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CHAPTER 6

AN HOLC PRIMER

From 1933 to 1936, the HOLC purchased 1,017,821 distressed home mortgage loans from private lenders, wrote new loans for the borrowers, and then held and serviced the loans. At the time, its loan portfolio accounted for roughly one-fifth of all outstanding residential mortgages on one- to four-family, nonfarm, owner-occupied homes.[1] The HOLC received an even larger number of applications, 1,885,356, and thus accepted only 54 percent of its applications. In dollar terms, the HOLC's loan portfolio equaled $3.1 billion by 1936, which made it by far the largest single residential mortgage lender in the nation. Today a refinance program that accounted for the same share of mortgage loans would restructure 7.6 million loans worth roughly $2 trillion, or about 15 percent of gross domestic product.[2]

The HOLC was popular among both lenders and home owners. It was popular with lenders because it purchased their troubled loans at close to the full value they were owed. By doing so the HOLC restored the financial health and capacity of many mortgage lenders and assisted the liquidation of many more that failed. For home owners, the HOLC provided the opportunity to avoid foreclosure by refinancing their old loans at below-market interest rates and with repayment terms that borrowers were more able to meet. It then serviced these loans generously by making foreclosure a last resort if borrowers ended up in trouble again. Nevertheless, while the HOLC saved many of its borrowers from foreclosure, it was not able to save them all. Ultimately, the HOLC had to foreclose on nearly 20 percent of its own loans.

According to our analysis, the relief that the HOLC provided to borrowers and lenders repaired some of the deterioration in the mortgage market, reduced severe downward pressures in housing prices, and prevented some loss of home ownership in local housing markets throughout the United States. In the process, the HOLC imposed a small cost on US taxpayers through the Treasury's investment in HOLC operations. We also estimate that the government, by guaranteeing HOLC bonds and therefore assuming the risk of the operation, provided a subsidy to housing markets that was likely around 12 percent of the value of the loans it made.

In many ways, the creation, operation, and winding down of the HOLC were as impressive as its economic accomplishments. Within one and a half years, HOLC officials created a corporation with a staff of twenty thousand operating out of more than four hundred offices around the country. By then the agency had also developed the capacity to appraise homes and to record legal documents in every county in the United States. Unlike many federal government entities that persist longer and operate with a broader focus than originally intended, the HOLC stopped making loans in June 1936, as specified in the original act.[3] As the loans were repaid, the corporation reduced its size accordingly. When the last loan was repaid in 1951, the HOLC shut down.

How the HOLC Operated

The HOLC's basic structure involved the purchase of mortgage loans from private lenders, followed by the issuance of new modified loans to the borrowers.[4] This approach actually combined two programs under one roof. The first was a "bad bank" that bought troubled assets from residential mortgage lenders, and the second was a refinance program for residential mortgage borrowers. To the extent that the HOLC is still discussed today, attention has largely been drawn to its refinance program. Nevertheless, the bad bank aspects of the HOLC would have constituted a large policy intervention even if it had not refinanced the mortgage loans that it purchased.[5]

BENEFITS TO BORROWERS

The first, and most important, benefit that borrowers received from the HOLC was simply the offer of a mortgage loan. The HOLC was the last option for borrowers who had failed to find refinancing in the private market and who

Box 6.1. Terms of HOLC Loans

Interest rate

5 percent (reduced to 4.5 percent in 1939)

Length

15 years (option for extension to up to 25 years in 1939)

Payment plan

Choice of

- equal payments over 15 years, or
- interest payments only until June 1936, then higher payments over remainder of 15 years

Maximum loan-to-appraisal ratio

80 percent

were likely, as a result, to end up in foreclosure. The specific terms on the HOLC loans were also beneficial and designed to help borrowers avoid re-default. Some borrowers received debt reductions, but they all benefited from other changes in contract terms. The terms of HOLC loans are outlined in box 6.1. For such risky loans, the interest rate of 5 percent was generous, as interest rates on prime private-sector home loans ranged from 6 to 8 percent across most of the country at the time. The 80 percent loan-to-value ratio was also much higher than the loan-to-value ratios in the private market, allowing some borrowers to avoid the need to carry two loans on their property. The HOLC also adopted a fifteen-year amortized loan with equal payments over the life of the loan that directly reduced the principal debt with each payment, a contractual form that was still relatively unusual at the time. Finally, in recognition of temporary underemployment due to the Depression, many borrowers were allowed to start out by paying only interest until June 1936 and then switching to higher payments over the remaining twelve years of their loans.

The initial forbearance period until June 1936 was a feature that, in other circumstances, might have been considered predatory, as it created a large increase in monthly payments after several months. For example, loans with such provisions were widely criticized in the aftermath of the mortgage crisis in the early 2000s. However, context is important. If a borrower's income is expected to improve over the first few years of a loan, then adapting the payment schedule to fit the path of expected income has sound economic reasoning, and certainly the HOLC's designers hoped and expected that its borrowers' incomes would rise by late 1936. Nevertheless, the HOLC faced a major problem with delinquencies in the late 1930s, given persistent weakness in borrowers' employment prospects and in the housing market. To address these problems, further relief was enacted in 1939 under the Mead-Barry Act, which allowed the HOLC to cut interest rates and extend loans for longer periods, as detailed in box 6.1. These additional concessions to borrowers may have been as important as any other action in helping many HOLC borrowers avoid default.

HOME-OWNER ELIGIBILITY

Borrowers had to meet a series of criteria to be eligible for HOLC aid. Each had to live on the property on which a mortgage debt was owed. The property could not be a farm, because the government had a separate refinance program for farm mortgage loans. The property could also not be used for business purposes more than incidentally, which ruled out applications from proprietors of small businesses, like store owners, bakers, or cobblers who lived in apartments above their places of business. Properties were also not eligible if they were a part of structures that contained more than four units, eliminating owners of apartments in large apartment buildings. In addition, properties valued at over $20,000 by the HOLC appraisal could not be included. Based on housing values reported in the 1930 census, the value limit ruled out only about 3 to 4 percent of the owned nonfarm homes across the country. In New York City, with more expensive properties values, this was a larger issue, as about 10 to 11 percent of the city's properties exceeded the $20,000 limit.[6]

In a report to Congress, HOLC director W. F. Stevenson stated that the HOLC was created "for the purpose of saving the home of home owners where they are unable to secure money to pay mortgages otherwise and where the mortgagee is threatening foreclosure." The ranks of defaulted borrowers looking for such refinancing in 1933 were swelled by the Depression and by foreclosure moratoria enacted by many states beginning in early 1933 and voluntarily by some lenders as well. To be eligible, borrowers originally were required to have a distressed mortgage as of June 13, 1933, when the HOLC was established. In an amendment on April 27, 1934, these restrictions were tightened to require that the applicants had also been in default and unable to repay their loan as of June 13, 1933, but allowed those defaulting later to also apply if the default was due to “unemployment or to economic conditions or misfortune beyond the control of the applicant.” The HOLC also had the authority to assist foreclosed borrowers, up to two years after they had lost title to their property. In such cases the HOLC negotiated with the new title holder—often the lender, but in some cases, a completely new owner—to buy the property itself.[7]

In order to make a final determination of an application’s eligibility, the HOLC contacted the appropriate lender or lenders for documentation of outstanding debts, local governments for confirmation of any owed taxes, and credit agencies for character reports on the borrowers. Ultimately, if eligibility criteria were met and the borrower was considered a good credit risk, the HOLC would appraise the property and offer the lender a price depending on the appraisal outcome. At this point the lender would decide whether to accept.

When purchasing and refinancing loans, the HOLC had one more constraint. The principal on a restructured loan could not be more than 80 percent of a property’s appraised value. In practice this proved to be an important limitation. To induce lenders to sell their loans in a typical case the HOLC paid a price that covered the principal on the loan, back taxes paid by the lender, and all or most of the interest owed on the loan. Any other back taxes were also wrapped into the loan’s principal so that these could be paid directly to local authorities. In at least a third of the cases, the HOLC also provided funds to make repairs to the property. By funding tax payments and repairs, the HOLC protected itself against losses from potential foreclosure. Lending against a property with unresolved tax debt would have left the HOLC vulnerable to losing its claim if a local government foreclosed for nonpayment of taxes. Likewise, lending against a property with a bad roof or structural damage would have left the HOLC with collateral that had declined substantially in value if foreclosure became necessary.

If all of these expenses added up to more than 80 percent of the appraisal, the HOLC could ask lenders to effectively forgive some of the debt. If they did not agree, the HOLC either had to deny the application or forgive some of the debt itself by purchasing the loan at a loss. HOLC officials were not willing to take immediate losses of this sort, and so negotiation over debt forgiveness by lenders was a key part of the application process for many loans. Negotiations with lenders therefore were often difficult and heavily influenced by the HOLC's appraisal of the value of the home. However, the HOLC often weakened the impact of the 80 percent limit by appraising the home values at "normal" prices rather than the much lower Depression values. In some cases, negotiations were further complicated because the lender itself had failed; in these cases, HOLC officials were required to negotiate not only within limits set by its own authorizing legislation, but also subject to the policies set by state regulators, court-appointed receivers, or other liquidating agents.

Borrowers did not need their lenders' permission to apply, but many obtained the application forms from their lenders and likely received substantial help from them as well. Ultimately, a lender's attitude was important because the lender had to be willing to sell the loan to the HOLC at the price offered.

A successful application concluded with the HOLC disbursing any necessary payments to lenders, tax authorities, and contractors. The HOLC then treated the amount disbursed as the principal on a restructured loan, and the borrower made payments on the loan directly to the HOLC.

DEALING WITH LENDERS

Lenders benefited from the HOLC because it bought their troubled mortgage assets, using HOLC bonds as the means of payment. These bonds were better-quality assets than defaulted mortgage loans, and especially attractive to lenders once the federal government fully guaranteed them in April 1934. The bonds were transferable, so lenders could either hold on to them as investments or sell them into the secondary market to raise cash. While lenders earned interest rates of only 3 to 4 percent on HOLC bonds, this yield was doubtlessly higher than the return on defaulted mortgage loans.

In more than half the cases, lenders received HOLC bonds in amounts that fully covered the principal owed, missed interest payments, and the lenders' payments for taxes and insurance. In the rest of the cases, some amount of voluntary debt forgiveness by lenders was involved, particularly second-lien holders, although often the amounts forgiven were small and involved accrued interest rather than principal debt.[8]

Purchases by the HOLC touched all major lending groups. It purchased around 17 percent of the mortgage loans held in 1933 by the three largest groups of residential mortgage lenders—B&Ls, mutual savings banks, and individual investors. The HOLC also purchased nearly 10 percent of the home mortgages held by life insurance companies and fully 28 percent of the loans held by commercial banks.[9] Private lenders had decreased their holdings of residential mortgage debt by 15 percent ($2.7 billion) as the crisis took hold between 1930 and 1933, and then by another 15 percent ($2.6 billion) percent by 1936.[10] In the latter period the decline in private lending was almost completely offset by increases in the HOLC's mortgage loan holdings.

The separation of troubled assets into a separate institution is the defining feature of a bad bank. A key purpose of a bad bank like the HOLC is to allow existing lenders to reduce the uncertainty associated with having troubled assets on their books. In addition, a bad bank can use economies of scale to assemble a specialized staff dedicated to resolving troubled assets in a way that may be infeasible for individual institutions. This segregation strategy has been used in a wide variety of circumstances throughout history, including the 1930s, sometimes by individual institutions splitting themselves in two, and other times by groups of institutions collecting their assets in single entities. In any case, the main challenge of a bad bank is finding people willing to invest in it, a problem solved in the case of the HOLC by the issuance of government-guaranteed bonds.[11]

The bad bank characterization may seem less apt in cases where the HOLC bought loans from failed lenders, which accounted for about 13 percent of HOLC loans. In these cases the eligibility requirements and the application process worked a bit differently. With such institutions, the HOLC did not limit its asset purchases to only distressed loans. It purchased any mortgage the institutions were willing to sell, in an effort to improve the cash position of the institutions. Closed lenders were likely to seek liquidation of any assets they could, even nondistressed mortgage loans, and so the HOLC was able to act differently, since it was not subject to the sorts of short-term pressures that mortgage lenders faced in the mid-1930s. Failed lenders were usually not struggling to fence off viable parts of their operations and put their losses behind them, but viability was not always a lost cause, and HOLC officials believed that it could help these lenders reopen. Even if the HOLC purchases did not help the institutions reopen, the HOLC at least helped them to pay off their depositors and thus to provide those depositors with access to their badly needed savings. In this way the HOLC demonstrated that a central function of a bad bank was not just to save private lending institutions but also to repair the broader damage caused by the toxic assets these institutions held on their books.

HOW THE HOLC FUNDED ITS ACTIVITIES

To support its outlays—to lenders, tax authorities, and contractors and for administrative expenses—the HOLC had two funding sources. The first was a capital investment of $200 million by the US Treasury. While this was not an insubstantial amount of money, it was not nearly enough to cover the $3 billion in loans for which the HOLC eventually required funding. It was quite useful, however, in giving the HOLC an immediate infusion of cash to establish operations. The bulk of the HOLC's funds instead came from bonds that it issued both on the open market and to specific lenders in exchange for their mortgages.

Before April 1934, the federal government guaranteed only the interest on HOLC bonds, and so encountered some difficulty in persuading lenders to accept its bonds in exchange for their loans. All things considered, the lenders naturally would have preferred cash. If a lender refused to take bonds, the HOLC would consider exchanging cash for the loan but only if the mortgage, taxes, and other debts were not in excess of 40 percent of the value of the property, a much more stringent limit than the 80 percent used for deals financed with bonds.[12] Table 7.1 (see p. 73) indicates that as many as 7.7 percent of applications failed because lenders refused to accept bonds. That figure is likely a bit overstated, though, because the figures cover a period at the beginning of the program's operations when the bond problems were more salient. The concern was large enough, however, that HOLC officials asked Congress for the guarantee, and Roosevelt, following his strong political instincts, framed the issue as a "moral obligation" required of a Congress that wanted to see that the program succeeded.[13]

During testimony regarding the bill that guaranteed these bonds, the chairman of the House Committee on Banking and Currency stated that "[e]xperience has shown that there is great difficulty in persuading mortgagees [i.e., lenders] to accept these bonds even at the present rate. We had to resort to this method of securing the principal, or having the Government secure the principal, in order to make the law effective."[14] Figure 6.1 shows how the prices of HOLC bonds improved significantly in January 1934, when Roosevelt first proposed their guarantee, and finally traded at par value in April 1934, when the guarantee was enacted. While the guarantee was not proposed until the

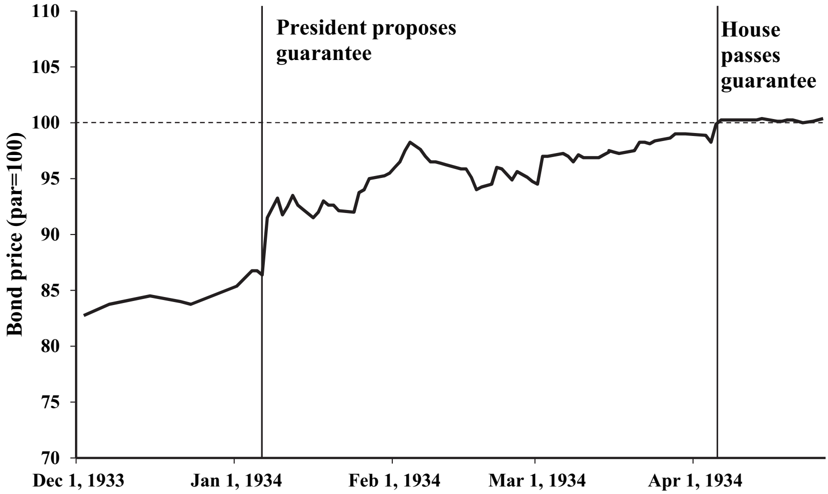

Figure 6.1. *HOLC bond prices. These are the bid prices on the first series of HOLC bonds with maturity in July 1951, and a 4 percent interest rate. (Data from the financial pages of the* New York Times.*)*

program was about six months old in January 1934, it improved the reception of the HOLC's bonds immediately, and most of the HOLC's refinancing had not yet been completed. After the guarantee, there is little in the historical record to indicate lenders were still concerned about the quality of the bonds.[15]

The guarantee of bonds had important implications for whose money was at stake. Without a guarantee, bondholders were initially left to bear the risk on whether the entire principal would be redeemed at maturity, a risk that depended on whether borrowers were able to pay their loans. The guarantee made HOLC bonds as safe as Treasury securities and therefore as good as cash to lenders, which is what they really wanted. For the HOLC's finances, the guarantee lowered their interest costs of issuing bonds, since those receiving the bonds did not demand as large an interest rate to compensate them for risk. Altogether, this guarantee made it easier for the HOLC to issue bonds to lenders and to others and at a lower cost, but it also transferred all of the financial risk of the program away from lenders to taxpayers.

This brings us to a major question about HOLC finances: did the program lose money? In chapter 10, we discuss this question in more detail, along with other aspects of the HOLC's finances. The bottom line is that the HOLC probably cost taxpayers a small amount of money, but it did not cause a large loss. Popular discussions of the HOLC often note that it turned a small accounting profit, but this long-repeated claim is based on misleading figures that do not take into account all of the costs imposed on the federal government by the HOLC.

A Chronology of HOLC Operations

SETTING UP SHOP

The Home Owners' Loan Corporation Act of June 13, 1933, created the HOLC, placed it under the jurisdiction of the Federal Home Loan Bank Board, and gave it three years to purchase and refinance distressed loans. Like many other New Deal programs, the HOLC was created, staffed, and began operations in an impressively short period of time. In its first six months the HOLC opened 50 state offices (including in Hawaii and Washington, DC) and 255 district offices and agencies, and hired nearly seven thousand employees. By its peak, just eighteen months later, the HOLC employed more than twenty thousand people. In addition, the HOLC also had to develop policies and procedures for handling more than one million applications within just its first year and then to evaluate and complete complex loan purchases and modifications.

The corporation initially focused on publicizing its mission. President Roosevelt highlighted the program in fireside chats both before and after he signed the act, and pamphlets describing the program were then circulated throughout the country. The corporation also enlisted newspapers in all major markets to carry prominent stories describing the benefits of the program to borrowers and how to apply. The publicity was so successful in New York City that 15,000 applications were received by mail before the first HOLC office there opened on August 14, 1933. On opening day officials were greeted by an additional 150 home owners lined up outside the office door to apply in person.[16] The nationwide total of HOLC applications reached 400,000 by September of that year, 700,000 by December, and then doubled again by the following June. The flow of HOLC applications over time is shown in solid bars in figure 6.2.

At first the evaluation and dispersal of loans simply could not keep up with the large number of applications. Although applicants were frustrated by the delay, some holdup was inevitable. In conducting its operations, the HOLC staff had to develop procedures for appraisals and administrative actions de-

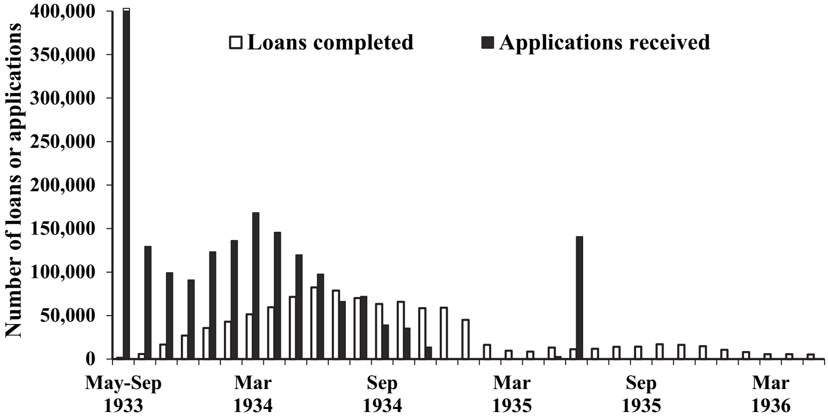

Figure 6.2. *HOLC applications received and loans completed by month, 1933–1936. The first observation covers the first five months of operations, as statistics were not reported separately for these months. (Data from Harriss 1951, 30.)*

signed specifically for a distressed mortgage market. The HOLC procedures then had to be tailored to conform to local market conventions, zoning restrictions, and property laws. Each home and property needed to be appraised separately to determine its state of repair and its value in a market where very few homes were selling and prices had been dropping dramatically. Each loan application had to be evaluated carefully, given that borrowers were all behind on payments and taxes. In some cases legal disputes over who held title to the property needed to be resolved. Further, the HOLC had to coordinate and negotiate with thousands of large and small lenders to prevent foreclosure while applications were being processed. The purchase of the loan also required delicate negotiations, as did the determination of whether the borrower met the definition of being in trouble “through no fault of his own.”

Selecting and training employees was critical for the successful operation of a hierarchical administrative structure that handled complex property and mortgage loan transactions across thousands of local housing markets. The HOLC hired and trained managers, lawyers, paralegals, secretaries, economists, property appraisers, financial specialists, and general staff to run hundreds of offices and also decided to appoint an attorney and a local appraiser in each of the nation’s three thousand counties. The hiring process involved plowing through thousands of applications, because large numbers of people were seeking work.

Not surprisingly, it took some time for this elaborate lending apparatus to catch up with a virtual avalanche of applications. In its first year, the HOLC received 80 percent of the total applications it would ultimately receive, but made only 38 percent of its eventual loan total. The initial flood of applications was so large that the HOLC operated with a six-month backlog of cases during that year. While the first loan applications were approved in the summer of 1933, it was not until March 1934 that the monthly volume of loan approvals reached fifty thousand applications, as shown in the white bars in figure 6.2.[17]

The original $2 billion limit Congress set on the HOLC's refinancing volume was increased to $3 billion in early 1934. But by fall of that year, the corporation determined that the applications in process would exhaust even the new higher limit, and so it announced in November 1934 that it would stop receiving applications. The announcement may have been partially motivated by a desire to discourage applications from less distressed borrowers. The debate in Congress certainly reflected this. After the application window had been open for a year and a half, some members of Congress argued that the nation's distressed home owners had already been given a reasonable length of time to apply. Indeed, as early as the fall of 1933, HOLC officials had begun discouraging applications from home owners who did not meet the program's eligibility requirements or who could not demonstrate sufficient distress. As HOLC officials often stated, their agency was not in a position to refinance every home mortgage in America, nor did they have a mandate to do so.[18]

Despite these objections and observations, the cap on the issuance of bonds was raised again in May 1935 to $4.75 billion, and an additional 145,000 applications were received in a brief window during late May and June 1935. The number of loans processed after this surge of applications, shown in figure 6.2, was relatively small, however, and the total value of loans restructured did not rise much beyond $3 billion.

DEALING WITH FORECLOSURES

As set in the enabling legislation, the HOLC permanently ceased refinancing loans on June 12, 1936. From that point until the liquidation of the last loan in April 1951, the HOLC was devoted primarily to servicing its existing loans.

The largest problem that the HOLC faced after completing the loan restructurings was dealing with the properties of home owners who could not repay their new loans. Ultimately, the HOLC refinancing could not prevent the loss of homes for 198,141 of its borrowers (19.4 percent). Despite many attempts to help delinquent home owners find jobs and means of repayment, many fell behind on the HOLC loan payments for a year or more, and the HOLC eventually foreclosed. While this is a large rate of foreclosure, it is important to keep in mind that most of these mortgages likely would have ended in foreclosure had they not been refinanced by the HOLC. Nevertheless, the politics of a corporation backed by the federal government foreclosing on its own citizens were tricky. One can only imagine the anger directed toward a government-backed entity that would evict its citizens from their homes. Of course, if the HOLC had ruled out the possibility of foreclosure, it would have grossly distorted the incentives of its borrowers. Without any fear that they would be evicted, there would have been little reason for them to bother paying back their mortgages.

Most of the foreclosures took place before 1941. While the employment prospects of HOLC borrowers were generally recovering after 1933, the unemployment rate was still 14 percent in 1937, and an economic setback in 1938 caused it to rise again to 19 percent. The number of foreclosures surged in fiscal years 1937 and 1938 because the forbearance period on principal payments ended in June 1936, resulting in higher monthly payments. The goal of that forbearance period had been to give borrowers enough time to find a steady income, but a number of borrowers were still struggling to find work in late 1936 and soon fell behind when their monthly payment plans required higher payments. The main wave of HOLC foreclosures then followed. Since many of the borrowers had been delinquent for more than two years on their original loans and were now delinquent on the HOLC restructured loan, they likely had not made any substantial payments on their homes for half a decade. This wave of foreclosures was reduced by two forces. First, the liberalizations of the 1939 Mead-Barry Act lowered the monthly payments required of borrowers. Second, the economic expansion of the early 1940s helped to buoy the incomes and house values of borrowers who had avoided foreclosure up to that point.

Once the HOLC foreclosed on the properties, it worked to figure out how to dispose of them. Most of the properties had fallen into various stages of disrepair after the home owners had stopped making payments. To make the homes more attractive for resale, the HOLC refurbished them and then had to determine the best time to resell them. HOLC officials were well aware of the continued decline in housing values in the latter half of the 1930s and worried that a flood of sales of foreclosed housing would further damage property values in the short run. In consequence, they often rented out the homes for a period of time and spread home sales over a longer time frame to try to avoid driving prices down. As seen in figure 6.3, the peak year for HOLC property sales was the fiscal year 1940, two years after the peak in acquisitions. By that time the unemployment rate had fallen from 19 percent in 1938 to 14 percent. The remaining sales occurred in the 1940s as unemployment rates continued to drop. During the war, demand for existing homes grew, as new house

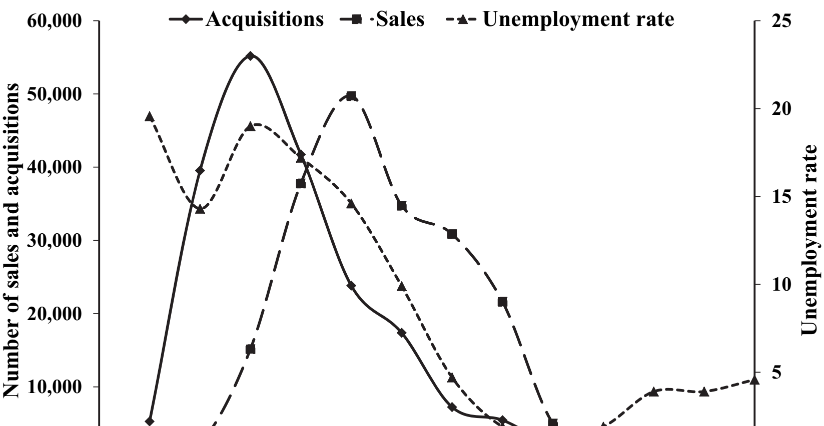

Figure 6.3. *Unemployment rate and HOLC foreclosure acquisitions and sales, fiscal years 1934–1936 through 1948–1951. (Data from Federal Home Loan Bank Administration 1952, 26.) The totals for 1936 cover all acquisitions and sales from 1934 to 1936. The totals for 1948 include all activity from 1948 through 1951. Unemployment rate is calculated by Stanley Lebergott, series D-85 in US Bureau of the Census (1975, 135), and considers people on work relief as unemployed. The unemployment rate for 1936 is the average for 1934–1936, and for 1948 is the average for 1948–1951.*

construction was limited, and families had spare money because consumer goods were rationed while incomes rose.

WINDING DOWN

The HOLC was an emergency program that Congress intended and designed to shut down after its purpose was achieved. The HOLC's enabling legislation contained important provisions that prevented the HOLC from becoming a permanent source of federally subsidized home mortgage financing. HOLC lending was restricted to the three-year period starting in June 1933 and was limited in total dollar volume. The HOLC was also required to retire its outstanding bonds with the mortgage principal repayments it received rather than using the funds to finance additional activities. The shuttering of the HOLC was a relatively rare act for a federal government entity. Many government agencies and corporations have hung on by switching emphasis to other activities loosely related to their original missions.

Throughout its life the HOLC stayed primarily focused on its original mortgage refinance mission, though the initial HOLC Act allowed for some longer-term investments. These other investments included a requirement that the HOLC provide the initial capitalization for the Federal Savings and Loan Insurance Corporation, and an authorization to invest in the stock of new federally chartered savings and loans associations in areas not well served by existing associations. During World War II, the HOLC was also used by the National Housing Agency to convert and manage properties as housing for war workers at a direct cost of roughly $80 million.

In 1940 when unemployment rates were still nearly 10 percent, the HOLC still serviced 850,000 active loans. But by then it did not need the large staff that had been required to process applications and make loans. As a result, its staff fell below ten thousand, spread across only ninety-eight offices. During the war years, the HOLC's borrowers began to pay off their loans as they moved to new houses or as their incomes improved. At the end of World War II in 1945, only about 530,000 loans were being serviced by two thousand HOLC employees in thirteen offices. By 1947 roughly one thousand employees in three offices handled the remaining 320,000 loans.[19] Figure 6.4 shows the winding down of HOLC activities, as most of the foreclosed property had been sold off by the mid-1940s and outstanding loans dropped significantly.

By the late 1940s liquidation became the highest priority. It was uneco-

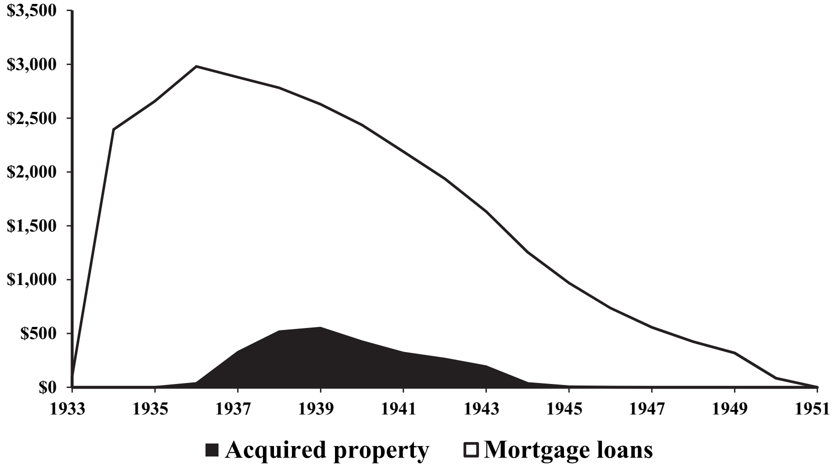

Figure 6.4. *Value of HOLC loans and owned properties, 1933–1951. Dollar figures are in millions, on December 31 from 1933 to 1935, and on June 30 from 1936 to 1951. (Data from the HOLC's annual reports.) Loans include both the original loans from 1933 to 1936 and new loans originated after 1936 to the buyers of the HOLC's owned properties.*

nomical for the HOLC to service a continually shrinking number of loans, with borrowers scattered all across the country. Moreover, the HOLC's support for the housing market was no longer a pressing need. Private lenders were happy to deal with the HOLC's extant borrowers, who had been dutifully paying their mortgages for over a decade. As a result, the HOLC encouraged its borrowers to pay in full or to refinance with private lenders. Eventually, it sold off its remaining mortgages in bulk by local markets within each state. By April 1951, HOLC operations were effectively over.