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C H A P T E R 9

Problems of Organization and Staffing

THE history of the Home Owners' Loan Corporation was one of rapid growth followed by a somewhat slower contraction. Necessarily, therefore, the Corporation hired and later discharged large numbers of employees and faced many difficult problems of organization, staffing, and management. Moreover, its problems were complicated by the fact that the dominant character of its activities changed as it passed from the period of original lending, through additional lending, property management and sale, to final liquidation. Not all matters pertaining to these developments are relevant to the present study, but such as seem essential for an understanding of HOLC operations are summarized in this chapter.

ORGANIZATION

The HOLC's organizational structure changed many times, in all cases, apparently, with the object of reducing costs, increasing efficiency generally, and improving its lending and property management services.[1] From the first, it operated through a widely distributed and decentralized system of offices for the accommodation of applicants.[2] Moreover, there was considerable decentralization in making final loan decisions. Loans were approved at state offices, one for each state except Texas, which had three, and California, which had two. The number of offices declined when lending ceased, but, for several years, the HOLC maintained an organization able to reach the great majority of its borrowers by local telephone, local transit, or a short automobile drive. Contact with applicants, borrowers, renters, and purchasers was also maintained to varying degrees through local real estate brokers, fee attorneys, and appraisers. How-

[1] Some of the changes involved relations with other government agencies—primarily the Federal Home Loan Bank Board and its successor agencies—and seem not to have had important consequences for the lending and liquidating activities of the HOLC.

[2] At the peak, November 1934, the HOLC had 458 offices at which applications were accepted.

ever, owing to the importance of the documents, mortgage papers were kept at regional offices.

While early plans provided for considerable decentralization in lending operations, loan servicing and collections were to be directed from Washington headquarters, mainly due to pressure of work at the local level in making loans and to prospects of achieving economies by centralization. Before many months had passed, however, the centralized collection arrangement proved inadequate, especially for directing loan servicing on an individual basis. In 1934, therefore, eleven regional offices were established, staffed in part with headquarters' personnel familiar with the problems of the individual regions.[3] The regional offices had jurisdiction over state offices in the granting of loans, though state offices generally retained a high degree of independence in this matter, and took care of billing, collecting, and record-keeping. For the first year or more, state offices were concerned primarily with making loans, but their interest in loan servicing gradually increased. General policy was made at Washington headquarters and transmitted to the regional offices, which in turn supervised its administration through state offices. On all but the most exceptional problems regional officials were allowed to exercise their own judgment; many of the more routine problems were left to the decision of state officials, but increasingly the regional offices assumed more operating responsibility.

As the HOLC contracted, state offices were abolished (the first during the 1940 fiscal year and the last in September 1942), and their functions and work were transferred to the regional offices. District offices were maintained for several years (most states had at least four at the peak); but all except four had been abolished by June 30, 1939. In addition, small subdistrict offices (sometimes termed "field" or "loan service" stations) were maintained, dropping from 250 in June 1937 to 47 in June 1941 and 19 in June 1943.[4] The HOLC, responding to Congressional criticism that too many offices were being operated, maintained that close contact with borrowers was nec-

[3] Officials of the HOLC had become convinced by this time that forty-eight state offices could not be supervised effectively by a central office. Some members of Congress, however, criticized the HOLC for setting up an additional layer of administrators.

[4] In 1939, the HOLC estimated that for the next year fifty field stations would need only one employee, and in only two cases would the salary exceed $2,350. U. S. Congress, House, Hearings before the Subcommittee of the Committee on Appropriations on the *Independent Offices Appropriation Bill for 1940*, 76th Congress, 1st Session (1939) pp. 1364-68.

essary in order to save travel expense and to provide efficient loan service facilities and that many offices, consisting of but a room or desk in a post office or other public building, or space in a field service representative's residence, were either costless or very inexpensive to operate.[5]

Beginning with the absorption of the Boston regional office into the New York office during the 1939 fiscal year, operations were further consolidated, ending with the absorption of the Chicago office by New York in the summer of 1947. Each step of consolidation was expected to bring economies, although it is impossible to estimate closely the portion of the total decline in operating expenses that resulted from consolidation.

As might be expected, office organization varied from time to time. In June 1935, toward the end of the period of most active lending, state offices had six major divisional heads—counsel, reconditioning supervisor, appraiser, office manager, disbursing officer, and accountant; the regional office had an office manager, a director of personnel and eight divisional heads—counsel, reconditioning supervisor, appraiser, treasurer, inspector, property manager, collector of delinquent accounts, and accountant—operating under two assistant regional managers. The headquarters' office, of course, had a larger number of staff positions.

Eighteen months later, there had been several changes, the most notable being the creation of state and regional organizations for loan servicing (for instance, forty of the eighty-one employees in the typical state office were in the Loan Service Division) and the creation in January 1936 of the Property Management Division. Changes continued, but their general effect was to simplify rather than to complicate the form of organization. In the late thirties the functions at the state and regional levels were generally grouped as follows: loan servicing, property management, appraisal and reconditioning, legal, accounting, and financial (treasurer), although there were other operating and staff functions, such as, auditing, personnel management,

[5] In view of the nature of its operations and functioning, it is perhaps surprising that the HOLC received so little criticism from Congressional sources. In fact, its record of relations with Congress was extraordinarily good. On two major matters of policy—the Mead-Barry Act discussed in Chapter 8 and the question of accelerating liquidation—the HOLC was at odds with the majority in Congress, but in general it had a wide range of authority on broad issues, and Congress appeared satisfied with its administration of these responsibilities.

insurance, administrative, and the like. A brief summary of the functions of each of these major divisions, drawn from an HOLC statement of them, will perhaps be useful.[6]

"The Loan Service Division is responsible for the protection of the Corporation's interest in the loans made during refinancing operations and the security instruments or sales contracts resulting from the sale of acquired properties. It is the duty of this Division to maintain the maximum number of loan accounts in good standing; to deal speedily, effectively, and sympathetically with those that are, or become, in default; to secure the facts in each case and promptly take such action as the circumstances may warrant. The Loan Service Division conducts all contacts with home owners, both mail and personal, regarding delinquencies in interest or principal payments, taxes, and assessments, or advances made by the Corporation for necessary repairs, taxes, or insurance." . . . [The Division also helped obtain data on delinquent taxes and attempted to get borrowers to pay tax arrears (with an HOLC loan if necessary) and to set up tax and insurance accounts.]

"The Property Management Division has jurisdiction over all properties which have been acquired by the Corporation through foreclosure or by conveyance until resold. It likewise has under its management those properties which are in process of acquisition, taking jurisdiction immediately after authorization to proceed with foreclosure. The Division is specifically charged with the liquidation of repossessed properties by sale, and the management of those properties pending sale, said management involving rental and maintenance. It is likewise charged with the duty of making a complete analysis of each property and of determining its value and salability, fixing minimum sales or rental prices, and determining the extent and amount of reconditioning necessary to protect the Corporation's interests and to produce the maximum sales values or rental basis. . . ."

[The Appraisal Section] "has full responsibility for the final determination of appraisal values in connection with the marketing of acquired properties, foreclosures, receiverships, voluntary deeds, condemnations, tax assessments, partial releases, substitution of security, insurance losses, and disaster losses. It joins with other authorities in the issuance of consents for the improvement, alteration, or demoli-

6 U. S. Congress, House, Hearings before the Subcommittee of the Committee on Appropriations on the *Independent Offices Appropriation Bill for 1940,* 76th Congress, 1st Session (1939) pp. 1318, 1320, 1325-27, and 1329-30.

> tion of structures securing the liens of the Corporation. It supplies the legal department with expert testimony in litigation affecting property values. It prepares reports in special cases involving damage to the Corporation's liens through floods, earthquakes, earth slides, blighted areas, and other conditions, and also performs, directs, and supervises all other appraisal services required by the Corporation. . . . In those cases where title has been acquired to property, the information and advice provided by complete appraisal reports are necessary for the correct determination as to whether the property should be disposed of immediately, held for sale, rented 'as is' or reconditioned for enhanced income. . . . This section also renders important services to other agencies." . . . [The Reconditioning Section] "makes inspections and prepares reports covering the recommended maintenance, repair, modernization, rehabilitation, rebuilding enlargement, restoration and demolition of all property on which the Corporation has made loans, or has acquired ownership. Where construction work has been authorized, the section prepares specifications, takes bids, awards contracts, and supervises the actual execution of the work."

The Legal Department, of course, acted in an advisory capacity and handled the vast amount of legal work involved in managing a mortgage portfolio. It supervised foreclosure cases, including evictions, bankruptcy proceedings, condemnation proceedings, tort cases, claims against the HOLC, and related functions. At one time it was estimated that about 3,000 personally-owned automobiles were used by HOLC employees on HOLC business; since the HOLC "insured" itself, each public liability and property damage claim resulting from the use of these automobiles had to be handled by the HOLC's own legal staff.[7] The Legal Department also handled cases involving fire and other compensation claims. It investigated matters of a criminal or semicriminal nature growing out of original lending, reconditioning advances, loan servicing, and sales of property. It participated in the closing of each sale of HOLC property. Large numbers of landlord-tenant cases had to be dealt with. A vast amount of legal work was involved in reconditioning—examination of title, execution of lien and mortgage instruments, and mechanics' and materialmen's

[7] The Home Owners' Loan Act—June 13, 1933, c. 64, 48 Stat. 128, Sec. 4 (a)—provided that, though an instrumentality of the United States, the Corporation could be sued in any court of competent jurisdiction.

liens, releases, and clearance forms required by state law. Legal advice on financial matters such as bond issues was given. New legislation and court decisions had to be followed in each jurisdiction in which the HOLC had property or loans. It assisted in the tremendous job of keeping records of tax payments on security properties, although most of this work had been shifted to the Loan Service Division. Much legal work was required in reviewing the Corporation's forms, and in connection with extensions, recasting of loans, partial releases, property transfers, death cases, loans paid in full, and reconditioning advances.

Responsibility for supervising and maintaining all of the Corporation's accounts rested with the Accounting Division. Detailed records were kept for each loan or property. Preaudits and postaudits were conducted by an auditing department. The Treasurer's Division was responsible for the safekeeping and proper disbursement of the Corporation's funds and in addition for the safekeeping of bonds, investment certificates, notes, agreements, and other valuable papers pertaining to loans or sales made by the HOLC.

Other parts of the organization were the Administrative Division, Division of Research and Statistics, Public Relations Department, Personnel Department, Secretary's Office, the Financial Adviser and Budget Director, and the members of the Board of the Federal Home Loan Bank System and their staffs. Various committees were formed to coordinate the activities of different divisions and departments and to make decisions on problems that cut across lines of responsibility.

Staffing

Employment in the HOLC, covering all personnel except those on a fee basis, rose to about 20,000 in the first fifteen months, declined by 10 percent during the next six months, rose to over 19,000 late in 1935, and then began a sixteen-year decline. During the peak of lending activity, field offices accounted for roughly three-quarters of all employees, but their importance diminished after the end of the lending period, both absolutely and relatively regarding total HOLC employment. Part of the decline during and after 1939 resulted from a shift of functions from field to regional offices, which, along with some change in the relative importance of different functions (notably the reduced need for loan servicing and property management), increased the relative importance of the regional offices, which did not begin to cut their personnel greatly until late 1942.

Data on the distribution of personnel by department (essentially by function) are not available for the early years; an estimate made in January 1937 for the 1938 fiscal year is given in Table 39 and a classification of actual employment and salary expenses for 1941 in Table 40.

TABLE 39 — ESTIMATED DISTRIBUTION OF HOLC EMPLOYEES AND SALARY EXPENSES, BY DEPARTMENT, 1938 [a]
(dollar figures in thousands)

Department	*Number of Employees*	*Salaries*	*Percentage Distribution*	
			Number	Salaries
Loan Service	3,553	$5,660	24.9%	21.6%
Legal	1,621	3,300	11.4	12.6
Property Management	2,752	5,614	19.3	21.4
Reconditioning and Appraisal	1,543	3,250	10.8	12.4
Comptroller (including Insurance Division)	2,558	4,025	18.0	15.3
General Manager	1,138	2,200	8.0	8.4
Board Members	32	95	.2	.4
Secretary	170	225	1.2	.8
Research and Statistics	66	150	.5	.6
Financial Adviser and Budget	20	73	.1	.3
Personnel	176	350	1.2	1.3
Auditor	593	1,240	4.2	4.7
Public Relations	13	31	.1	.1
Adjustment	11	29	.1	.1
Total	14,246	$26,242	100.0%	100.0%

[a] U. S. Congress, House, Hearings before the Subcommittee of the Committee on Appropriations on the *Independent Offices Appropriation Bill for 1938,* 75th Congress, 1st Session (1937) p. 660.

Major reductions of personnel between these dates were in the Loan Service and Property Management Divisions, owing, of course, to the decline in the need for loan servicing as mortgages in default were foreclosed or extended and to the gradual disposal of owned properties.

In the selection of its personnel the HOLC was naturally subject to pressure to make appointments on a political rather than on a

TABLE 40 — DISTRIBUTION OF HOLC EMPLOYEES AND SALARY EXPENSES, BY DEPARTMENT AND TYPE OF OFFICE, 1941 [a]
(dollar figures in thousands)

Department and Type of Office	*Number of Employees*	*Salaries*	*Percentage Distribution*	
			Number	Salaries
Administrative				
Home office	107	$222	1.2%	1.3%
Field	558	1,063	6.5	6.4
Loan Service				
Home office	22	71	.3	.4
Field	2,061	4,037	24.1	24.3
Property Management				
Home office	101	269	1.2	1.6
Field	1,854	3,492	21.7	21.0
Reconditioning and Appraisal				
Home office	44	134	.5	.8
Field	961	1,987	11.2	11.9
Financial Adviser and Budget				
Home office	15	44	.2	.3
Accounting				
Home office	75	182	.9	1.1
Field	973	1,498	11.4	9.0
Treasurer				
Home office	34	74	.4	.4
Field	422	630	4.9	3.8
Auditing				
Home office	143	352	1.7	2.1
Field	204	441	2.4	2.7
Legal				
Home office	89	264	1.0	1.6
Field	474	1,009	5.5	6.5
Personnel				
Home office	91	184	1.1	1.1
Field	89	173	1.0	1.0
Board Members	43	120	.5	.7
Secretary	127	188	1.5	1.1
Research and Statistics	59	136	.7	.8
Public Relations	15	38	.2	.2
Total	8,561	$16,607	100.0%	100.0%

[a] U. S. Congress, House, Hearings before the Subcommittee of the Committee on Appropriations on the *Independent Offices Appropriation Bill for 1943,* 77th Congress, 2nd Session (1941) pp. 953-54. Amounts do not necessarily add to total shown due to rounding.

purely merit basis.[8] Unemployment was in the millions, a new administration had come to power, and appointments in the HOLC could be made without displacing others. The desire to further party interests in selecting personnel and the speed with which decisions had to be made were inconsistent, of course, with the building of the most competent organization, yet it does not follow that a majority, or even a substantial minority, of appointments were of poorly qualified individuals. Late in 1933 the new HOLC leadership began to discharge employees who seemed incompetent; eventually this program was largely successful but not before the HOLC had acquired a bad reputation in some quarters. In 1934, a Congressional attempt to place HOLC personnel under the merit system was unsuccessful. In July of that year, the Federal Home Loan Bank Board issued an order limiting the political activity of HOLC personnel, prohibiting both campaign speechmaking and the releasing of lists of borrowers and applicants, and restricting employees to minor offices in political organizations.

Another unsuccessful effort to regulate appointments was a 1935 House amendment, defeated in the Senate, which would have prohibited the retention or appointment in regional offices of personnel not residents of local Congressional districts.[9] The amendment would have forced the removal, among others, of nine out of eleven regional managers and might have reduced the control of the national office over local operations long enough for political influence to be established.

In the early years, use of Civil Service Commission rolls would

[8] Representative Blanton of Texas stated in January 1935 that he had selected all the appraisers in his district, *Congressional Record,* Vol. 79, Part 1 (1935) p. 222. Mr. Vincent Dailey, head of the New York State office and active in Democratic state politics, told an audience in 1935 that he personally made all the appointments in that state and that he took them from the ranks of the Democratic party on the basis of integrity and ability to perform the work (*New York Times,* February 14, 1935, 17:3). Only in the early months, however, did state heads have such unchecked power. There was a widespread impression that some of the early appointments were very bad but that by late 1933, after Mr. Fahey became dominant in policy formation, conditions began to improve greatly. For two contemporary accounts see *Fortune,* Vol. 17 (May 1938) p. 94 and Oliver McKee, Jr., "The Jobmaster General," *The North American Review,* Vol. 237 (February 1934) pp. 119 ff.

[9] U. S. Congress, Senate, Hearings before a Subcommittee of the Committee on Banking and Currency on S. 1771 and H. R. 6021: *Home Owners' Loan and National Housing Act,* 74th Congress, 1st Session (1935) pp. 19, 186-97. Nevertheless, employees for each state had to be legal residents of the state (May 28, 1935, c. 150, 49 Stat. 293, Sec. 13).

not have been possible because the Commission had no appropriate lists or standards for the most important HOLC positions. However, under the provisions of Executive Order No. 6746 (June 21, 1934), the HOLC started to classify its positions according to the standards of the Commission, a policy which led eventually to the HOLC's incorporation into the merit system provided for most government agencies.

During its 1937 fiscal year, the HOLC began to use civil service registers in hiring persons for typing and clerical positions in Washington and later for its field offices, and, on January 1, 1942, it began to operate almost completely under civil service laws and regulations.

During the period of its exemption from civil service laws, the HOLC's personnel policies differed somewhat from those of most government agencies. One important difference was that until 1942 its salary schedules averaged about 15 percent lower than the classified civil service schedules applicable by law to all departmental service positions within the scope of the Classification Act; [10] another was that until 1941 it maintained geographical differentials applicable to its regional, state, and other field office positions, a practice followed more or less generally by governmental departments. These differentials tended in time to be eliminated. It is difficult to estimate the savings to the HOLC of these lower salary standards; but when the adoption of civil service scales became mandatory, the Corporation sustained an increase in costs of approximately 10 percent.[11] In the early years of its operations the HOLC staff's morale seems not to have been affected appreciably by wage rate considerations, although they may have been a source of some dissatisfaction as economic conditions improved and as the work of the Corporation shifted mainly to that of loan collection.

The HOLC's labor turnover was high, especially among technicians; while this was of less importance to an agency contracting in

10 This policy was established by the HOLC when it began operations and when it was independent of Congress for appropriations of operating funds. It was regularized by executive order. Later the policy was reviewed before Congressional committees, but neither the HOLC officials nor members of Congress pressed for its rejection.

11 U. S. Congress, House, Hearings before the Subcommittee of the Committee on Appropriations on the *Independent Offices Appropriation Bill for 1943,* 77th Congress, 2nd Session (1941) p. 969. It is estimated that the HOLC's net loss through 1947 would have increased 72 percent if the higher civil service salary standards had been followed.

size than it would have been to a growing organization, it was a more or less costly, and in some respects highly wasteful, process.[12]

In many respects the most significant factor affecting the HOLC's personnel problem was the fact that shortly after it had reached its early peak of employment it announced publicly that it was contracting and continued to emphasize this fact. Since the HOLC could offer jobs for the rest of their working lives to only a few individuals, employees were alerted to locate positions elsewhere, and in such efforts they were aided by the HOLC. Naturally, this set of policies led to some adverse selection so far as the HOLC was concerned. In selecting persons for dismissal, the HOLC, which had greater freedom than other government agencies until it came under civil service regulations in 1942, gave consideration to such factors as efficiency, length of service, versatility, economic need for employment, and veterans' status.[13]

Throughout its life, even to its final liquidation in the spring of 1951, the HOLC made serious efforts to help discharged employees find other jobs. Morale and efficiency were reputedly excellent up to the very end, a condition of which HOLC officials were proud and which they attributed in part to their efforts at placement.

PERSONNEL ON FEE AND COMMISSION BASIS

The relative importance of fee personnel in the total HOLC operation cannot be assessed, but it is known that up to 1937 about 5,000 different fee appraisers and inspectors had been used, that it had 2,399 contract management brokers, 2,638 contract sales brokers (many brokers serving in both capacities), and 9,800 approved sales brokers as of November 30, 1937.[14] At the same time, the number of fee attorneys totaled about 8,000, ranging from 7 in Nevada to 799 in New York, of which roughly 3,900 were approved to handle foreclosures. Monthly expenditures on fees for foreclosure work and general litigation were nearly $300,000 late in 1937; during the 1938 fiscal year,

12 The HOLC reported to Congress in December 1937 that its turnover rate had increased from 22 to 35 percent in the preceding three months. See U. S. Congress, House, Hearings before the Subcommittee of the Committee on Appropriations on the *Independent Offices Appropriation Bill for 1939,* 75th Congress, 2nd Session (1937) p. 1314.

13 *Ninth Annual Report,* Federal Home Loan Bank Board (June 30, 1941) p. 161.

14 U. S. Congress, House, Hearings before the Subcommittee of the Committee on Appropriations on the *Independent Offices Appropriation Bill for 1939,* 75th Congress, 2nd Session (1937) pp. 1291 and 1329.

$3.3 million were paid in attorneys' fees.[15] During the 1938 fiscal year, the number of available reconditioning fee personnel decreased from 3,008 to 1,859 and the number of appraisal fee personnel from 1,200 to 1,006.[16]

Group Health

Another episode in the HOLC personnel experience deserves a word. The Federal Home Loan Bank Board, of which the HOLC was the major part, established a group health program for its Washington, D. C., employees in 1937. Some of the cost was paid by the HOLC on the grounds that improvement in health would reduce the cost of sick leaves and would generally improve efficiency. Some members of Congress expressed strong opposition to the arrangement, but its continuance was permitted. The Corporation's officials felt that this system, for which there was very little precedent, amply justified its cost.[17]

[15] *Ibid.*, 1939, pp. 1344-45; and *ibid.*, 1940, p. 1352.

[16] *Ibid.*, 1940, p. 1328. As the volume of work declined, the HOLC found that fee personnel tended to lose interest; more supervisory effort was needed to maintain standards, and the Corporation often found it better to rely on salaried personnel.

[17] *Ibid.*, 1939, pp. 1350-64. The plan was extended to employees of other government agencies and is still in operation.