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CHAPTER 6

Foreclosures

DESPITE the leniency of the Home Owners' Loan Corporation and its efforts to adjust payment requirements to the borrower's needs, it acquired through foreclosure (or obtained through voluntary transfer of title by deed) the properties securing about one out of every five of its original loans; furthermore, around one out of fifty of the loans which it made when selling foreclosed properties (so-called "vendee loans") ended with foreclosure.[1] This record differs only slightly from that for a sample of urban mortgage loans made by twenty-four leading life insurance companies on one- to four-family dwellings during the years 1920-46, the life insurance company foreclosure rate for the entire period being 7.9 percent. For the years 1930-34, the life insurance company foreclosure rate was 17.4 percent; and for loans made during the five-year period 1925-29, it was 20.9 percent. However, the foreclosure rate on the relatively few loans made by these companies while the HOLC was making its original loans—from 1933 through 1936—was 2.6 percent.[2] Loans made by these companies during the years 1938-40 were foreclosed at about the same rate as HOLC loans made during the same period to finance the sale of properties it acquired by foreclosure.

While the handling of foreclosures proved troublesome and costly, the original HOLC Act made no reference to this problem and nothing was said concerning it in the Congressional debates, interest being focused then primarily on the extension of aid. Yet the necessity of foreclosure was implicit in the terms of the Corporation's

1 From the viewpoint of the study of "investment experience," foreclosures may be merged with voluntary transfers of title by deed; consequently, to simplify the presentation of this chapter, the term "foreclosure" includes—unless specifically indicated otherwise—cases in which properties were acquired through voluntary transfers as well as those cases in which properties were acquired through foreclosure proceedings.

2 R. J. Saulnier, *Urban Mortgage Lending by Life Insurance Companies* (National Bureau of Economic Research, Financial Research Program, 1950) Table 22, p. 84. The data are for a sample of urban mortgage loans made on one- to four-family dwellings by twenty-four leading life insurance companies, 1920-46. Loans transferred to the HOLC by these insurance companies are not classed as foreclosed.

creation, since the security it took was the mortgage, ultimately enforceable only in this manner. In any event, Congress could not at the time have known clearly what kind of foreclosure policy it wished the HOLC to follow.

Delinquencies arose shortly after lending operations started, and, in the end, nearly 200,000 properties were acquired—about 18 percent by voluntary transfer of deed and the remainder by foreclosure. The servicing facilities discussed in Chapter 5 were designed to prevent foreclosure, and doubtless succeeded in a great many cases, but it became apparent early that some delinquencies were the deliberate actions of individuals who sought to take advantage of the government. Then, the HOLC, with the support of the President, moved quickly to protect its interests. It was publicly stated that foreclosures would be pressed—and they were in numerous cases—with the result that many borrowers were stimulated to make their best financial effort.

Timing of Foreclosures [3]

By the time the lending had stopped in June 1936, the HOLC had acquired 5,275 houses on which its claims totaled $24 million—roughly 0.6 percent of the number of loans outstanding a year or more and 0.7 percent of the loans outstanding eighteen months or more.[4] In addition, 2,391 properties with a capitalized value of about $12 million were in process of acquisition, and foreclosure had been authorized in more than 20,000 other cases. Foreclosures rose rapidly from less than 1,500 a month in June 1936 to well over 4,500 a month a year later. Throughout the next twelve months, the rate averaged about 4,500 per month, except for March 1938 when fore-

[3] For some purposes, the date of authorization of foreclosure is more significant than the date of actual HOLC title acquisition. However, authorization was not always followed by foreclosure. Also, HOLC foreclosure action had to take account of the differences in state law, which make the data noncomparable in many important respects. In view of these qualifications, therefore, data on properties acquired are used in this study to analyze foreclosure experience.

[4] It may be of interest to note that the number of loans foreclosed by all Massachusetts mutual savings banks rose sharply during the HOLC lending period (1933-36), reaching a peak in 1935 when the number of new foreclosures totaled 4 percent of the number of outstanding mortgage loans. During the years 1937-40, the foreclosure rate fluctuated only slightly from a level equal to about one-half of the peak of 1935. In contrast, the foreclosure rate on HOLC loans increased sharply through 1938 (the peak year) and then began a steady decline. (See John Lintner, *Mutual Savings Banks in the Savings and Mortgage Markets,* Harvard University, 1948, Tables 32 and 33, pp. 272 and 275.)

closures exceeded 5,000. This peak in foreclosure activity occurred one-quarter of a year before the trough of the business cycle, June 1938. However, the period of heaviest foreclosures (May 1937 to July 1938) coincides with the period of cyclical business contraction as established by Wesley C. Mitchell in *Measuring Business Cycles.* By December 1937, eighteen months after finishing its original lending, the HOLC had made half of all the foreclosures which it was to make, and three-fourths by June 1939.

The downswing in foreclosures which became evident in the sharp decline from June to July 1938 continued at a slower rate during the remainder of the fiscal year. In June 1939, the monthly rate was about 3,400; a year later, June 1940, about 1,500. The rate declined further to 1,000 in June 1941, to 500 in June 1942, and thereafter became negligible.[5]

Most foreclosed loans were nearly two years in default at the time of foreclosure; consequently, the majority of loans must have become delinquent not more than two years after they had been made. Assuming that the delinquency on early foreclosures was roughly equal to the average delinquency for all HOLC experience, half of the loans eventually foreclosed were delinquent by early 1936 and a third or more by early 1935.

A number of factors served to reduce foreclosures in the later years, aside from the fact that the weakest loans were foreclosed at an early date. One factor was the income improvement in the late thirties; also significant were the widespread reduction of monthly amortization payments beginning in October 1939 (especially for those having payment difficulties), the 1939 reduction of interest

[5] The figures on HOLC property acquisitions by month are:

	1936	*1937*	*1938*	*1939* [a]	*1940* [a]	*1941* [a]	*1942* [a]
January	320 [a]	3,059	4,709	3,300	1,600	1,600	600
February	450 [a]	3,068	4,365	2,800	1,300	1,340	500
March	600 [a]	4,139	5,013	3,400	1,700	1,300	560
April	670 [a]	3,918	4,894	3,000	1,380	1,200	540
May	960 [a]	4,314	4,739	3,500	1,500	1,100	500
June	1,440 [a]	4,850	4,825	3,400	1,600	1,000	540
July	1,836	4,511	4,094	2,800	1,700	800	500
August	1,957	4,302	3,931	2,900	1,750	660	380
September	2,536	4,737	3,863	2,600	1,700	700	460
October	3,420	4,557	3,617	2,500	1,700	640	350
November	3,094	4,264	3,549	2,400	1,730	600	320
December	3,343	4,604	3,598	1,800	1,600	600	320

[a] Estimated. Data made available by the HOLC.

rates on all loans, and the improvement in HOLC loan servicing. Finally, foreclosures were reduced over what they might otherwise have been by the fact that borrower equities tended to increase as real estate prices rose and as the principal amount owed on individual loans was reduced by amortization payments.

Geographical Distribution of Foreclosures

In New York State, where there were 34,399 foreclosures, over 40 percent of the number of original loans were foreclosed; New Jersey and Massachusetts had about the same record, these three states accounting for more than one-fourth of all foreclosures (Table 19).[6] Only about 5 percent of the original loans made in Nevada and Wyoming were foreclosed, while in Idaho, Michigan, New Mexico, and West Virginia the rate was about 8 percent. Foreclosure rates in the South were generally well below the national average—19 percent. Maryland and Oklahoma rates were somewhat higher. Finally, in Ohio, where the largest number of loans was made, foreclosures were 13 percent of all loans made—approximately the same as in near-by Illinois and Indiana.

A comparison of the regional distribution of HOLC foreclosures with that of twenty-four leading life insurance companies reveals both similarities and differences. Both the HOLC and the life insurance companies experienced highest foreclosure rates in the New England and Middle Atlantic regions. Both experienced rates well below average in the Mountain and Pacific regions. HOLC experience in the East North Central region was relatively favorable, however, with a foreclosure rate about one-third below the national average; yet the insurance company foreclosure rate in this region was more than one-third above the national average. In the West North Central region, on the other hand, the opposite relationship was found; HOLC foreclosures were well above average, while life insurance company foreclosures were only one-third of the national average. In the other regions—the South generally—the foreclosure

6 A sample study indicated that thirty-nine selected Massachusetts mutual savings banks foreclosed 13.1 percent of all mortgage loans (18.3 percent of the amount loaned) made on one- to four-family dwellings between 1918 and 1931. Dr. Lintner's study does not reveal how many of the poorer loans of these institutions were transferred to the HOLC. (John Lintner, *op. cit.*, Table 41, p. 362.) Dr. Lintner has explained in correspondence with the author that he did not treat as foreclosures distress cases transferred from the mutual savings banks to the HOLC.

TABLE 19 – FORECLOSURE RATES ON ALL ORIGINAL LOANS MADE BY THE HOLC, BY CENSUS REGION AND STATE, AS OF MARCH 31, 1951 [a]

Census Region and State	Loans Fore-closed [b]	Fore-closure Rate [c]	Census Region and State	Loans Fore-closed [b]	Fore-closure Rate [c]
New England	*15,410*	*32.3%*	North Carolina	1,607	13.0%
Maine	656	19.3	South Carolina	627	11.0
New Hampshire	406	21.7	Georgia	1,775	12.0
Vermont	382	24.2	Florida	1,317	9.7
Massachusetts	10,132	41.3			
Rhode Island	1,445	23.6	*East South Central*	*8,102*	*16.8*
Connecticut	2,389	23.2	Kentucky	1,524	16.5
			Tennessee	2,203	16.0
Middle Atlantic	*58,869*	*33.6*	Alabama	3,062	18.4
New York	34,399	42.9	Mississippi	1,313	15.0
New Jersey	13,956	38.4			
Pennsylvania	10,514	17.9			
			West South Central	*18,013*	*19.4*
East North Central	*42,593*	*12.8*	Arkansas	1,661	16.1
Ohio	12,408	12.6	Louisiana	2,352	16.4
Indiana	6,566	13.5	Oklahoma	6,050	25.3
Illinois	9,057	12.9	Texas	7,950	17.9
Michigan	7,147	8.8			
Wisconsin	7,415	22.4	*Mountain*	*4,866*	*11.2*
			Montana	339	9.2
West North Central	*25,189*	*23.4*	Idaho	415	8.8
Minnesota	2,765	13.2	Wyoming	129	5.3
Iowa	2,894	14.7	Colorado	1,232	10.6
Missouri	6,713	27.4	New Mexico	188	7.6
North Dakota	1,208	27.4	Arizona	915	14.1
South Dakota	1,859	30.4	Utah	1,595	14.8
Nebraska	3,974	29.2	Nevada	53	4.4
Kansas	5,776	31.2			
South Atlantic	*12,059*	*13.8*	*Pacific*	*9,022*	*10.9*
Delaware	230	14.0	Washington	2,614	12.2
Maryland	3,459	21.7	Oregon	916	9.7
Dist. of Columbia	232	11.1	California	5,492	10.7
Virginia	2,053	17.1			
West Virginia	759	8.4	United States [d]	194,134	19.1%

[a] Data made available by the HOLC.
[b] Based on the number of properties (securing original loans) acquired by the HOLC.
[c] Represents the total number of properties (securing original loans) acquired by the HOLC as a percentage of all original loans made.
[d] Includes eleven properties acquired in Puerto Rico.

experience of both the HOLC and the life insurance companies was roughly similar.[7]

Regional and state differences in foreclosure rates may be due to some extent to interstate differences in the quality of HOLC loan-servicing facilities, but also in large part to differences in economic conditions, in regional and state policies in granting favorable terms on loan extensions, and in general standards of strictness toward borrowers. Officials of the HOLC have acknowledged that differences in strictness did exist and that these might have been important in view of the possibility that leniency in the late thirties may have given some borrowers an opportunity to meet their obligations with the later, unforeseen rise in income.

The available data (Table 5 and Table 19) indicate little if any relation between the foreclosure rate in a given state and the state's average ratio of the original amount of the loan to the HOLC appraisal. Connecticut and Massachusetts, Minnesota and Nebraska, Iowa and Kansas, California and New York, and many other pairs of states can be found where the original loan-to-appraisal rates were almost identical but where foreclosure rates varied widely. Some contrasts may have resulted from real differences in conditions, others from the fact that the individual items making up identical averages may have been widely different.

Reasons for Foreclosure and Number of Months Delinquent

In so far as default can seldom be attributed to a single cause, the available data on the causes of HOLC foreclosures do not lend themselves readily to statistical analysis. Despite this limitation, the information on "reasons for foreclosure," given in Table 20 for loans foreclosed through June 30, 1944, and based on the reports of HOLC analysts in making recommendations for foreclosure, may be of interest. In each case of foreclosure the agent was required to indicate which of six reasons, presumably the dominant reason, would apply.

The HOLC attributed nearly half its foreclosures to *noncooperation of borrower,* although one cannot distinguish in all cases between this group and the two others of next greatest importance,

[7] R. J. Saulnier, *op. cit.,* Table 25, p. 87. The data are for a sample of urban mortgage loans made on one- to four-family dwellings by twenty-four leading life insurance companies during the years 1920-29. Loans transferred to the HOLC by these life insurance companies are not classed as foreclosed.

namely, *obstinate refusal to pay* and *total inability to pay*. A borrower classed as "noncooperative" had, in the opinion of the HOLC agent, some chance of either carrying the loan or selling the property with some salvage of equity, but lacked the determination to make the necessary efforts and sacrifices. Frequently, he rejected the service representative's suggestions, such as to rent or sell the house, to take in roomers, to economize, to take work himself or induce a family member to take work, or to make some other adjustment. In other cases he might accept the service representative's recommendation but fail to carry it out; sometimes the HOLC's communications were entirely ignored.

This type of noncooperation could sometimes be attributed to a desire to obtain free housing for a time, an object that, in view of the HOLC's nature, was not difficult to realize, but it was in some cases due to family difficulties or to the fact that the mortgage was no longer assumed by the original borrower. More than a third of the noncooperative cases were in default two years or more and almost two-thirds for eighteen months or more (Table 20). These arrearages extended over longer periods than the average delinquency period for all foreclosures and testify to the patience of the HOLC, or conceivably, to some lack of acumen in loan servicing and to a possible lack of adequate staff.

The most significant fact revealed by the data on noncooperative borrowers is that in these 88,166 cases—44.7 percent of all foreclosures—the HOLC analyst handling the case felt that foreclosure might have been avoided, at least temporarily, by the borrower. As noted earlier, borrowers would generally have been better off had they held on, but in some cases, especially where there was an appreciable negative equity, it may have been even more profitable for the borrower to exploit the leniency of the HOLC and to get free occupancy for two years or more. In any event, the figures strongly suggest that the moral risk is highly important in determining the outcome of mortgage credit extensions.

The HOLC found *obstinate refusal to pay* the second most important reason for foreclosure. The chief differences between cases in this category and in that of "noncooperation" seem to have been a lesser degree of willingness to formulate and carry out plans, and some evidence that the obstinate borrowers had more resources than the noncooperative borrowers. In other words, the obstinate borrow-

TABLE 20 — PERCENTAGE DISTRIBUTION OF HOLC FORECLOSURES, BY REASON FOR FORECLOSURE AND NUMBER OF MONTHS DELINQUENT, AS OF JUNE 30, 1944 [a]

Number of Months Delinquent [b]	*Reason for Foreclosure*						*Total Property Acquired*
	Noncooperation of Borrower	Obstinate Refusal to Pay	Total Inability to Pay	Abandonment of Property	Death of Borrower	Legal Complications	
0–2	.3%	.7%	1.9%	1.4%	1.8%	4.2%	.9%
3–5	1.8	6.9	12.9	4.8	7.1	14.3	5.5
6–11	11.0	18.5	20.5	16.8	20.6	25.4	15.5
12–17	22.4	21.4	19.1	26.5	24.1	24.7	22.1
18–23	29.6	25.6	19.7	28.5	23.2	16.9	26.5
24 and over	34.9	26.9	25.9	22.0	23.2	14.6	29.5
Total Number	88,166	42,422	35,033	21,468	9,525	57.5	197,189
Distribution by reason for foreclosure	44.7%	21.5%	17.8%	10.9%	4.8%	.3%	100.0%
Proportion of acquisitions by voluntary transfer	11.4%	13.4%	27.6%	38.8%	8.8%	8.5%	17.6%

[a] Data made available by the HOLC. Includes properties securing original and vendee loans acquired by the HOLC. For breakdown according to method of acquisition, see Appendix Table B2.

[b] Most loans eventually foreclosed probably became delinquent first in 1934 or 1935, though the data indicate not more than eighteen or twenty months of delinquency for the majority. Intermittent and partial payments and extensions account for this discrepancy. The data accumulate possibly discontinuance periods of delinquency. The period covered extends to the date on which the agent recommended foreclosure, ordinarily ten days to two weeks before the final HOLC decision to foreclose. Since the borrower was given another few days grace, almost one month intervened between the end of the period covered in the table and the start of foreclosure proceedings. Moreover, the HOLC sometimes had to wait several weeks before obtaining possession of the property.

ers were the worst moral risks. A total of 42,422 foreclosures—21.5 percent of the total—was classified as resulting from obstinacy, and over half of these were delinquent eighteen months or longer (Table 20).

Third in importance as a reason for foreclosure was *total inability to pay*—accounting for 17.8 percent of all foreclosures. It is a matter of some interest that out of more than a million mortgage loans to borrowers in financial distress, only 2.5 percent were foreclosed for this cause. Yet it would be easy to conclude too much from such figures. Some of the abandonment, noncooperation, and obstinacy cases doubtless involved a complete inability to pay. Moreover, some borrowers who were totally unable to pay avoided foreclosure by selling their properties. Also, if incomes and prices of houses had not risen in the forties, the number of foreclosures resulting from inability to pay might have been much higher.

Nearly one out of every nine foreclosures, 21,468 in all, followed *abandonment of property*. This may have been due to the borrower's having found employment in, or having other valid cause to move to, another community, to a gradual deterioration which made the property uninhabitable from the borrower's viewpoint, to serious damage by fire or the elements, to family dissolutions, such as divorce, or to any one or more of numerous other causes. In half of the abandonment cases the borrower was eighteen months or more in arrears, and in over three-fourths of them the arrearage was a year or more (Table 20). As a rule, maintenance in these cases had been extremely inadequate, meaning substantial loss for the HOLC.

Abandonment as a reason for foreclosure was substantially below the national average in the East North Central region (7.0 percent), and well above the national average in the Mountain (18.0 percent) and Pacific (18.2 percent) regions (Table 21). In New York, where foreclosure rates were relatively high, abandonments accounted for 7 percent of all foreclosures; in Massachusetts the rate was almost 19 percent, while in Oregon it was 26 percent.

Finally, *death of borrower* was assigned as the reason for over 4 percent of all foreclosures and *legal complications* for 0.3 percent. In the death cases the heirs sometimes had no desire to keep the property for their own occupancy and permitted foreclosure where there was little or no equity. In three out of four cases the delinquency was a year or more, but often this had been accumulated before the death of the original borrower.

TABLE 21 — PERCENTAGE DISTRIBUTION OF HOLC FORECLOSURES IN INDICATED CENSUS REGIONS BY REASON FOR FORECLOSURE, AS OF JUNE 30, 1944 [a]

Reason for Foreclosure	Census Region[b]									*United States*
	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Moun-tain	Pacific	
Noncooperation of borrower	33.1%	40.2%	51.1%	49.7%	43.5%	43.5%	49.0%	41.3%	44.7%	44.7%
Obstinate refusal to pay	21.6	19.6	23.6	19.3	27.8	21.9	21.0	23.2	21.2	21.5
Total inability to pay	25.0	27.1	12.7	15.8	11.0	13.9	9.1	11.6	9.0	17.8
Abandonment of property	16.1	9.1	7.0	9.9	10.6	13.7	15.8	18.0	18.2	10.9
Death of borrower	3.9	3.8	5.3	4.8	6.7	6.6	4.8	5.4	6.4	4.8
Legal complications	.2	.1	.3	.5	.3	.5	.3	.6	.6	.3
Total Number	15,115	57,827	42,684	25,742	12,217	8,262	18,502	4,989	9,189	194,538 [c]

[a] Data made available by the HOLC. Excludes properties securing vendee loans acquired by the HOLC.
[b] For states included in each census region see Table 19.
[c] Includes eleven properties acquired in Puerto Rico.

The number of months that loans had been delinquent over the whole life of the loan when the property was recommended for foreclosure by the HOLC agent is also shown in Table 20.[8] In 30 percent of the cases the borrower had been delinquent two years or more and in over half of them for a year and a half or more; in 6 percent of the cases delinquency was less than half a year.[9] However, since delinquent accounts which had been formally extended are not covered in these calculations, the total period of delinquency was often much greater than shown.[10] Regional variations warrant brief mention. In the Middle Atlantic region about 60 percent of all cases were eighteen months or more delinquent, while in the West South Central region only 45 percent were delinquent for a similar period.[11]

The Foreclosure Process

In some states foreclosure is a relatively simple legal process which can be completed without great expense or delay; in others it is both

[8] A special HOLC study of 71,000 original loans authorized for foreclosure from July 1938 to March 1941—36 percent of all foreclosures—shows that of loans foreclosed from July 1938 to January 1940 the monthly average of number of months in arrears was eighteen for the United States total and twenty for the New York region. Beginning with July 1940, these data are available for extended and nonextended loans separately and show that the number of months in arrears was very much greater—about four to six times—for the nonextended than for the extended loans. For the former, foreclosures in the New York region from July 1940 to April 1941 averaged about thirty-four months in arrears. This fact may explain in part the heavy loss record on New York region loans, but beyond that it is a dramatic evidence of the extent of the HOLC's indulgence of its borrowers prior to foreclosure.

[9] The loan experience of Massachusetts mutual savings banks revealed similar intervals of delinquency, although the banks generally foreclosed somewhat sooner than the HOLC. For instance, from a sample of loans on one- to four-family dwellings originally made by thirty-nine selected Massachusetts mutual savings banks during the years 1918-31 and first foreclosed during 1931-43, the delinquency period of foreclosed loans was six months or less in 39 percent of all cases, six months to one year in 22 percent of all cases, one to two years in 23 percent of all cases, and over two years in 16 percent of all cases. See John Lintner, *op. cit.*, Tables 60 and XIV-41, pp. 432 and 543; these data do not include as foreclosures distress cases transferred from the mutual savings banks to the HOLC.

[10] It is estimated that nearly half, and possibly more, of the cases foreclosed had received some formal extension. If such time were added to the periods used in Table 20, the number of cases less than twelve months delinquent would probably be halved while the number delinquent for more than twenty-three months would be nearly doubled.

[11] Based on an unpublished study by the HOLC. The tabulations also illustrate something of the flexibility of HOLC policy. In every state there were some cases in which delinquency was slight (unless one makes the improbable assumption that all cases with short delinquency had received long extensions), while there were many more with delinquency of two years or more. Such variations testify to the HOLC's efforts to deal with each case on its own apparent merits.

expensive and time-consuming. These differences, as well as the numerous state moratoria of the early thirties, were obviously of great practical importance to the HOLC, with its huge volume of foreclosures. Wherever possible the HOLC obtained a voluntary transfer of title; this was accomplished in 18 percent of all cases: in 39 percent of the abandonment cases, 28 percent of the total-inability-to-pay cases, 13 percent of the obstinate-refusal-to-pay cases, and in 11 percent of the noncooperation cases (Table 20). In some states, voluntary transfer of title by deed in lieu of foreclosure accounted for less than 2 percent of all property acquisitions, whereas in others over 40 percent were acquired in this way. In New Jersey nearly one-half, and in New York about one-fourth, of all acquisitions were by this method.

SPECIAL PROCEDURES FOR OBTAINING EARLY POSSESSION [12]

It was the practice of the HOLC, in states where such procedure was legally permissible and its employment seemed advantageous, to place properties in process of acquisition on an income-producing basis at the earliest possible time; thus, in states such as Pennsylvania and New Jersey, the HOLC resorted to the process of taking possession of properties as a mortgagee in possession during the period of acquisition proceedings. Obtaining such possession was initiated at the time each individual case was received in the Legal Department, the actual mechanics of the operation being carried out in most instances by fee representatives or salaried personnel. The net result of this activity was that occupants of properties in process of acquisition, whether such occupants were owners or tenants, would either be placed on a tenancy basis acceptable to the Corporation or be evicted. Such evictions generally arose either from the failure of persons in possession to agree to the Corporation as landlord or to pay the Corporation the reasonable rental value of the portion of the premises occupied by such persons. Very frequently, in the case of tenants, the Corporation accepted as such rental figure the rent being collected by the owner of the property. Many millions of dollars were collected as the result of this activity. In many areas this was a novel procedure at the time.

In other areas where legally permissible, the Corporation resorted to the appointment of receivers, a practice followed successfully in

[12] The following material was prepared by the Legal Department of the HOLC.

New York and Illinois and in some other areas. Receivers were appointed under court order and served under that authority. The Corporation received the benefits of income derived from the properties during the tenure of the receiver after the deduction of operating costs, including necessary repairs and maintenance and receivers' fees. Although this practice generally might not have produced as much financial benefit to the Corporation as the mortgagee-in-possession procedure, the Corporation, nevertheless, collected substantial sums that would not have been obtained by traditional methods.

AVERAGE COSTS OF FORECLOSURE

When voluntary transfers in lieu of foreclosure were used, costs were much less than when foreclosure was necessary (Table 22). The average cost of all such voluntary transfer cases during the nineteen months ending June 30, 1939 was about $34, ranging from $46 in New Jersey and New York to under $10 in twenty-one states; in most of the last-mentioned states, however, full-time personnel, whose salaries are not included in the average cost of foreclosure, handled the legal work.

When the property acquisition resulted from foreclosure, the HOLC had a strong incentive to press for speedy action. For his part, the borrower would generally stop all payment of principal and interest and would not keep the property in repair, thus raising the HOLC's potential loss.[13] At one time, the HOLC estimated that each day of delay in completing foreclosure cost from $2 to $3.[14] Table 22 shows that the average length of time required to foreclose varied from state to state, from as little as less than one month to slightly over two years.[15]

[13] In some cases the HOLC decision to foreclose stimulated the borrower to greater effort. In the four fiscal years ending June 30, 1941, for example, 21 percent of all foreclosure actions started were withdrawn before completion.

[14] U. S. Congress, Senate, Hearings before the Subcommittee of the Committee on Appropriations on H.R. 8837: *Independent Offices Appropriation Bill for 1939,* 75th Congress, 3rd Session (1938) p. 15. For properties on which the loan was less than, say, $3,000, an average daily cost of delay of $2 seems high. Assuming that the HOLC paid 2½ percent for its funds, that the annual tax and insurance costs came to 3 percent of the value of the property ($4,500), and that depreciation was 3 percent a year, annual costs would be about $345, less than $1 a day. The costs of foreclosure action itself were generally not such as to increase proportionately with the increase in time. The time required was only one of several factors accounting for differences in foreclosure costs.

[15] The data include the redemption periods; in Alabama, however, the HOLC made a practice of selling foreclosed properties subject to redemptions.

TABLE 22 – AVERAGE COST OF ACQUIRING PROPERTIES THROUGH FORECLOSURE AND VOLUNTARY TRANSFER OF DEED IN LIEU OF FORECLOSURE, AND AVERAGE TIME REQUIRED TO COMPLETE FORECLOSURE ON ORIGINAL LOANS MADE BY THE HOLC, BY STATE, AS OF JUNE 30, 1939 [a]

Census Region and State	Foreclosure [b]		Voluntary Transfer [c]	
	Average Cost	Average Time	Number of Loans	Average Cost
New England				
Maine	$21.29	12.0 mos.	27	$7.00 [d]
New Hampshire	77.09	1.2	84	7.63 [d]
Vermont	107.52	12.5	68	7.63 [d]
Massachusetts	32.92 [d]	.9	1,116	7.00 [d]
Rhode Island	42.44 [d]	1.7	..	..
Connecticut	114.20	5.4	182	24.49
Middle Atlantic				
New York	280.94	3.8	4,596	46.04
New Jersey	237.90	5.8	4,637	45.79
Pennsylvania	132.52	2.6	10	6.60 [d]
East North Central				
Ohio	129.66	4.7	10	5.42 [d]
Indiana	186.19	14.0	841	6.21 [d]
Illinois	349.59	19.4	2,027	21.46
Michigan	86.46	14.9	204	10.01 [d]
Wisconsin	165.16	16.8	898	29.23
West North Central				
Minnesota	96.79	13.7	77	14.76
Iowa	123.08	15.8	616	16.80
Missouri	54.08	1.5	304	25.91
North Dakota	104.53	16.0	112	21.45
South Dakota	79.53	13.4	273	21.84
Nebraska	107.90	12.7	719	15.73
Kansas	92.95	13.8	522	15.73
South Atlantic				
Delaware	137.37	4.8	8	6.44 [d]
Maryland	151.63	2.2	240	44.46
Dist. of Columbia	51.52 [d]	2.7	..	..
Virginia	87.53	.8	..	..
West Virginia	57.12	1.1	..	..
North Carolina	57.42	1.4	5	7.26 [d]
South Carolina	132.01	3.3	192	21.47
Georgia	54.44	.9	12	7.92
Florida	160.40	3.9	197	40.83

(concluded on next page)

TABLE 22 – (concluded)

Census Region and State	Foreclosure [b]		Voluntary Transfer [c]	
	Average Cost	Average Time	Number of Loans	Average Cost
East South Central				
Kentucky	$159.67	6.6 mos.	558	$28.94
Tennessee	73.14	1.1	6	5.41 [d]
Alabama	45.15	25.1	5	5.09 [d]
Mississippi	55.41	.8	210	30.52
West South Central				
Arkansas	123.29	5.1	545	30.46
Louisiana	128.08	2.8	325	38.90
Oklahoma	159.35	11.2	1,388	4.66 [d]
Texas	3.82 [d]	.8	373	5.28 [d]
Mountain				
Montana	169.12	14.7	. .	. .
Idaho	152.63	15.2	104	5.20 [d]
Wyoming	177.76	10.8	33	5.12 [d]
Colorado	103.36	7.3	251	11.03
New Mexico	191.85	14.9	72	5.24 [d]
Arizona	197.81	9.1	75	7.81 [d]
Utah	158.46	9.1	691	6.24 [d]
Nevada	209.79	15.1	30	9.02 [d]
Pacific				
Washington	144.35	16.1	652	10.28
Oregon	120.94	15.6	401	5.32 [d]
California	149.74	14.6	994	11.17

[a] *Seventh Annual Report,* Federal Home Loan Bank Board (June 30, 1939) Exhibits 51 and 52, pp. 217-19.

[b] Based on a sample of 100 cases in each state. Total costs include attorney fees of cases handled by fee attorneys only. Therefore, in eight states where both salaried and fee attorneys were employed (Alabama, Delaware, Georgia, Louisiana, Nevada, New Mexico, Oklahoma, and Vermont) figures shown may overestimate the true values.

[c] Based on properties acquired from December 1, 1937, to June 30, 1939. Total costs include attorney fees, revenue stamps and recording fees.

[d] All cases serviced by salaried attorneys. Therefore, total costs exclude attorney fees.

Costs of the foreclosure process also varied from state to state (Table 22). Legal fees represented the largest single cost in foreclosure cases. Except in an insignificant number of cases, the HOLC practice was to retain local attorneys on a fee basis.[16] Other items of

[16] The HOLC kept itself informed on cases that had been assigned to local attorneys in order to avoid needless delay and cost. After a large number of foreclosure cases began to arise, the HOLC studied the amount and type of legal work needed in each state and announced a schedule of lower fees, which it would pay.

cost included court costs, advertising, and stamp taxes. The data in Table 22 do not include overhead and supervisory costs, the last of which amounted to about $4 a case, according to an estimate made in 1938, nor do they include the salaries of full-time attorneys.

DEFICIENCY JUDGMENTS

Under the laws of many states the HOLC had the right to try to obtain enough from a borrower's other assets to offset the loss resulting from foreclosure. By exercising such rights, the HOLC could undoubtedly have reduced its losses, yet it deliberately refrained from doing so except in most unusual cases. The exceptions arose when the HOLC felt certain that the borrower was able to meet his obligation and was trying to abuse the Corporation's leniency. In such cases a deficiency judgment was taken and enforced. In other cases a deficiency judgment was taken to protect the HOLC's interest under state law, but the claim was not pressed. Through October 1939, approximately 165,000 properties had been foreclosed and a total of 24,566 deficiency judgments, totaling $34 million, had been obtained. Of this amount $26 million had already been written off, less than $2 million had been collected, and the balance was still unsettled.[17] Through March 31, 1951, total collections of deficiency judgments were slightly over $2.6 million—57 percent of these being in Illinois.

FACTORS AFFECTING HOLC FORECLOSURE EXPERIENCE

Because the available HOLC loan experience records were not directly useful for a study of the factors influencing the quality of the Corporation's mortgage loans, it was necessary to develop primary loan experience records through the selection of a sample of loans from the HOLC files.[18] In this sample, which was drawn by the National Bureau of Economic Research from loans made in the original New York region consisting of Connecticut, New Jersey and New York, there were 3,883 usable cases, of which 38.6 percent were still in an active status in the summer of 1947 when the sample was se-

17 U. S. Congress, House, Hearings before the Subcommittee of the Committee on Appropriations on the *Independent Offices Appropriation Bill for 1941,* 76th Congress, 3rd Session (1940) pp. 1155, 1220-21.

18 This is the same sample of loans used in Chapter 4 to describe certain characteristics of HOLC borrowers and of the properties securing their loans.

lected and of which 25.7 percent had been paid off and 35.7 percent had been foreclosed.

The distinction between active, paid-off, and foreclosed loans is not, however, altogether satisfactory for purposes of a study of loan quality. While foreclosed loans are obviously of low quality, active loans are not necessarily of highest quality and some paid-off loans may, in fact, have been extinguished through sale of the property or through a fortuitous turn of events that could not be depended on regularly.[19] Notwithstanding these qualifications, which are present to some degree in every study of loan experience, the analysis of the sample data throws many interesting lights on the factors affecting mortgage loan experience.

In the following sections this sample of loans is analyzed to determine which characteristics of the HOLC borrowers, of the properties securing their loans, or of the mortgage contracts into which they entered seem to have been consistently related with either relatively good or relatively bad foreclosure experience. This is measured by comparing the percentage of loans of each type foreclosed with the average foreclosure rate for all loans.

BORROWER CHARACTERISTICS

It is perhaps to be expected that the income of the mortgage debtor, at least relative to the burden of his mortgage debt, would prove to be a significant, if not the most important, factor affecting mortgage loan experience. Yet it is not a simple matter to determine conclusively whether this is the case. In the first place, such a test would require data on the borrower's income over the whole period of the loan's history inasmuch as it is, presumably, a deterioration of income status rather than the income class of the borrower at the time a loan is made that leads to delinquency and eventual foreclosure. Furthermore, it is not likely to be income alone, but income in relation to the amount and terms of the loan—and numerous other factors—that influences mortgage experience. Whatever other difficulties compli-

[19] It should be observed that some of the loans foreclosed by the HOLC might not have gone to default during less difficult economic conditions, and, in this respect, the HOLC experience must be qualified as a guide to future experience. Almost all of the HOLC loans, of course, were made because of distress. Though not the very worst of distress cases, loans, nevertheless, were below average, not representative of all the country's mortgage loans. The analysis of one factor at a time may sometimes be misleading. The nature of the data, however, did not seem to warrant the effort needed for more complicated statistical analysis.

cate the study of the relation of income to loan experience, the fact is that the only income data available from the HOLC records refer to the family income of the borrower at the time the loan was granted. Though these data are far from ideal, they are by no means without interest and are presented in Table 23, with the borrowers in the several income classes further classified according to the original amount of the loan, the monthly rental value of the property, and the number of the borrower's dependents.

These materials point to the conclusion that it is not possible to distinguish, on the basis of income alone, between good and bad loans; the foreclosure rates for each income class were about the same (Table 23). On the other hand, it appears to have been true of HOLC experience that, for any given income level of mortgagors, the percentage of loans eventually foreclosed rose with increases in loan size. In other words, it is income relative to the amount borrowed that appears to be a significant consideration.

It will also be noted that, for any given level of borrower income, foreclosure rates were higher for those loans secured by properties having relatively high rentals than for those secured by more modest properties (Table 23). This would appear to be evidence of the added risk that is assumed in the real estate credit market in cases of "over-housing" (where the value or cost of the dwelling is higher than the family's economic position justifies), or perhaps, as we shall see more directly in other connections, evidence of the greater risk associated with large loans than with those of small and medium size.

Finally, regarding the number of the borrower's dependents, it would appear that in the lower income groups a large family rather than being associated with relatively high foreclosure rates is associated with a somewhat better-than-average experience, which perhaps means that the large family is able to achieve a more stable income over the life of its loan or attaches greater importance to avoiding foreclosure; for the higher income groups, on the other hand, the benefits in this respect of a larger family would seem to be somewhat more dubious (Table 23).

A final personal characteristic that appears to be important in the determination of loan quality is the age of the mortgagor. As will be observed in Table 24, the best HOLC experience in the New York region was with borrowers in the middle-age groups—thirty-five to forty-five years—with loans to borrowers under thirty, and to

TABLE 23 — FORECLOSURE RATES FOR A SAMPLE OF HOLC LOANS MADE IN THE NEW YORK REGION, BY MONTHLY FAMILY INCOME, ORIGINAL LOAN AMOUNT, "NORMAL" MONTHLY RENTAL VALUE, AND NUMBER OF DEPENDENTS[a]

	Monthly Family Income											
	Under $50		$50–99		$100–149		$150–199		$200 & Over		Total	
	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate
ORIGINAL LOAN												
Under $2,000	74	12%	128	16%	82	9%	18	0%	} 60	22%	323	11%
2,000–3,999	162	26	441	26	347	22	109	26			1,166	25
4,000–5,999	151	46	311	47	354	39	233	32	145	21	1,257	39
6,000–7,999	46	59	128	57	152	44	116	41	144	41	615	46
8,000–9,999	15	53	46	70	61	49	69	49	73	55	293	56
10,000 and over	10	70	20	65	49	55	32	47	91	53	219	56
MONTHLY RENTAL												
Under $35	104	25	223	24	155	27	29	24	17	18	548	24
35–44	72	21	194	31	176	27	74	31	35	34	572	29
45–54	66	24	199	36	180	36	93	36	56	29	624	34
55–64	56	54	121	36	126	32	92	25	64	28	487	35
65–84	76	49	155	49	154	27	111	38	96	34	623	38
85 and over	47	34	151	52	217	42	162	40	221	42	866	43
DEPENDENTS												
None	45	36	73	41	43	30	18	22	17	24	226	36
1	111	35	196	42	168	33	88	32	59	46	653	37
2	82	39	200	36	221	38	109	43	97	44	737	39
3	63	30	207	35	241	32	145	31	151	38	842	33
4–6	109	36	282	39	285	32	157	36	130	32	1,008	36
7 and over	23	26	73	25	57	28	38	42	33	33	231	30
Total[b]	458	36%	1,075	37%	1,049	33%	581	35%	514	37%	3,883	36%

[a] National Bureau of Economic Research sample survey. Foreclosure rate equals the number of original loans eventually foreclosed as a percentage of all loans made. [b] Number does not always add to the total due to omission of loans with inadequate data.

TABLE 24 – FORECLOSURE RATES FOR A SAMPLE OF HOLC LOANS MADE IN THE NEW YORK REGION, BY AGE OF BORROWER[a]

Age of Borrower	*Loans Made*	*Foreclosure Rate*
Under 30 years	137	46%
30–34	268	35
35–39	598	31
40–44	713	32
45–49	684	34
50–54	547	37
55–59	392	40
60 and over	510	42
Total[b]	3,883	36%

[a] National Bureau of Economic Research sample survey. Foreclosure rate equals the number of original loans eventually foreclosed as a percentage of all loans made.

[b] Number does not add to the total due to omission of loans with inadequate data.

those over fifty-five years of age, having a distinctly worse-than-average record of experience.

TYPE AND CONDITION OF THE PROPERTY SECURING THE MORTGAGE LOAN

The record of foreclosure experience on the sample of HOLC loans made in the original New York region reveals no marked differences in experience on different broad types of property (Table 25). It is perhaps worthy of notice, however, that those structures devoted at least in part to business use had a somewhat higher foreclosure rate than the structures having no business use. Furthermore, it will be observed in Table 25 that there was a tendency for structures of relatively low value to have a better foreclosure record, regardless of the broad type of property concerned, than those of high value at the time the loan was made. Supporting this general conclusion are the data in this same table showing that the structures with the smaller number of rooms had, in general, a better foreclosure experience than the structures with more numerous rooms and the evidence in Table 23 that structures with low monthly rental values had a better foreclosure record than those with higher rental values. There seems to be no clear evidence, however, that size of the community had any significant connection with foreclosure experience (Table 25).

TABLE 25 — FORECLOSURE RATES FOR A SAMPLE OF HOLC LOANS MADE IN THE NEW YORK REGION, BY TYPE OF PROPERTY, FINAL HOLC REVIEW APPRAISAL, NUMBER OF ROOMS, AND SIZE OF COMMUNITY [a]

	1-Family		*2-Family*		*3- to 4-Family*		*1- to 4-Family with Business Use*		*Total*	
	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate
HOLC APPRAISAL										
Under $2,000	35	23%	..	..	..	..	11	36%	46	26%
2,000–3,999	287	25	38	18%	} 20	5%	133	25	464	25
4,000–5,999	542	31	111	24			372	32	1,045	30
6,000–7,999	389	32	177	34	57	32	309	47	932	37
8,000–9,999	173	49	99	25	51	37	155	41	480	40
10,000–11,999	60	70	89	38	46	39	124	58	320	52
12,000 and over	50	52	72	63	82	35	138	62	344	55
NUMBER OF ROOMS										
1–5	266	27	..	..	..	..	109	35	375	29
6–8	1,192	32	81	17	} 26	38	694	41	1,972	35
9–11	176	37	322	32			260	40	781	36
12 and over	40	60	237	40	248	32	213	49	738	41
SIZE OF COMMUNITY										
1,000,000 and over	440	38	299	37	126	34	306	39	1,173	37
250,000–999,999	138	27	82	42	41	32	134	41	395	35
100,000–249,999	112	36	53	28	38	21	86	48	289	36
25,000–99,999	247	28	124	24	41	27	180	45	596	33
5,000–24,999	396	33	48	15	24	46	299	46	763	37
Under 5,000	335	30	34	44			270	36	651	34
Total [b]	1,677	32%	641	33%	275	33%	1,276	41%	3,883	36%

[a] National Bureau of Economic Research sample survey. Foreclosure rate equals the number of original loans eventually foreclosed as a percentage of all loans made. [b] Number does not always add to the total due to omission of loans with inadequate data.

It is interesting, also, to note the relationship between foreclosure rates and the character of the heating and bathing facilities in the dwellings securing the loans. The facts, as shown in Table 26, suggest that foreclosure experience was least satisfactory on those properties which had the most up-to-date and adequate heating and bathing facilities, doubtless the same properties, in general, that had a

TABLE 26 – FORECLOSURE RATES FOR A SAMPLE OF HOLC LOANS MADE IN THE NEW YORK REGION, BY HEATING AND BATHING FACILITIES [a]

Heating and Bathing Facilities	*Loans Made*	*Foreclosure Rate*
Central Heating Facilities	*3,377*	*36%*
No bath	66	18
Fewer baths than families	113	33
Same number of baths as families	2,970	36
More baths than families	221	49
Number of baths unknown	7	43
No Central Heating Facilities	*489*	*30*
No bath	135	35
Fewer baths than families	60	38
Same number of baths as families	287	27
More baths than families	6	33
Number of baths unknown	1	0
Total [b]	3,883	36%

[a] National Bureau of Economic Research sample survey. Foreclosure rate equals the number of original loans eventually foreclosed as a percentage of all loans made.
[b] Number does not add to the total due to omission of loans with inadequate data.

high final HOLC review appraisal, a high "normal" monthly rental, and a relatively large loan. This would seem to suggest that there was a real tendency for the HOLC to over-loan on the better properties.[20]

Some relation might be expected between foreclosure experience and the balance between the value of the land and the value of the improvements. In order to test this possible relation, the HOLC

[20] Other possible explanations are that the HOLC was less lenient in delaying foreclosures on the higher-priced properties, that their sale to escape foreclosure was more difficult than the sale of more modest properties, or that economic recovery was slower and less complete for this group of borrowers than for those with less expensive properties.

sample loans have been classified in Table 27 according to the ratio of what the HOLC termed the "justified land value" to the reproduction cost of the structure. It will be noted that there is a fairly clear tendency for foreclosure rates to rise as land values become more important relative to the depreciated value of the structure, suggesting that this balance is a matter of importance in governing loan experience.

TABLE 27 — Foreclosure Rates for a Sample of HOLC Loans Made in the New York Region, by Ratio of Land Value to Reproduction Cost [a]

Land Value in % of Reproduction Cost (less depreciation) [b]	*Loans Made*	*Foreclosure Rate*
Under 20%	715	30%
20–39	1,553	33
40–59	738	38
60–79	311	48
80–99	114	41
100 and over	200	41
Total [c]	3,883	36%

[a] National Bureau of Economic Research sample survey. Foreclosure rate equals the number of original loans eventually foreclosed as a percentage of all loans made.

[b] For a definition of land value, reproduction cost, and depreciation, see Table 17, footnotes b and c.

[c] Number does not add to the total due to omission of loans with inadequate data.

Additional data are given in Table 28 bearing on the relationship between foreclosure experience and the quality of the structure being financed. The HOLC sample loans have been classified according to the age of the house and certain other pertinent characteristics. It will be noted, first of all, that the age of the house, alone, seems to have no clear and consistent relation to foreclosure experience. This is true regardless of the size of the community, and the character and status of the district in which the property was located. Also, the degree of depreciation of the house had little relation to foreclosure experience. These facts suggest further that experience may be determined more by the weight of the financial burden borne by the mortgagor and the strength of his determination to prevent foreclosure than by the character and quality of the collateral.

AMOUNT OF LOAN AND FINANCIAL BURDEN OF MORTGAGE

It remains to examine further into the relationship between foreclosure experience, as evidenced by this sample of HOLC loans in the New York region, and such measures as are available of the financial burden involved in the mortgage contract. Data bearing on this matter are presented in Tables 29 and 30. In Table 29 the loans are classified according to their original amount and then subclassified according to the type of property involved and its "normal" monthly rental value. For each of the five original loan amount categories, the foreclosure rate has a steady tendency to fall the higher the "normal" monthly rental value. Yet for the total of the combined five loan amount categories, just the opposite is true: the foreclosure rate has a steady tendency to rise the higher the "normal" monthly rental value. This apparent inconsistency results from differences in weighting. It would appear, first of all, that the HOLC experience was distinctly less satisfactory on loans of large amount than on those of small amount.[21] This was certainly true of loans on single-family houses with no business use and also on one- to four-family houses with business use, which are the two largest classes of properties. There is some evidence that it was also true for two-family

[21] Data for all HOLC loans confirm this general conclusion. In its own tabulation of all foreclosures the HOLC found that foreclosure rates ran highest on the large loans. Whereas 12.6 percent of all loans were for $1,000 or less, only 6.8 percent of all foreclosures came from this group; 1.4 percent of original loans were for over $10,000, but 3.6 percent of all foreclosures fell in this group. Of the original loans, 13.9 percent were from $5,000 to $10,000, but 24.6 percent of the foreclosures were in this group. Nearly half of all foreclosures were on properties on which the original loan was from $2,000 to $5,000; 47.0 percent of all loans were on properties in these groups. Foreclosure rates on a sample of urban mortgage loans made on one- to four-family dwellings by twenty-four leading life insurance companies, 1920-29, indicate that life insurance companies also experienced substantially higher—roughly, double—foreclosure rates on loans for more than $5,000 than on loans for less than that amount. (R. J. Saulnier, *op. cit.,* Table 26, p. 89.)

The experience of a sample of thirty-nine Massachusetts mutual savings banks on loans made during the period 1918-31 was also closely parallel: The foreclosure rate on loans under $2,000 secured by single-family dwellings was 3.8 percent; on loans over $15,000, 26.5 percent. Of the loans under $2,000 secured by two-family dwellings, 6.3 percent were foreclosed compared with 46.2 percent of those over $10,000. Of the loans under $5,000 made during the period 1918-30, secured by three- and four-family dwellings, 8.7 percent were foreclosed; on loans over $10,000, the foreclosure rate was 36.5 percent. (John Lintner, *op. cit.,* Tables 45, XIV-4 and XIV-8, pp. 392, 516, and 520, respectively; the data do not include as foreclosures distress cases transferred from the mutual savings banks to the HOLC.)

TABLE 28 — FORECLOSURE RATES FOR A SAMPLE OF HOLC LOANS MADE IN THE NEW YORK REGION, BY AGE OF HOUSE, SIZE OF COMMUNITY, NATURE OF DISTRICT, AND RATIO OF DEPRECIATION TO REPRODUCTION COST [a]

	AGE OF HOUSE (YEARS)											
	Under 10		*10–19*		*20–29*		*30–39*		*40 and Over*		*Total*	
	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate
SIZE OF COMMUNITY												
1,000,000 and over	451	35%	331	37%	128	45%	80	40%	95	42%	1,173	37%
250,000–999,999	75	45	88	25	82	31	57	40	76	33	395	35
100,000–249,999	67	36	66	32	57	40	42	38	34	32	289	36
25,000–99,999	175	28	133	37	91	29	74	32	54	39	596	33
5,000–24,999	283	42	202	40	82	39	60	18	63	30	763	37
Under 5,000	276	34	142	37	62	31	44	39	56	16	651	34
NATURE OF DISTRICT												
Residential	*1,231*	*35*	*845*	*36*	*421*	*36*	*300*	*35*	*295*	*32*	*3,365*	*35*
In transition	51	29	51	22	38	29	31	36	24	21	223	29
Stable	1,002	34	663	35	304	30	220	31	233	33	2,616	34
Status unknown	178	42	131	44	79	61	49	53	38	32	526	43
Nonresidential	*46*	*26*	*73*	*36*	*49*	*27*	*49*	*27*	*68*	*35*	*309*	*33*
In transition	21	19	32	25	26	12	13	0	15	33	112	20
Stable	20	40	21	33	17	29	27	41	37	41	136	38
Status unknown	5	0	20	55	6	83	9	22	16	25	61	44
DEPRECIATION IN % OF REPRODUCTION COST [b]												
Under 5%	428	37	156	56	58	40	31	39	23	48	790	38
5–14	341	36	163	42	40	45	11	18	12	42	635	38
15–24	353	29	448	31	221	39	105	39	93	37	1,328	33
25–34	18	17	78	28	112	37	87	30	92	24	422	30
35–44 }	15	47	21	33	39	21	65	34	77	40	219	35
45 and over }					25	32	54	35	75	25	185	30
Total [c]	1,332	36%	969	36%	504	37%	358	34%	378	33%	3,883	36%

[a] NBER sample survey. Foreclosure rate equals the number of original loans eventually foreclosed as a percentage of all loans made.
[b] For a definition of depreciation and reproduction cost, see Table 17, footnote b.
[c] Number does not always add to the total due to omission of loans with inadequate data.

houses, but in the case of three- and four-family structures the number of loans involved was too small to yield conclusive results one way or the other. In any event, it is reasonably clear that, all things considered, there was a tendency for relatively more large loans to go to foreclosure than for loans of small original amount.

Owing to the operating policies of the HOLC, there was a distinct and consistent relationship among the amount of loan, the appraised value of the property, and the property's "normal" monthly rental value. The relationship between loan amount and appraised value results from the fact that in the great majority of cases loans were made in an original amount that was close to the maximum permissible loan-to-value ratio of 80 percent. The relationship between the appraised value of a property and its "normal" monthly rental value was due, in part, to the fact that the latter was used as a basis for determining the former. Accordingly, the relationship which was found between foreclosure rates and the original loan amount, namely, a tendency for foreclosure rates to rise with loan amount, would be expected to prevail as between foreclosure rates and both appraised values and "normal" monthly rental values. Table 29 shows that foreclosure rates were higher on those properties having high "normal" monthly rental values than on those with low rental values, but this table also reveals that for any given size class of loans foreclosure rates were lowest on those properties having the highest rental values.

Additional data in Table 30 bear fairly directly on the question of the relation of financial burden to HOLC mortgage loan experience. It is not easy to measure burden in this respect since it is obviously dependent on a complex set of facts bearing on the family budget. However, some light is thrown on the problem by considering the original amount of the loan relative to the loan-to-value ratio (based on the final HOLC review appraisal) and to the extent of the owner's equity in the property when the loan was made. The owner's equity, a rough estimate at best, was computed by subtracting the debts due on the property from the estimated market price at the time of appraisal. Referring to the first of these, it will be immediately apparent that loans made with low loan-to-value ratios were distinctly better than those made with high loan-to-value ratios. In general, this was most characteristic of loans made in modest amounts; for the most part, large loans involved relatively high loan-

TABLE 29 – FORECLOSURE RATES FOR A SAMPLE OF HOLC LOANS MADE IN THE NEW YORK REGION, BY ORIGINAL LOAN AMOUNT, TYPE OF PROPERTY, AND "NORMAL" MONTHLY RENTAL VALUE [a]

	ORIGINAL LOAN AMOUNT											
	Under $2,000		*$2,000–3,999*		*$4,000–5,999*		*$6,000–7,999*		*$8,000 & Over*		*Total*	
	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate
TYPE OF PROPERTY												
No Business Use	*238*	*10%*	*792*	*24%*	*839*	*35%*	*421*	*46%*	*296*	*49%*	*2,593*	*33%*
1-family	205	9	625	26	548	36	206	51	91	62	1,677	32
2-family	27	22	146	15	210	30	149	44	105	49	641	33
3- to 4-family	6	0	21	10	81	36	66	32	100	38	275	33
1- to 4-Family with Business Use	*83*	*13*	*371*	*26*	*417*	*47*	*191*	*46*	*212*	*66*	*1,276*	*41*
MONTHLY RENTAL												
Under $35	221	13	304	30	15	53					548	24
35–44	44	7	366	25	158	42	35	63			572	29
45–54	23	9	241	23	331	42			11	73	624	34
55–64			105	13	280	38	82	54			487	35
65–84	20	0	77	10	294	35	204	48	39	62	623	38
85 and over			21	14	140	30	263	37	437	53	866	43
Total [b]	323	11%	1,166	25%	1,257	39%	615	46%	512	56%	3,883	36%

[a] National Bureau of Economic Research sample survey. Foreclosure rate equals the number of original loans eventually foreclosed as a percentage of all loans made.

[b] Number does not always add to the total due to omission of loans with inadequate data.

TABLE 30 – FORECLOSURE RATES FOR A SAMPLE OF HOLC LOANS MADE IN THE NEW YORK REGION, BY ORIGINAL LOAN AMOUNT, LOAN-TO-VALUE RATIO, AND RATIO OF BORROWER'S EQUITY TO ORIGINAL LOAN AMOUNT [a]

	ORIGINAL LOAN AMOUNT											
	Under $2,000		*$2,000–3,999*		*$4,000–5,999*		*$6,000–7,999*		*$8,000 & Over*		*Total*	
	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate	Loans Made	Forecl. Rate
LOAN-TO-VALUE RATIO [b]												
Under 40%	96	5%	38	11%	101	35%	41	44%	..	..	139	7%
40–59	90	12	266	12					23	61%	516	21
60–69	49	14	232	16	218	32	78	37	46	43	623	26
70–79	45	18	371	32	431	41	195	46	180	56	1,222	40
80–89	14	14	193	45	429	45	257	53	231	61	1,124	50
90 and over												
BORROWER'S EQUITY IN % OF LOAN AMOUNT [c]												
Less than 0%	20	15	137	41	203	44	108	54	93	53	561	46
0–24	29	7	204	31	354	37	195	44	186	57	968	40
25–49	30	17	237	27	358	38	164	43	131	53	920	37
50–74	42	10	211	17	154	25	56	27	35	37	498	22
75–99	31	23	116	8	63	29	29	45	23	61	258	22
100 and over	156	6	187	9	41	29	17	29			405	12
Total [d]	323	11%	1,166	25%	1,257	39%	615	46%	512	56%	3,883	36%

[a] National Bureau of Economic Research sample survey. Foreclosure rate equals the number of original loans eventually foreclosed as a percentage of all loans made.

[b] Original loan amount as a percentage of final HOLC review appraisal of the property.

[c] Borrower's equity was calculated as the difference between the estimated market price of the property at the time the loan was made by the HOLC and the amount outstanding on the loan, including delinquent taxes and overdue interest.

[d] Number does not always add to the total due to omission of loans with inadequate data.

to-value ratios and these, as has been indicated already, had a comparatively unfavorable foreclosure record.

Secondly, it is reasonably clear in Table 30 that those properties in which, at the time the loan was made, the borrower had no equity or a negative equity were of far less-than-average quality in terms of foreclosure experience. Conversely, those properties in which the borrower had a high equity were the properties on which foreclosure experience was relatively most favorable. Except for the very largest loans, say those of $8,000 and over, there was a distinct tendency for this relation to prevail for loans of all sizes: thus, small loans were better when the owner's equity was high rather than low and this was true also of medium-sized loans. However, even a relatively high owner's equity was insufficient, it would appear, to offset the burden of a large loan.

Finally, it may be observed that the amount due on loans at the time of foreclosure was, for a significant proportion of the loans, from 10 to 20 percent greater than the original amount loaned, regardless of the size of the original loan (Table 31). For all of its foreclosed loans the HOLC found that the amount due at foreclosure was 11 percent greater than the amount originally loaned, due in the main to the addition to loan balances of unpaid interest and the amounts of taxes and insurance advanced by the HOLC.

TABLE 31 — PERCENTAGE DISTRIBUTION OF HOLC FORECLOSURES IN THE NEW YORK REGION, BY ORIGINAL LOAN AMOUNT AND RATIO OF AMOUNT DUE AT FORECLOSURE TO ORIGINAL LOAN AMOUNT [a]

Amount Due in Percent of Original Loan Amount [b]	*Original Loan Amount*				*Total*
	Under $4,000	$4,000–5,999	$6,000–7,999	$8,000 & Over	
Under 100%	6%	4%	4%	3%	4%
100–109	14	17	17	16	16
110–119	30	32	35	30	31
120 and over	16	10	10	8	11
Not available	33	38	33	42	37
Total Number [c]	324	488	282	288	1,388

[a] National Bureau of Economic Research sample survey.
[b] Amount due at foreclosure.
[c] Excludes six loans for which original loan amount was not available.

Though subjective factors, such as the borrower's determination to avoid foreclosure, are doubtless of great importance, it may be concluded from this analysis that the principal objective factors governing mortgage loan experience have to do with the weight of the financial burden assumed in connection with the mortgage contract. Income alone or type or condition of the property seem not to have been determinative considerations, but rather the amount of the loan relative to the borrower's income and the extent of his equity in the mortgaged property. Such factors as a high rental value seem to influence loan experience because loans on high rental properties were generally large and were made with a relatively high loan-to-value ratio, and both of these conditions were associated with relatively poor loan experience. These results are broadly consistent with the results of other studies of mortgage loan experience; indeed, they supplement these studies in the emphasis that they place upon the importance to mortgage experience of a loan contract that is manageable within the income resources of the mortgagor.