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Volume Title: Well Worth Saving: How the New Deal Safeguarded Home Ownership

Volume Author/Editor: Price V. Fishback, Jonathan Rose, and Kenneth Snowden

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-08244-X; 978-0-226-08244-8

Volume URL: http://www.nber.org/books/fish12-1

Conference Date: n/a

Publication Date: September 2013

Chapter Title: Front matter to "Well Worth Saving: How the New Deal Safeguarded Home Ownership"

Chapter Author(s): Price V. Fishback, Jonathan Rose, Kenneth Snowden

Chapter URL: http://www.nber.org/chapters/c13580

Chapter pages in book: (p. i - xiv)

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Well Worth Saving

HOW THE

NEW DEAL

SAFEGUARDED

HOME OWNERSHIP

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JONATHAN ROSE,

AND

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THE UNIVERSITY

OF CHICAGO PRESS

Chicago and London

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The University of Chicago Press, Chicago 60637 The University of Chicago Press, Ltd., London © 2013 by The University of Chicago All rights reserved. Published 2013. Printed in the United States of America

DOI: 10.7208/chicago/9780226082585.001.0001

Library of Congress Cataloging-in-Publication Data

Fishback, Price Van Meter.

Well worth saving: how the New Deal safeguarded home ownership / Price Fishback, Jonathan Rose, and Kenneth Snowden.

pages; cm. — (Markets and governments in economic history)

Includes bibliographical references and index.

ISBN 978-0-226-08244-8 (cloth: alkaline paper) — ISBN 978-0-226-08258-5 (e-book) I. Home Owners' Loan Corporation — History. 2. Mortgage loans — United States — History — 20th century. 3. Home ownership — United States — History — 20th century. 4. New Deal, 1933–1939. I. Rose, Jonathan Derek. II. Snowden, Kenneth A. III. Title. IV. Series: Markets and governments in economic history.

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HG3729.U5F57 2013
332.7'220973—dc23 2013015699
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⊕ This paper meets the requirements of ANSI/NISO Z39.48-1992 (Permanence of Paper).

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As a further and urgently necessary step in the program to promote economic recovery, I ask the Congress for legislation to protect small home owners from foreclosure and to relieve them of a portion of the burden of excessive interest and principal payments incurred during the period of higher values and higher earnings power.

Implicit in the legislation which I am suggesting to you is a declaration of national policy. This policy is that the broad interests of the nation require that special safeguards should be thrown around home ownership as a guaranty of social and economic stability, and that to protect home owners from inequitable enforced liquidation, in a time of general distress, is a proper concern of the Government.

The legislation I propose follows the general lines of the farm mortgage refinancing bill. The terms are such as to impose the least possible charge upon the national Treasury consistent with the objects sought. It provides machinery through which existing mortgage debts on small homes may be adjusted to a sound basis of values without injustice to investors, at substantially lower interest rates and with provision for postponing both interest and principal payments in cases of extreme need.

The resources to be made available through a bond issue, to be guaranteed as to interest only by the Treasury, will, it is thought, be sufficient to meet the needs of those to whom other methods of financing are not available.

At the same time the plan of settlement will provide a standard which should put an end to present uncertain and chaotic conditions that create fear and despair among both home owners and investors.

Legislation of this character is a subject that demands our most earnest, thoughtful and prompt consideration.

- Message from President Roosevelt to Congress, April 13, 1933

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Preface

In 2008, the Home Owners' Loan Corporation (HOLC) was in the news for the first time in half a century. The HOLC was a New Deal program created in 1933 to respond to the Depression-era mortgage crisis, and with the advent of a new crisis in 2007, politicians from all parts of the spectrum believed it to be an informative precedent for new legislation. Barack Obama reviewed the history: "Roosevelt purchased a whole bunch of homes. Over time, home values went back up, and in fact [the] government made a profit." Hillary Clinton stated, "I've proposed a new Home Owners' Loan Corporation," and John McCain suggested something similar: "I would order the secretary of the treasury to immediately buy up the bad home loan mortgages in America and renegotiate at the new value of those homes." Economists agreed that policy makers should learn from the HOLC's history. Robert Shiller, of Yale University, noted that "[i]n the short run, a new institution modeled on the old Home Owners' Loan Corporation of the 1930s would go far in helping to shore up confidence in the mortgage market." Alan Blinder, of Princeton University, called for a revival: "It is said that history never repeats itself. But sometimes there are sequels. Now is the time to re-establish the Incredible HOLC."1

Remarkably, seven decades after the HOLC's creation, there were no readily available answers to some fundamental questions about the program. To those pondering the HOLC in 2008, it was not immediately apparent how the HOLC had successfully obtained such a large size—having refinanced roughly one-fifth of the nation's nonfarm home mortgages—nor was it clear exactly how the HOLC interacted with borrowers and lenders. There were deeper questions as well, such as whether the HOLC contributed to the recovery of housing and mortgage markets. And there was a claim that the HOLC had turned a profit, repeated every time the HOLC was discussed (or so it seemed). Moreover, much was unknown about the background to the HOLC, including the broader history of real estate and mortgage finance between the two world wars.²

This monograph provides the first modern, comprehensive analysis of the HOLC that gathers in one place all that we and others have learned about the HOLC over the past several years. In this effort, the authors owe a large intellectual debt to C. Lowell Harriss, whose 1951 study, History and Policies of the

Home Owners' Loan Corporation, is an invaluable documentary guide to HOLC operations and laid the foundation for this book. Our work does not supplant Harriss's but rather adds to it with analysis of important unanswered questions about the HOLC, such as those raised in the previous paragraph.

Over the past several years, the three of us (through independent research projects) have assembled new databases from printed, mimeographed, and microfilmed HOLC records and employed modern statistical and theoretical tools to investigate important unanswered questions about the HOLC. Rose, for example, uncovered the sample of loans that had been collected by Harriss, which had been microfilmed and placed in a box stored on the Upper East Side of Manhattan for decades. In an analysis outlined in chapter 7, Rose used the data to describe how the HOLC often accommodated lenders when balancing the need to secure the participation of those lenders with the desire to give principal reductions to borrowers. Two groups of researchers— Fishback with Alfonso Flores-Lagunes, William Horrace, Shawn Kantor, and Jaret Treber: and Snowden with Charles Courtemanche—used more standard policy evaluation tools to assess the HOLC's impact during the mid- and late 1930s on home ownership, housing prices, and new home construction. Independently, both groups of researchers assembled data sets covering HOLC activity in every county of the United States and, through analyses that are described in chapter 9, reached similar conclusions. The HOLC improved prices and home ownership, but not enough to completely reverse the damage to both that occurred during the mortgage crisis.

These three research projects ended in articles published in academically oriented economic journals. After completing these independent studies, we worried that leaving our published research findings in academic journals would make that knowledge inaccessible to a general audience. We also realized that we had learned much more about the HOLC and its era than we had been able to include in those articles, and did not want those findings to be lost, as knowledge about the HOLC had been lost in the past. While two chapters in this book contain versions of our prior work, the rest represent additional analysis that pulls together a wide variety of sources, including dusty volumes and government reports published in the 1930s, 1940s, and 1950s; contemporary press accounts of the HOLC; and the documentary history of the program as it was recorded in correspondence, operations manuals, and other mimeographed, carbon-copied, handwritten, and published documents that are held in the National Archives.

In sum, our published research is summarized in chapters 7 and 9, while the rest of this book covers important aspects of the HOLC and its era that we believe are not well known at this point by anyone except us. We begin in chapter 1 by using the actual stories of several HOLC borrowers to introduce the program and by summarizing our principal results. From there, the book is laid out in four parts.

The first part provides the context for the HOLC. We characterize, in chapter 2, the institutions and contracts that defined mortgage finance in the 1920s, an era with a booming housing market and a corresponding expansion of mortgage debt. As described in chapter 3, the mortgage finance market was in deep crisis by 1933 despite previous attempts to unwind its problems at the state and federal levels over the previous four years. The continued crisis prompted a broad public consensus behind the HOLC Act's passage, as summarized in chapter 4. This part of the book concludes with chapter 5, which examines the rationale for the HOLC from the public policy perspective that economists use to assess such market interventions.

The second part of the book consists of chapter 6, which is a primer on the HOLC. We hope this will serve as a valuable reference for anyone interested in learning the basic aspects of how the HOLC operated.

The third part of the book analyzes the HOLC as an economic intervention. Chapter 7 details Rose's work about how the HOLC interacted with lenders. Chapter 8 considers borrowers. That chapter, along with the story of Joshua Clark told in the introduction, describes what it was like to be a home owner with a mortgage loan during the Great Depression, and gives a clear picture of how Americans benefited from assistance by the HOLC. Joshua's lender said, "We are not willing to carry him." That summarizes the era better than any other words we can muster. Chapter 9 synthesizes the work of the two research teams regarding how the HOLC affected mortgage and housing markets over the decade of the 1930s.

The analysis closes in chapter 10 by providing a detailed accounting of the costs of the HOLC to the US Treasury and the nation's taxpayers. We debunk the popular conception that the HOLC made a profit. Instead, it was likely the source of a small loss to taxpayers, a loss that should be weighed against the benefits it provided to borrowers, lenders, and mortgage and housing markets.

In the book's conclusion, we discuss what we have learned about the HOLC, and relate the book to the recent mortgage crisis and efforts that have

been made to mitigate it. Crises of these sorts are rare events. Each therefore deserves study on its own and for the sake of comparison. The value of history here is not to uncover exact parallels to current events, however, but to clarify how the incentives and behavior of borrowers, lenders, and other economic actors during crises transcend vastly different institutional contexts to shape the impacts and effectiveness of policy. Along the way, the Depression provides us with a still powerful reminder of how things could go so wrong, and the HOLC provides an important alternative view of how policy can address such a crisis.

In writing this book, we have benefited from the support and insights of many colleagues. First and foremost are our co-authors. The research underlying this book benefited tremendously from Snowden's collaboration with Charles Courtemanche and Fishback's collaboration with Alfonso Flores-Lagunes, William Horrace, Shawn Kantor, and Jaret Treber. We thank several people for valuable insights after reading early versions of the manuscript, including Claudia Goldin, Joe Elling, two anonymous referees, students in Fishback's graduate economic history class at the University of Arizona, and Alison and James Rose.

A note on a convention we use throughout the text. Many details from the case files of individual HOLC borrowers are available from documents at the National Archives. We changed the names of any borrowers whose information is taken from these files. For those interested in conducting further research, the citations still lead to the boxes at the archives.

For acknowledgments, sources of research support, and disclosure of the author's material financial relationships, if any, please see www.nber.org/chapters/c12909.ack.

Finally, a disclaimer: the views expressed here are solely the responsibility of the authors and should not be interpreted as reflecting the views of the Board of Governors of the Federal Reserve System or of anyone else associated with the Federal Reserve System.

Acknowledgments

Price Fishback is deeply indebted to Shawn Kantor, Alfonso Flores-Lagunes, William Horrace, and Jaret Treber for their help as coauthors on some of the work described in the book. They—along with Larry Neal, Joseph Mason, Michael Haines, John Wallis, and Trevor Kollman—provided a great deal of help in obtaining the data used in the book. I have also benefited from the comments of Charles Courtemanche, Daniel Fetter, Claudia Goldin, Gary Gorton, Chris Hanes, Kei Hirano, Joe Jackson, Harry Kelejian, Robert Margo, Kris Mitchener, David Pervin, Jonathan Rose, David Wheelock, Eugene White, and workshop participants at the University of California, Davis, the University of Kentucky, the University of Maryland, the University of Nevada, Las Vegas, the University of North Carolina, Oxford, Royal Holloway, and Yale, as well as participants at the 2001 and 2008 NBER Summer Institutes and 2001 Economic History Association meetings. Financial support has been provided by National Science Foundation Grants SBR-9708098, SES-0080324, SES-0214483, SES-0617972, SES-0921732, and SES-1061927, the Earhart Foundation, the University of Arizona Foundation, the University of Arizona Office of the Vice President for Research, the Frank and Clara Kramer Professorship in Economics at the University of Arizona, and the Thomas R. Brown Professorship at Arizona. My mother, Fran Fishback, and sister, Taylor Deibel, taught me how to enjoy life while working hard to be a productive member of society. I owe the largest debt to my wife, Pam Slaten, who has been the love of my life while supporting me in all of my work, even while I tended to spend too much time in working on my research.

Kenneth Snowden acknowledges Charles Courtemanche, Price Fishback, and Jonathan Rose for their collegiality, guidance, and unlimited assistance in all elements of this project. He is also indebted to Charles Calomiris, Naomi Lamoreaux, Richard Sylla, David Wheelock, and Eugene White for insights that have shaped my understanding of the historical mortgage markets in which the HOLC operated. The analysis presented here benefited from the comments of participants at workshops at the Federal Reserve Bank of St. Louis, Rutgers, Yale, UCLA, and UNC Greensboro; at the EHA Session at the 2010 ASSA; and the 2010 spring meeting of the NBER's Development of American Economy program. Financial support has been provided by Na-

tional Science Foundation Grant SES-1061927. I thank Dyan Arkin for all the rest that matters.

Jonathan Rose thanks Price Fishback and Kenneth Snowden for sharing their knowledge and wisdom. The analysis presented here benefited from the comments of workshop participants at the University of California, Berkeley, the Federal Reserve Board, the St. Louis Federal Reserve Bank, and the All UC Group in Economic History, particularly those of Barry Eichengreen, Chris Hanes, Kris Mitchener, Martha Olney, Christina and David Romer, David Wheelock, and Eugene White. Large parts of this research would not have been possible without the generous acts of Claudia Goldin and the staff at the NBER in tracking down the microfilmed records of HOLC loans. I owe the largest debt to my family for their love and support.