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Notes

PREFACE

1. Obama made his statement during the September 25, 2008, presidential debate. Clinton made her statement in “Let’s Keep People in Their Homes,” *Wall Street Journal*, September 25, 2008, accessed at <http://online.wsj.com/article/SB122230767702474045.html>. McCain made his statement during the October 7, 2008, presidential debate. Shiller’s statement is from an interview with Princeton University Press, accessed at <http://press.princeton.edu/releases/m8714.html>. Blinder’s statement is in “From the New Deal, a Way out of a Mess,” *New York Times*, February 24, 2008, accessed at <http://www.nytimes.com/2008/02/24/business/24view.html>.

2. One strain of academic literature has discussed HOLC operations related to a practice that is known today as redlining. This literature is usually thought to begin with Jackson (1980), with notable contributions more recently including Hillier (2003) and Crossney and Bartelt (2005).

CHAPTER 1

1. See Home Owners’ Loan Corporation Papers (hereafter HOLC Papers), Regional Correspondence Box 150. Joshua and Sarah Clark are pseudonyms for widower Joshua C. and his wife. Joshua’s loan details were found in the HOLC records at the National Archives II in College Park, MD. We used a fictional last name to protect his privacy. In a turn of events that might have surprised him, Joshua’s application files still exist, and may in fact be the only complete set of application files to the HOLC still extant. These files are part of a rare cache of documents that are buried in box 150 of the Regional Correspondence section of the HOLC. (Boxes 1 through 149 were, to be honest, less interesting.)

2. Unemployment statistics are discussed by Wallis (1989, 67).

3. Moratorium laws are discussed by Skilton (1943, 1944) and Wheelock (2008).

4. “1,000 Pray to Save Homes in Queens,” *New York Times*, April 15, 1933, 15.

5. The phrase “through no fault of their own” is found in Federal Home Loan Bank Board (1938a, 28).

6. See HOLC Papers, Regional Correspondence Box 133 and Box 10.

CHAPTER 2

1. Although overall population growth slowed from 21 percent between 1900 and 1910 to 15 percent in the 1910s and 16 percent in the 1920s, there was a sharp rise in the nonfarm urban population and in the South and West. The share of population living in urban areas rose from 39.1 percent of the nonfarm population in 1900 to 45.1 percent in 1910, 51.2 percent in 1920, and 56.1 percent in 1930. The share of the urban population living in the South and West increased from 20.3 to 23.8, 25.9, and 29.1 percent over the same period.

2. The remarkable burst of home building during the 1920s figures prominently in several different explanations of the length and severity of the Great Depression. In the 1930s, scholars identified the 1920s as a peak in a recurrent series of fifteen- to eighteen-

year “long swings” in demographic-sensitive investment. Alvin Hansen (1964) later argued that the three “super-depressions” in the United States after the Civil War (those beginning in 1873, 1893, and 1929) all coincided with the beginning of a long-term downswing. Later investigations argued that the economy had produced an oversupply of housing by the late 1920s, which continued to depress the housing sector and the economy late into the 1930s; see Bolch, Fels, and McMahon (1971); Hickman (1960); and Gordon (1952). Most recently, Field (1992) argued that rigidities in the legal, regulatory, and financial environment appeared as urban boundaries were pushed outward in the 1920s—rigidities that inhibited recovery throughout the 1930s.

3. The volume of residential debt held by financial institutions and individual investors tripled from \$9 to \$30 billion between 1921 and 1929.

4. US Bureau of the Census (1923, table 23, pp. 130–33).

5. Grebler et al. (1956, 472–75) report that non-institutional investors held 42.5 percent of residential mortgage debt in 1920 and 37.5 percent of debt on one- to four-family homes in 1925.

6. H. Morton Bodfish (1931, 136) reports the figures for B&L growth, and Kenneth Snowden (2003, 169) describes the expansions in the South and West.

7. Lintner (1948, 412–14) performed the Massachusetts mutual savings bank study.

8. Morton (1956) describes the mix of lenders. The widespread use of short-term loans in midwestern mortgage markets before 1930 is also confirmed in a separate study of mortgage contracts written in 1928 in Chicago—eleven of these seventy loans were written for terms between two and four years while the remainder had terms of five years. See also Bodfish and Bayless (1928). Morton (1956, 150–52) reports that about one-half of a national sample of insurance company loans were written for terms of between five and nine years and another 20 percent for less than five years.

9. See Snowden (1997, 2003, 2010), and Snowden and James (2001) for more on B&L financing.

10. Bodfish and Bayless (1928); Bodfish (1935).

11. Gries and Ford (1932, 72–91) conducted the 1931 investigation.

12. See Alger (1934) and Chamberlain and Edwards (1927, 455), on the guarantee company activities.

13. The calculation of the real rate of interest is discussed in I. Fisher (1930, 526).

CHAPTER 3

1. Harriss (1951, 7–8).

2. The February 1938 *Federal Home Loan Bank Review* (190) estimated that 80 percent of foreclosures in metropolitan areas were on one- to four-family dwellings. This may have been a bit higher than for the nation as a whole, which includes nonmetropolitan areas. In the Cleveland metropolitan area from 1926 to 1933, 60 percent of foreclosures related to residential property, while the rest related primarily to stores and to vacant land. The rate was somewhat higher in the city itself, where there was less vacant land, as more of the development of vacant land had occurred in the suburbs than in the city itself during the 1920s. From 1926 to 1933, it appears that 17 percent of residential mortgages ended in foreclosure in Cleveland: the 1930 census indicates there were 81,155 owned homes in Cleveland in 1930, and conservatively assuming that 70 percent were mortgaged (as

was the case in 1934 according to Green 1935), the 9,646 foreclosures reported by Green (1934) indicate a 17 percent overall foreclosure rate.

3. See the February 2010 *Monetary Policy Report* for a discussion of foreclosure start data, http://www.federalreserve.gov/monetarypolicy/mpr_20100224_part2.htm, as well as the “Calculated Risk” blog, <http://www.calculatedriskblog.com/2012/05/lps-march-foreclosure-starts-increase.html>.

4. See Wickens (1937). Metro areas with the highest rates of borrowers who were more than ninety days delinquent on their mortgages experienced peaks in this serious delinquency in 2009. Las Vegas and Miami peaked at just around 25 percent of homes in serious delinquency. See Urban Institute (2010).

5. See Skilton (1944) for a list of states with mortgage moratoria.

6. National home-ownership rates are from US Bureau of the Census (2011, table 14).

7. Foote, Gerardi, and Willen (2008) develop a model showing the double trigger.

8. The estimates for 1929 and 1933 are from Carter et al. (2006), from the following series: nominal hourly and weekly earnings in manufacturing, Ba4381 and Ba4382; total employment on non-agricultural payrolls, Ba840 2–112; civilian private nonfarm labor force, Ba475 2–82; and manufacturing average weekly hours, Cb49 3–123. The wage figures were adjusted for inflation by national consumer price index with 1967 = 100 (series E135), and the unemployment rate (series D86) comes from Stanley Lebergott’s estimates that include work-relief workers among the unemployed from US Bureau of the Census (1975, 135, 210–11).

9. The information on incomes is from table C4 in Wickens (1941, 183), adjusted by the national consumer price index with 1967 = 100 from US Bureau of the Census (1975, 210–11).

10. The most commonly used national housing price index available for the period between World War I and World War II shows that house prices reached a peak in 1925. The series then shows prices declining mildly until 1929, followed by a steep decline with a trough in 1933, about 30 percent below peak. This part of the series was constructed from the 1934 survey of over fifty cities of home owners used in figure 3.2. The home owners were asked to estimate the market value of their homes in 1934 as well as in the year they bought the homes. The data appear as series Dc826–828 in Carter et al. (2006). Unlike modern housing price indexes built on actual market prices, the price series is only as accurate as home owners’ ability to estimate their property’s market price in 1934 and to remember its market value years earlier.

11. The Federal Reserve Board’s March 2011 *Monetary Policy Report* gives three price indexes, from CoreLogic, S&P/Case-Shiller, and the Federal Housing Finance Administration.

12. Annual lending estimates come from the Federal Home Loan Bank Board, published in Carter et al. (2006, series Dc983–989).

13. See I. Fisher (1933) and Mishkin (1978).

14. Life insurance company information is from series X-894–X-907 in US Bureau of the Census (1975, 1058–59). Commercial bank information is from series X-585 on page 1019. The decline in total assets/liabilities in series X-581 was similar. The B&L information is from Cj389 and Cj395 of Carter et al. (2006).

CHAPTER 4

1. US House of Representatives, *Congressional Record*, April 27, 1933, 2482, 2476.
2. See Skilton (1944) for a list of states with mortgage moratoria.
3. Alston (1984) and Wheelock (2008) investigate the determinants of adoption of mortgage moratoria across states.
4. See Harvard Law Review (1934). This unsigned article notes that the Supreme Court in its *Blaisdell* decision “brought the trend of precedent sharply to a halt” by deciding “that laws altering existing contracts constitute an impairment within the meaning of the contract clause only if they are unreasonable in the light of the circumstances occasioning their enactment.”
5. The moratoria also had longer-run unintended impacts on the supply of credit, as discussed in Bridewell (1938) and Alston (1984).
6. See Ewalt (1962, chap. 4).
7. For the Cochran quote, see US House of Representatives, *Congressional Record*, April 25, 1933, 2345.
8. “The President’s Message,” *New York Times*, April 14, 1933, 2.
9. For descriptions of these legislative developments, see “Will Ask Changes in Home Loan Bill,” *New York Times*, April 20, 1933, 8; “Bar \$20,000 Limit in Mortgage Bill,” *New York Times*, April 28, 1933, 14; “Mortgage Bill Passes House,” *New York Times*, April 29, 1933, 4. The 1930 shares of owned homes come from US Bureau of the Census (1933, 17).
10. Federal Home Loan Bank Board (1937, 28).
11. For descriptions of declines in income throughout the income distribution between 1929 and 1933, see Menderhausen (1946).
12. The prayer meetings in New York were described in “1,000 Pray to Save Homes in Queens,” *New York Times*, April 15, 1933, 15. Fleck (1999) and Fishback, Kantor, and Wallis (2003) show that voter turnout strongly influenced the distribution of New Deal funds to counties during the New Deal.
13. Jones’s introduction of the bill is described in “Senate to Hasten Bankruptcy Aid,” *New York Times*, February 19, 1933, 6.
14. See Johnson (1973) for a description of the timing and structure of the farm mortgage crisis of the 1920s.
15. Engberg (1931, 133).
16. Olsen (1933) details the farm foreclosure data. Schwartz (1938, chaps. 10, 11) documents the failure of the joint-stock land banks and the role of the Emergency Farm Mortgage Act of 1933 in their liquidation.
17. For contemporary accounts of the condition of the farm mortgage market in early 1933, see “Iowa Governor Asks Halt on Foreclosure,” *New York Times*, January 20, 1933, 2; “See No Moratoria Cure” and “Gov. Horner Asks Mortgage Mercy,” *New York Times*, February 5, 1933, 2.
18. The similarity and differences between the farm and urban mortgage situations are discussed in “Farm Mortgages: A Pressing National Issue,” *New York Times*, February 5, 1933, sec. 8.
19. “Realty Bill Seeks Immediate Relief,” *New York Times*, March 19, 1933, RE1. It was significant that Roosevelt could presume that parallel approaches to the farm and home mortgage crises were politically acceptable, because the two cases differed in at least

two important respects. First, foreclosure meant a loss not only of a residence but also a livelihood for farmers. Second, the federal government was much more deeply involved in the farm mortgage market through the Federal Farm Loan Bank system than in the residential market, given the slow start of the FHLB. The performance of the FHLB was so disappointing by 1933, in fact, that drafts of the HOLC bill called for its elimination. Despite these differences, statements both in Congress and by many governors combined the farm and home foreclosure crises and characterized both as deserving support. An explanation could be that foreclosures involved similar legal and procedural issues that did not depend on the nature of the property.

20. Prominent New York real estate professionals and attorneys spoke in support of action to shut off the crisis. See “Interest Rate Cuts Aid Realty Market” and “Second Mortgage Fund Is Urged for the Relief of Home Owners,” *New York Times*, January 20, 1933, RE1; “Suspension of Mortgage Amortization Proposed” and “Mortgage Rates Present Problem,” *New York Times*, February 5, 1933, RE1; and “Realty Interest Centres in Tax and Mortgage Rates,” February 12, 1933, 150–51. Action was also called for by the American Construction Council, of which president-elect Roosevelt was the honorary president; see “Protective Steps for Realty Owner,” *New York Times*, February 12, 1933, 38. Action was also called for by the statewide Real Estate Board of New York and its individual local affiliates; see “Realty Bill Seeks Immediate Relief,” *New York Times*, March 19, 1933, RE1.

21. The quote, which captures the sentiment of many in the housing field on many bills, came from a member of the mortgage committee of the National Association of Real Estate Boards when supporting a bill before the New York legislature in March 1933; see “Realty Bill Seeks Immediate Relief,” *New York Times*, March 19, 1933, RE1.

22. See interview with Charles G. Moses, a “well-known New York Realty man,” in *New York Times*, January 20, 1933, RE1. A reading of the *New York Times* between January and March 1933 reveals proposals to reduce mortgage rates and property taxes and a variety of calls for stays on foreclosure by lenders and local tax authorities (January 4, 35; January 20, 2, 20; January 24, 13; February 5, 2, RE1, N7; February 12, 15, 38; February 14, 36; February 17, 5; February 19, 6; March 19, RE1). For other calls for voluntary action rather than legislation, see *New York Times*, February 5, 2, RE1. A survey of New York loans in the 1920s and 1930s (not including HOLC loans) shows no signs of principal reductions in any of the mortgage modifications; see Ghent (2011).

23. For example, the problem with tax sales became so severe in New Jersey by February 1933 that specific legislation was introduced in the state legislature to eliminate interest charges on delinquent property taxes and to suspend property tax land sales; see “Hague Maps Bill to Bar Tax Sales,” *New York Times*, February 17, 1933, 5.

24. Beito (1989, 11–15) documents the activities of the NAREB’s Property Owners Division across the nation in calling for lower tax rates and local government spending. He acknowledges the HOLC’s important role in effectively ending the public property tax discussion late in 1933.

25. See Harriss (1951, 11).

CHAPTER 5

1. Foreclosure refers to the act of eliminating the borrower’s right to own and control the encumbered property. When this right has been foreclosed, the property can be sold

or seized by the lender or a third party (in deed-of-trust states) for the purpose of satisfying claims under the loan contract.

2. The New York study is by Nicholas and Scherbina (2012). A modern study by Pennington-Cross (2006) shows that foreclosed properties tend to sell for a price about 22–24 percent lower than similar property that has not gone through foreclosure. See Ghent (2011) for discussions about delays between foreclosure proceedings and the sale of the home.

3. Among loan modifications, 7 percent experienced interest rate increases, 6.5 percent called for an increase in the principal owed, and 17 percent called for a partial prepayment (Ghent 2011, table 2). Data on the shares of loans modified and foreclosed are drawn from table 2 and figure 1 in Ghent (2011). This sample for New York is part of a larger sample of mortgages designed to cover loans originating between 1920 and 1934. See Morton (1956) for a detailed description of the sample and its potential biases. Note that for all of the New York loans studied that originated between 1920 and the early 1940s, the probability that a loan would have been foreclosed on was 16.5 percent, the probability it would have been modified was 47 percent, and the probability that it received a second modification was 22.1 percent (Ghent 2011, table 1). Once the HOLC was in place purchasing and modifying large numbers of loans in 1934, lenders more actively pursued foreclosure at the expense of modification, as the foreclosure rate rose to 3 percent and the modification rate fell to 5 percent of the loans. The situation even worsened in 1935, as the foreclosure rate among the New York sample loans peaked at 7 percent and the loan modification rate rose to 9 percent (Ghent 2011, table 2).

4. The national number of foreclosures is from figure 3.1. The New York sample ratio rose from 0.1 in 1932 to 0.18 in 1933, 0.63 in 1934, and 0.78 in 1935.

5. For an overview of these multiple-lender issues in the 1920s and 1930s, see Snowden (1995, 2010). The Schackno Act allowed the New York Insurance Commissioner to modify mortgages with the agreement of two-thirds of investors, removing the need for unanimous consent. Reep (1928, chap. 11) describes the problems that arose with second mortgages. For discussion about the modern problems with securitization, see Piskorski, Seru, and Vig (2010), who find that securitized loans were more likely to foreclose than similar bank-held loans. They infer that this could reflect different rates of modification. See also a skeptical discussion of these results by Adelino, Gerardi, and Willen (2010). In contrast, Foote, Gerardi, Goette, and Willen (2009) and Adelino, Gerardi, and Willen (2009) note that modification may not be in the interest of lenders if they cannot target the loans that would benefit from modification (either because of asymmetric information or because of moral hazard) or if there is a meaningful probability of redefault after the modification. The lack of such information may be a more subtle but important impediment.

6. The study of foreclosure costs was conducted by the HOLC and is described in *Federal Home Loan Bank Review*, November 1937, 40–45.

7. “Legislation Is Sought to Curb Foreclosures,” *New York Times*, April 9, 1933, RE2.

8. Bernanke, Gertler, and Gilchrist (1996) conceptualized the financial accelerator. Courtemanche and Snowden (2011) describe the mortgage market from this perspective.

9. This is precisely the thinking behind the current Home Affordable Modification

Program (HAMP), in which public subsidies are used to encourage servicers and lenders to provide modifications.

10. Though there are assertions of strategic defaults during the 1930s, there is no hard evidence. In the modern era, Mayer et al. (2011) used a natural experiment at Countrywide to uncover evidence of strategic defaults. Countrywide borrowers in different states faced different incentives to default as some but not all state governments brought lawsuits against Countrywide, which ultimately agreed to offer modifications to borrowers in default.

11. See Harriss (1951, 12–14), about the application dates. More details about HOLC legislation and administration are in chapter 6.

12. The publication of rejection statistics is seen in *New York Times*, October 14, 1933, 28, and October 29, 1933, N7.

13. C. Lowell Harriss discusses the mechanics of the HOLC's bond issuance more in his 1951 book.

14. The effect of interest rate guarantees is discussed in more depth in chapter 8.

15. To make this calculation, we set up a fifteen-year amortized repayment schedule for a \$1,000 loan at 6 percent interest. Investment A involved one hundred loans that were fully repaid on schedule. Using a 6 percent discount rate, each loan had a present value of \$1,000, so the present value of investment A was \$100,000. Investment B in one hundred loans mimicked the HOLC experience. Eighty percent of the \$1,000 loans were fully repaid along the standard repayment schedule, and 20 percent of the loans made no payments for three years, at which time there were foreclosures and the properties were sold for 70 percent of their value. The present value at a 6 percent discount rate of each fully repaid loan was \$1,000, while the present value for each foreclosed loan was \$565.84. The expected present value for investment B is \$917,555 ($= 80 \times 1000 + 20 \times 565.84$). The internal rate of return for investment B that leads to a present value equal to the \$100,000 present value for investment A is 7.35 percent. The 1.35 percent difference between 6 percent on risk-free investment and 7.35 percent on the risky investment is the “risk premium” that a investor who does not care about risk would demand on investment B so that the expected present value of the two investments is the same. The risk premium varies at different interest rates. When starting with risk-free loan rates and discount rates of 5 percent interest rate, the risk premium was slightly lower at 1.25 percent. With risk-free loan and discount rates of 3 percent interest, the risk premium was 1.08 percent.

CHAPTER 6

1. See Harriss (1951, 33). His proportion of one-fifth is based on a rough estimate of the total number of homes under mortgage in the early 1930s. More precise estimates would have been available to Harriss (and to us) if the question about mortgage encumbrance had not been omitted from the 1930 census.

2. Nonfarm home ownership was lower in the 1930s than today, while residential mortgage debt was a much smaller share of GDP. The \$3 billion in HOLC loans in 1933 compares with \$56.4 billion in nominal GDP in 1933, or 5.3 percent (5.3 percent of 2012 GDP of around \$15.5 trillion is around \$820 billion). But home ownership has risen from around 45 percent in 1930 to a peak around 69 percent in 2007, the value of homes has risen, and the share of the value mortgaged has risen.

3. For example, this contrasts with the Federal Farm Mortgage Corporation, which was set up as part of an analogous relief effort for farm mortgage borrowers. Its lending authority was originally designed to expire in 1936 like the HOLC but was repeatedly extended up to 1947.

4. Technically, this means the HOLC was a mortgage refinance program. We have called it a mortgage modification program in the past, as it can be thought of as modifying the way borrowers paid their debts in an effort to avoid foreclosure.

5. See HOLC (1933). The structure of the HOLC contrasts with contemporary mortgage modification programs enacted by the federal government in the wake of the recent housing market distress. These programs have not attempted to bring distressed mortgages held by private lenders under government control. Rather, they have opted for a structure in which they encourage lenders to implement modifications by themselves. Given this structure, different approaches had to be taken to provide relief for lenders holding troubled assets, mainly through capital investments by the government in lenders.

6. Shares of homes not eligible for HOLC loans are based on 1930 figures for families from US Bureau of the Census (1933, 17 and 60).

7. The Stevenson quote and discussion of early requirements are from Stevenson (1933, 1). Even in the first report and in Stevenson's initial discussions of the HOLC, HOLC officials constantly talk about the program as being for mortgages already in distress. See Federal Home Loan Bank Board (1934, 4, 48–50). Their later amendments and discussions in reports imply that they meant people in distress through no fault of their own. The April 27 amendment and quote are from Federal Home Loan Bank Board (1936, 27, 53). See also the 1936 annual report of the Federal Home Loan Bank Board (1937, 29).

8. The benefits to lenders and borrowers are discussed in depth in chapters 7 and 8.

9. See Courtemanche and Snowden (2011, table 1).

10. More than three thousand B&Ls had failed by 1933 along with nearly the entire mortgage guarantee industry that served individual investors. Both types of institutions then entered protracted liquidations. See Snowden (2010).

11. Rose (2012) discusses how B&Ls created bad banks in the 1930s during reorganization proceedings. In recent memory, well-known bad banks have included the Resolution Trust Corporation, which collected the assets of failed savings and loan associations during the late 1980s and 1990s, and bad banks set up in Sweden and Finland during banking crises in those countries. See Hawkins and Turner (1999) for a comparative review of bad banks in several countries during the 1980s and 1990s. Modern readers may be surprised to find that bad banks were used widely during the 1930s as a resolution technique by a variety of financial firms.

12. See Stevenson (1933, 1–2), for a discussion.

13. The debate over the HOLC guarantee was also motivated by the fact that the federal government already guaranteed bonds issued by the Federal Farm Mortgage Corporation in its farm mortgage debt refinancing operations. Roosevelt used this language in a March 1, 1934, message to Congress. “Message to Congress Recommending Legislation to Guarantee Principal on Home Owners Loan Bonds,” available online from Ger-

hard Peters and John T. Woolley, *The American Presidency Project*, <http://www.presidency.ucsb.edu/ws/?pid=14816>.

14. US House of Representatives (1934, 42, 84).
15. See Harriss (1951, 25–29).
16. “Home Owners’ Loan Corporation Opens First Office in New York,” *New York Times*, August 15, 1933, 19.
17. The development of the HOLC is described in Federal Home Loan Bank Board (1934, 47–69; 1935, 81–89; and 1936, 52–79).
18. See the Testimony of Horace A. Russell in US Senate, Subcommittee of the Committee on Banking and Currency (1933, 10).
19. Information on loans and staffing comes from Federal Home Loan Bank Board (1941, 160) and Federal Home Loan Bank Administration (1952, 10).

CHAPTER 7

1. The discussion of Prudential’s attitude is found in HOLC Papers, General Loan Correspondence Box 133: Memo from S. J. Christie, Michigan State Manager, to Mr. Paul J. Frissell, National Office Assistant General Manager, August 6, 1935, “Re: Ingham #998-A, Harry M. C., Lansing, Michigan.”
2. The chairman of the HOLC described this situation in a Senate hearing in 1934. See US House of Representatives (1934, 13).
3. HOLC Papers, Regional Office Correspondence Box 133: Letter from Wade Van Valkenberg to R. W. McCutcheson, February 18, 1935, “Re: J. Julia C.”
4. HOLC Papers, Regional Office Correspondence Box 133: Letter from Wade Van Valkenberg to R. W. McCutcheson, February 18, 1935, “Re: J. Julia C.”
5. “First Home Loan Aids Needy Owner,” *New York Times*, August 31, 1933, 19.
6. See *Federal Home Loan Bank Review*, July 1941, 336; and Harriss (1951, 25).
7. Skilton (1944) points out that the HOLC did not use this appraisal strategy when acquiring loans through foreclosure, instead relying on estimates of current market value. This underscores that HOLC officials deliberately chose not to base appraisals on current market value for underwriting purposes.
8. The sample of loans was made available to C. Lowell Harriss of the National Bureau of Economic Research. Harriss (1951, 32–33) presented information on the average HOLC loan-to-appraisal ratio for each state as a whole but never looked at the underlying market prices. The data were microfilmed and sat in a box at the offices of the National Bureau of Economic Research in New York for more than fifty years. In 2008 Jonathan Rose inquired about the survival of the records. By pure coincidence the microfilm had been catalogued only the week before. Jonathan digitized the data, which are now available from the NBER’s website. <http://www.nber.org/nberhistory/historical/archives/archives.html>.
9. The appraisal process is reviewed in detail by Rose (2011). The HOLC appraisal was the result of averaging three figures: an estimate of market price, an estimate of rental income, and an estimate of the cost of buying a similar property and building similar improvements. Rose describes how the market prices tended to be the lowest of the three estimates, leading to appraisals that on average exceeded the market price. As noted, this was a deliberate decision by HOLC officials, as they did not view the current

market price as necessarily reflecting the value of the property as collateral, and because of the importance of high appraisals for negotiating with lenders. The appraisal also had a discretionary component, as the three-part average was reviewed by a committee, and these discretionary movements tended to be accommodative particularly in those cases where higher appraisals mattered for the 80 percent limit.

10. HOLC Papers, General Administrative Correspondence Roll 21: Memo from Dalton G. De Witt to Philip Kniskern, March 27, 1934, “Re: Appraisal Situation in New Jersey.” The reference to “bailing out the owner” in the quote is somewhat ironic, since higher appraisals made it more difficult for the HOLC to reduce the amount of the debt that the home owner owed when the loan was refinanced. The best interpretation is likely that HOLC officials believed admission to the program was a significant benefit in itself, regardless of whether some of the borrower’s debt was reduced.

11. HOLC Papers, General Administrative Correspondence Roll 13: Memo from Patrick Kennedy, State Manager of Connecticut, to Horace Russell, October 27, 1933.

12. See Federal Home Loan Bank Board (1938b, 70).

13. This approval of second mortgages was not acknowledged in any official HOLC literature, but Harriss (1951, 35–37) mentions it, as did an HOLC official in testimony before Congress in 1934. See US House of Representatives (1934, 55–57).

14. At first, the HOLC issued bonds with 4 percent interest rates. These bonds were guaranteed only as to their principal payments. After the HOLC was given the authority to issue bonds fully guaranteed as to both interest and principal, it issued bonds with 3 percent interest rates. Those lenders who had received the earlier 4 percent issues were given the option of replacing those bonds with the new, fully guaranteed bonds at the lower 3 percent interest rate. Skilton (1944) discusses this a bit further.

CHAPTER 8

1. HOLC Papers, Regional Office Correspondence Box 133: Letter from Anna J. C. to Mrs. Franklin D. Roosevelt, October 28, 1935.

2. US Senate, Subcommittee of the Committee on Banking and Currency (1933, 28).

3. HOLC Papers, Regional Office Correspondence Box 133: Letter from Lee E. Kuhlman to Harold Lee, April 9, 1934, “Re: Lee C.”

4. HOLC Papers, Regional Office Correspondence Box 133: Letter from Carroll F. Sweet to John B. Dew, December 19, 1935, “Re: Raymond C.”

5. For example, suppose an \$1,800 mortgage loan had been taken out on a home with a value that had dropped from \$3,000 to \$2,000. It would require a \$600 payment to reestablish a 60 percent loan-to-value ratio.

6. The original act provided that the borrower need not pay any principal on his indebtedness for three years after June 13, 1933. This provision was stricken from the act by the amendment of April 27, 1934; see Federal Home Loan Bank Board (1935, 31).

7. The unemployment rate used here treats relief workers as unemployed and was estimated by Stanley Lebergott and reported in chapter D in US Bureau of the Census (1975). Michael Darby (1976) reported lower rates of 21 percent in 1933 and 9 percent in 1937 when treating relief workers as employed. In making comparisons of unemployment with the modern era, a case can be made that relief workers in the 1930s should

be treated as unemployed. The relief worker's hourly wage was about half the wage on federal public works projects at the time, and the number of hours he or she could work was restricted. Thus, the share of wages paid to relief workers is similar to the share of wages paid to people on unemployment insurance today. The difference is that the relief workers had to do work to get their unemployment checks.

8. Wickens (1941, 254).

9. Average annual income of \$1,155 and the 8 percent interest rate is reported in Wickens (1937, xxvi, xxviii). We have calculated the monthly payments by determining an annuity for the annual payment for a principal of \$2,272 and then dividing the annual payment by twelve.

10. Federal Home Loan Bank Board (1941, 143).

11. See Federal Home Loan Bank Board (1941, 140); and Federal Home Loan Bank Administration (1947, 32). By the end of fiscal year 1945, nearly 50 percent of the loan accounts had been terminated, 20 percent through foreclosure and 30 percent through prepayment.

12. See Federal Home Loan Bank Board (1941, 143, 145–48) and Federal Home Loan Bank Administration (1947, 33).

13. The Boise average home price comes from Wickens (1941, 97).

14. The market prices were not necessarily accurate in every case, but as long as they were not systematically biased in one direction, these aggregate figures are meaningful.

15. The 7 percent figure comes from Federal Home Loan Bank Board (1938b, 70). The NBER sample indicates that most of this debt was likely forgiven by second-lien holders. It is not clear, though, whether this takes into account the new second liens that the HOLC allowed some second mortgage holders to create as compensation for losing their previous claims.

16. Of the 198,215 properties acquired by the HOLC, 170,237 (86 percent) were acquired by the end of 1939 (Harriss 1951, 191).

17. See Skilton (1944, 179).

18. The HOLC Act specified 5 percent as the maximum rate for HOLC loans. As a result, the board needed no additional authority to lower the rate in 1939.

19. See Federal Home Loan Bank Board (1940, 1941).

20. Harriss (1951) and Federal Home Loan Bank Board (1941, 142) describe the ways in which HOLC officials acted as social workers to help troubled borrowers.

21. See Federal Home Loan Bank Board (1940, 28).

22. Foreclosure forbearance through 1937 is described in Federal Home Loan Bank Board (1937, 28). Forbearance through 1941 comes from Federal Home Loan Bank Board (1941, 150).

23. HOLC Papers, Regional Office Correspondence Box 151: Mortgagor Case Analysis Report, April 1936, "Re: Frank and Ellen W."

24. HOLC Papers, Regional Office Correspondence Box 50: Summary and Recommendation, July 23, 1936, "Re: Katherin C."

25. Abrams (1946, 245).

26. HOLC Papers, Regional Office Correspondence Box 8: Summary and Recommendation, July 1, 1936, "Re: Antonio and Nancy C."

27. HOLC Papers, Regional Office Correspondence Box 50: Delinquent Loan Report, September 17, 1935, “Re: Miriam E. C.”

28. HOLC Papers, Regional Office Correspondence Box 8: Report on Property Proposed for Foreclosure or Voluntary Deed, February 13, 1936, “Re: Edwin and Nancy C.”

29. Rose and Snowden (2012) examine the history of the modern loan contract and why it was adopted widely during the 1930s.

CHAPTER 9

1. Federal Home Loan Bank Board (1936, 60).

2. Average home-price drop is from Wickens (1941, table A10).

3. Prices by city are from Wickens (1941, table A10).

4. This section on the distribution of HOLC activity across counties is based on Courtemanche and Snowden (2011). See also Fishback, Kantor, and Wallis (2003) for county-level studies of the HOLC and a number of other New Deal programs. For studies of distributions of funds from New Deal programs, see Fishback, Kantor, and Wallis (2003); Fleck (2008); Wallis (1998); Reading (1973); Wright (1974); and the papers cited in those studies.

5. Recall that the HOLC program was focused on nonfarm homes. As we discussed in chapter 4, there was an alternative program for farm owners through the Farm Credit Administration. Throughout the rest of the chapter, therefore, we need to emphasize that we are referring only to nonfarm owners and nonfarm housing values unless otherwise noted.

6. See Courtemanche and Snowden (2011) and Fishback et al. (2011).

7. The results we discuss here are from Fishback et al. (2011). Courtemanche and Snowden (2011) report similar results while using different measures of HOLC activity and home-ownership rates rather than the number of home owners.

8. In order to successfully use the “distance from office” approach, Fishback et al. (2011) exclude the 395 counties from their sample that had populations above fifty thousand in 1930; as a result, their estimated impacts for the HOLC program apply only to counties with lower populations. Courtemanche and Snowden (2011) use the “distance from office” approach by removing from the sample the 209 counties in which an HOLC office was located in the spring of 1934. See below for a discussion of the differences in the interpretation of HOLC impacts in these excluded markets.

9. Fishback et al. (2011) found some evidence that counties where the HOLC loaned more per capita experienced a larger increase in the number of renters. Given that the HOLC’s support of home owners would have reduced the supply of rental housing, the only way this could have occurred is if lenders had made a significant number of loans for new apartment construction. The finding is puzzling because neither set of researchers could find any evidence that the HOLC loans were associated with increases in building activity.

CHAPTER 10

1. The *Time* magazine article was downloaded from <http://www.time.com/time/magazine/article/0,9171,792832,00.html> on October 14, 2011. See also Tough (1951) for an early examination of the profitability of the HOLC.

2. See also Mason (2004, 113) and Winston (1979).

3. The HOLC final report gave a final net earnings figure of \$14,068,588.64, of which \$13,993,588.64 was paid into the US Treasury. See Home Loan Bank Board (1952, vi). In an audit of the Federal Home Loan Bank Board, which included the HOLC, the Comptroller General of the United States (1953, 9) reported that the net earnings of the HOLC from its inception to June 30, 1952, was \$13,993,589.

4. According to the Bureau of Labor Statistics Consumer Price Index calculator at the www.bls.gov website.

5. See the report by the Comptroller General of the United States (1953, 9, 27–28).

6. Comparisons are based on bond rates listed in schedule 4 in Home Loan Bank Board 1952 and yields on high-grade corporate bonds reported in series Cj1238 through Cj1242 in James and Sylla (2006, 3–826).

7. Busby is quoted in US House of Representatives (1934, 84).

8. Roosevelt’s statement is from “Message to Congress Recommending Legislation to Guarantee Principal on Home Owners Loan Bonds,” March 1, 1934. Online at Gerhard Peters and John T. Woolley, *The American Presidency Project*, <http://www.presidency.ucsb.edu/ws/?pid=14816>.

9. Comparisons based on bond rates listed in Home Loan Bank Board (1952, schedule 4), and yields on high-grade corporate bonds reported in James and Sylla (2006, series Cj1238–Cj1242).

10. Abrams (1946, 246).

CHAPTER II

1. In particular, the legislative history of H4H makes clear that the HOLC was studied as a precedent and that the HOLC bad bank model was explicitly set aside due to concerns over purchasing loans out of securitization pools. Some of H4H’s proponents even predicted the H4H would be “a modern equivalent of the HOLC,” though a careful study of the HOLC indicates several important differences. See, for example, the testimony of Ellen Harnick, senior policy counsel of the Center for Responsible Lending (US Senate Committee on Banking, Housing, and Urban Affairs 2008).

2. The original maximum loan-to-value ratio in H4H was 90 percent. This was increased to 96.5 percent in November 2008 for borrowers with relatively high credit scores. The program also had an important requirement that if borrowers sold their homes in the future, they share the gains from any price appreciation with the federal government.

3. Some payments are one-time, and other payments recur over time depending on the status of the loan. All HAMP loans are designed to have a positive return to lenders. The program proceeds with a modification only if the lender agrees and if the revenue post-modification (including payments from the Treasury and payments from borrowers post-modification) exceed the expected revenue from loans without modification.

4. Brian Collins, “No One at All Happy with Modification Results,” *Mortgage Servicing News*, September 1, 2011.

5. HAMP figures are from Home Affordable Program (2012, 1–6). Number of home owners in 2010 was about 76 million, from http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=DEC_10_DP_DPDP1&prodType=table, downloaded on August 23, 2012.

6. Lenders and servicers were always encouraged to grant principal reductions vol-

untarily through HAMP, but in practice few HAMP modifications involved such actions. In October 2010, the Obama administration initiated a program to encourage voluntary principal reductions, but it has only modified about 60,000 loans, compared to 1.1 million for HAMP permanent modification as of April 2012. For figures see Making Home Affordable Program (2012, 1–6).

7. See Raskin (2011) and Cordell et al. (2008).

8. Discussion of the Fannie and Freddie investments can be found in Pro Publica (2012).

9. Nominal GDP averaged \$69.9 billion between 1933 and 1936 when the HOLC purchased \$3 billion of loans (Carter et al. 2006, series Ca74).

APPENDIX

1. See Fishback et. al. (2011) and Courtemanche and Snowden (2011).

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