was paid off. A large part of the $5 average cost of transferring a loan, therefore, was an anticipation of an inevitable, rather than an added, cost.

SETTLEMENT OF NONMORTGAGE LENDING ACTIVITIES

Supplementary activities of the HOLC need brief comment even though they do not bear directly upon mortgage lending experience. To help savings and loan institutions, under the terms of the original statute as amended, the HOLC purchased a total of $223.9 million of shares in insured federal and state savings and loan institutions. On this operation the HOLC received $45 million in dividends, almost exactly what the funds cost. No appreciable addition to operating costs was involved. Therefore, the net result as far as the financial outcome of the Corporation's activities is concerned was nearly zero.

The HOLC also advanced $100 million of its 3 percent bonds to the Federal Savings and Loan Insurance Corporation. A final settlement of this account was made late in 1948. The HOLC received $25 million from the FSLIC. The actual cost of bonds to the HOLC was roughly $34 million. By an act of Congress it was decided, however, that the FSLIC should pay the HOLC the amount that represented the average cost of borrowed funds to the HOLC, not the cost of the funds specifically advanced to the FSLIC; moreover, interest was not compounded, although, of course, the HOLC had paid for its funds over the years.