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CHAPTER 2

Original Lending Activities

THE size and uniqueness of the task confronting the Home Owners' Loan Corporation were far from fully understood when it began operations. It was certain, however, that the demand for loans would be large and that a nationwide organization had to be established to do a new kind of job, the specifications of which were far from precise. Although the situation called for quick action, little preplanning had been completed when the Home Owners' Loan Act was signed by the President on June 13, 1933.[1] The Federal Home Loan Bank Board, which was responsible for the Corporation's organization, immediately selected a few top personnel. It also began to establish offices for each state, and began the staffing of 208 branch offices and the selection of at least one local part-time fee attorney and fee appraiser for each of the nation's more than 3,000 counties. Officials of state offices were at first given almost complete autonomy in selecting staff members. Since each was required to report directly to Washington, effective supervision was virtually impossible.[2]

The Corporation had several things in its favor in this early organizational stage: prominent among these was the fact that its status as an independent corporation gave it far more budgetary freedom than was enjoyed by regular government agencies. Furthermore, the HOLC Act had omitted any mention of methods of administration, thus giving the HOLC wide freedom in planning its actions. Exemption from civil service regulations, coupled with the vast amount of

1 Much of the material necessary to reconstruct fully the early history of the Corporation—notably the record of personnel policies and lending practices during the first six months—is unavailable and may never become a matter of public record. The salient facts, however, are given in this chapter, based on Congressional testimony, official reports, and discussions with participants in the HOLC's early organizational activities.

2 Some decentralization was planned, but regional offices to direct loan servicing were not established until 1934. The early plans called for a degree of centralization that would probably have blocked achievement of the Corporation's objective; state offices, for example, were required to get approval from the Washington office for each loan.

unemployment, aided the HOLC in obtaining qualified employees quickly and easily. Operations were nationwide, so that many labor markets could be drawn upon readily. Another highly favorable personnel factor was a high state of morale among employees, who generally felt that the work was important and met a pressing social need. General public sympathy and ready availability of office space, equipment, and supplies (which could be purchased without the time-consuming routine of regular government procurement) were also favorable conditions. There were unfavorable features, however, due mainly to the newness of the work, the uncertainty about the number of cases and their complexity, the lack of precedent, the importance of judgment as contrasted with routine in initial operations, the absence of any more than a nucleus of directly experienced personnel (the FHLBB had only eighty-seven employees when the HOLC Act was passed), and the necessity of working for some months under conditions of unrelieved emergency.

Immediate efforts were made to acquaint the public with the new agency, including a radio address by Senator James F. Byrnes, another by Louis McHenry Howe, secretary to the President, and numerous press statements. In August 1933, the Corporation issued a small pamphlet describing its functions, the restrictions on its lending power and funds, its proposed appraisal standards, and the merits of its bonds. The Corporation also issued a small pamphlet on loan regulations, which explained the basis of valuation that would be used (described in Chapter 3), and which should have helped remove one possible source of misunderstanding, namely, that loans would be limited to 80 percent of current depressed values. Even so, the receipt of tens of thousands of applications ineligible on their face, such as applications for loans on farms, business properties, and buildings for more than four families, showed that public understanding was not clear.[3] Large numbers of applicants were obviously unable to understand the regulations, and aid in compliance was necessary. The HOLC made some such assistance available to applicants through its local offices. In many communities where such help was inadequate or unavailable private organizations provided

[3] Mr. John H. Fahey, then Chairman of the Federal Home Loan Bank Board, remarked on December 7, 1933, that one-third of the applications were ineligible despite the publicity. See *Dun's Review*, Dun and Bradstreet, Vol. 41, No. 2069 (December 1933) pp. 2-5.

needed assistance.[4] The initiative in making an application rested nominally on the borrower, but lenders sometimes pressed borrowers to file and helped in completing the application.

Applications Received

Altogether, the HOLC received 1,886,491 applications for $6.2 billion of home mortgage refinancing (Table 2).[5] All of these applications, however, did not necessarily meet HOLC requirements (for example, as to value, distress, owner-occupancy, and the like), nor had the lender involved necessarily agreed to HOLC refinancing. A comparison of the number of applications with the over-all housing data of the 1930 Census, scanty at best and somewhat out of date by late 1933, reveals something of the extent to which the public sought HOLC aid. On the assumption that the frequency of mortgage indebtedness was the same in 1930 as in 1940, it may be estimated that 45 percent of the country's 10.5 million nonfarm, owner-occupied one- to four-family dwellings were mortgaged in 1930. Of this group of 4.8 million potentially eligible cases, 40 percent applied for HOLC aid.[6] Of all the country's nonfarm owner-occupants, including even those having no mortgages and therefore not eligible for HOLC aid, nearly one out of five applied for an HOLC loan.

Monthly data on applications received are not available for the period before October 1933, when the rate of filing was obviously high; even though few offices were able to accept applications before mid-August, over 400,000—roughly, one-fifth of the entire total—were filed by September 30, 1933 (Table 1).[7] The rate declined dur-

[4] As is customary in such legislation, the HOLC statute (June 13, 1933, c. 64, 48 Stat. 128 Sec. 8 (e)) prohibited any charges for helping applicants fill out HOLC forms or for giving them legal advice. Certain fees, such as charges for title search, were specifically authorized and required, however, by the legislation.

[5] Any formal request for refinancing filed on a form approved by the HOLC was counted as an application. The figure excludes, however, hundreds of thousands of inquiries, written and verbal, which received attention even though they did not lead to a completed application.

[6] Some of the applications to the HOLC, and perhaps some of its loans, were on properties which the census may have classified in the "farm" group; moreover, the HOLC would lend on "homestead" properties not currently occupied by the owner. Accordingly, the text comparisons may overstate the proportion of applications to "potential eligibles" as the term is used here. On the other hand, not all of the 4.8 million owner-occupants, even if they had been in distress, could have met all HOLC requirements, for example, size, value, or use of the property.

[7] In addition there were tens of thousands of letters of inquiry and applications to be handled. Although applications were to be sent to state and local offices, so many came to Washington that a stenographic staff of over one hundred was needed to handle the correspondence.

TABLE 1 — APPLICATIONS RECEIVED BY THE HOLC, BY MONTH, JUNE 13, 1933-JUNE 27, 1935 [a]

Year and Month	*Number*	*Cumulative Percent of Total*
1933		
June-September	403,114	21.4%
October	129,504	28.3
November	99,232	33.5
December	90,946	38.4
1934		
January	123,189	44.9
February	136,132	52.1
March	168,273	61.0
April	145,772	68.8
May	119,791	75.1
June	97,679	80.3
July	66,157	83.8
August	72,022	87.6
September	39,317	89.7
October	35,675	91.6
November [b]	13,913	92.4
December [b]	..	..
1935		
January-April [b]	..	..
May [c]	2,914	92.5
June [d]	140,726	100.0
Total [e]	1,884,356	100.0%

[a] *Federal Home Loan Bank Review,* Federal Home Loan Bank Board, Vol. 1, No. 11 (August 1935) p. 425; *ibid.*, Vol. 2, No. 10 (July 1936) p. 381.

[b] Receipt of applications stopped November 13, 1934; resumed May 28, 1935.

[c] Represents applications received in three-day period from May 28 to May 31, 1935.

[d] Through June 27.

[e] Total does not agree with the total number of applications shown in Table 2 due to the exclusion of data on applications received in Puerto Rico during 1934 and the subsequent revision in the number received in some states—notably California, Colorado, Illinois, and Washington. These revisions are explained as follows: In some cases more than one application was filed for a single property, chiefly when additional funds were desired for taxes or repairs; the figures in Table 2, according to HOLC officials, have been adjusted to treat all applications on a single property as one application rather than as two or possibly more applications.

ing the rest of the year, rose in each of the first three months of 1934, and then fell until the middle of November when the HOLC announced that it would accept no more applications. At that time the monthly rate was well over 30,000, indicating a demand far from trivial. During the thirty days ending June 27, 1935, applications were again accepted, and 143,640 were filed.

The trend of filings in general confirms normal expectations—a high early rate followed by a substantial decline. Monthly totals fluctuated, but there is very little objective evidence as to the reasons for these variations. The rise in March and April 1934 may have resulted in part from the Administration's recommendation that the principal as well as the interest of HOLC bonds be guaranteed. In April 1934, Congress provided that the HOLC could refinance mortgages foreclosed as early as January 1, 1930 [8] (in contrast with a provision in the original law limiting cases to those foreclosed not over two years before the refinancing). The figures do not indicate the effects of this relaxation, but since the number of applications continued to fall, the effects were apparently not great. Another explanation of the rise in March and April 1934 may be that lenders had come to have more confidence in HOLC bonds.

The November 1934 announcement that no more applications would be accepted was issued without warning. At that time the HOLC had nearly 1,100,000 applications on hand; it had loaned two-thirds of its total authorization of $3 billion (the original $2 billion limit having been raised early in 1934),[9] and had already approved the eligibility of enough applications to exhaust the balance of its available funds. To accept more would have involved the expense of processing cases for which loans were unlikely and would thereby have reduced the total amount of aid actually available. After this date the HOLC concentrated on applications on which the preliminary work had been done, attempting thereby to avoid useless outlays. There is no evidence that the applications being filed at the time were, on the average, more or less meritorious than those filed earlier, but it is likely that after more than a year of operations the most serious cases had already filed.

Shortly after it ceased accepting applications, the HOLC wrote applicants and lenders, asking them to try to work out refinancing

[8] April 27, 1934, c. 168, 48 Stat. 643, Sec. 4.

[9] June 27, 1934, c. 847, 48 Stat. 1246, Sec. 506 (a).

arrangements between themselves. It also set up committees under the federal home loan banks to try to bring applicants and institutional lenders together; funds for lending had become available in many areas, and many of these loans were fundamentally good. In New York it was announced that more than 5,000 of the best applications, involving $25 million, would be made available for purchase by private financial institutions reported to have more than $32 million in cash available for lending.[10] On the last day of the year, however, President Roosevelt stated that, because private institutions could not make enough loans, the lending authorization of the HOLC should be increased and an Administration bill to that effect was introduced in Congress.

In the course of Senate hearings, Mr. Fahey asserted that the bulk of distress applications had been received by the autumn of 1934, that renewed filing would induce persons not in real distress to default in order to qualify for an HOLC loan and thus bring in a large volume of cases which would require servicing even if they had no merit. He maintained that private institutions could handle current needs and were little inclined to foreclose, especially since the real estate market had improved considerably. He felt that $1.5 billion was more than enough to handle the worthy applications on hand, many of which were not eligible but might become eligible with the passing of time.[11] There were other statements made on both sides of the question,[12] and Congress finally increased the HOLC's lending power by $1,750 million and provided that new applications be accepted again for one month.[13]

There is no evidence as to how widely information on the reopening of filing was disseminated, but less than 150,000 new applications were received, amounting to $600 million. No special records were kept of these cases, and so there is no way of knowing how many

10 *New York Times,* December 24, 1934, 28:1.

11 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. 143, 159-61.

12 Some criticism was made of the "wholesale" program as absorbing an undue amount of the HOLC's lending capacity and thus curtailing the amount available for cases in greater distress. One witness opposed reopening as likely to set a dangerous precedent which might be repeated time after time. Senator Bulkley, a strong champion of the HOLC, argued that the sudden cutting off of applications was unfair because some persons with valid claims for help had not yet been able to complete all the requirements for filing.

13 May 28, 1935, c. 150, 49 Stat. 293, Sec. 11.

eventually received loans. By this time, however, the HOLC was screening applications carefully, even before accepting them for filing. It is probable, therefore, that a very large fraction of the 150,000 cases had real merit and were not obviously ineligible. Some fell in a special group—those made eligible for the first time by a provision permitting the HOLC to lend if *any part* of a property were used by the owner as a dwelling (or homestead); [14] previously, the HOLC had considered a property ineligible if commercial use was more than incidental. In the end, however, less than 6 percent of the additional lending power was used.

The largest number of applications received from any single state came from Ohio, and New York produced a larger dollar amount of applications than any other state (Table 2). Three states —Michigan, New York, and Ohio—accounted for nearly 30 percent of the total number of applications and Illinois, New York, and Ohio for almost one-third of the amount.[15] A more significant measure of the extent to which the HOLC refinancing facilities were utilized in the various states can be derived, however, by expressing the number of applications received from each state as a percentage of what may be called the number of "potentially eligible" applicants, that is, owner-occupants of one- to four-family, nonfarm, mortgaged dwellings as estimated for 1930; one must ignore differences in proportions of houses worth over $20,000, which cannot be separated in the tabulations. In twenty-five states over half of the potentially eligible owners applied for HOLC aid; in Arkansas and Mississippi the figure exceeded nine out of ten; in Alabama, Arizona, and the Dakotas more than three out of every four nonfarm owner-occupants holding mortgages applied for aid (Table 2); these high figures are accounted for partially, though probably to a small extent, by the fact that in these states there were few houses appraised at over $20,000. The District of Columbia was lowest with 15 percent, and New Hampshire was the only state in which less than one-fifth of the potentially eligible owners applied. Finally, there were only five states in which fewer

[14] *Ibid.*, Sec. 10.

[15] The large number of applications from Indiana, Michigan, and Ohio are due in part to blocks of "wholesale" cases which will be described later in this chapter. More fundamental reasons could doubtless be found, however, such as unusually liberal savings and loan association lending during the twenties in Ohio and the collapse of the Detroit real estate market. An exceptionally large number of clearly ineligible applications were accepted by some Illinois offices, swelling that state's total.

TABLE 2 — Applications Received by the HOLC, by State, June 13, 1933-June 27, 1935 [a]

Census Region and State	*Number*	*Amount (000,000)*	*Average Amount*	*Number as a Percentage of Total Eligibles* [b]
New England				
Maine	7,781	$20	$2,518	31%
New Hampshire	3,677	9	2,563	18
Vermont	2,568	7	2,692	20
Massachusetts	50,419	229	4,545	20
Rhode Island	12,338	52	4,192	33
Connecticut	22,327	118	5,293	21
Middle Atlantic				
New York	157,872	810	5,129	25
New Jersey	81,920	424	5,171	33
Pennsylvania	121,483	450	3,706	28
East North Central				
Ohio	193,502	704	3,639	53
Indiana	82,023	203	2,480	51
Illinois	127,128	502	3,951	38
Michigan	145,539	409	2,810	55
Wisconsin	55,744	218	3,913	44
West North Central				
Minnesota	36,251	90	2,494	39
Iowa	31,805	65	2,037	41
Missouri	45,666	145	3,177	34
North Dakota	7,458	15	2,061	76
South Dakota	9,296	17	1,809	81
Nebraska	19,985	43	2,137	49
Kansas	31,447	56	1,783	53
South Atlantic				
Delaware	2,815	9	3,330	23
Maryland	28,854	87	3,011	38
Dist. of Columbia	4,428	28	6,221	15
Virginia	21,154	64	3,011	38
West Virginia	18,592	48	2,592	56
North Carolina	24,303	62	2,541	48
South Carolina	9,997	23	2,326	50
Georgia	23,343	53	2,263	56
Florida	24,891	56	2,247	61
East South Central				
Kentucky	20,460	54	2,630	38
Tennessee	24,405	54	2,231	53
Alabama	28,010	62	2,221	79
Mississippi	18,600	31	1,680	99

(concluded on next page)

TABLE 2 – (concluded)

Census Region and State	*Number*	*Amount (000,000)*	*Average Amount*	*Number as a Percentage of Total Eligibles* [b]
West South Central				
Arkansas	19,768	$32	$1,612	92%
Louisiana	24,747	71	2,853	69
Oklahoma	38,369	86	2,250	70
Texas	76,537	177	2,313	61
Mountain				
Montana	7,017	13	1,886	68
Idaho	6,752	11	1,584	64
Wyoming	3,793	8	2,078	63
Colorado	19,726	43	2,161	52
New Mexico	4,778	10	2,034	70
Arizona	9,458	26	2,702	81
Utah	14,879	35	2,370	70
Nevada	1,704	5	2,786	70
Pacific				
Washington	39,539	77	1,937	48
Oregon	16,863	37	2,204	36
California	102,392	315	3,078	32
United States [c]	1,886,491	$6,173	$3,272	40%

[a] *Fifth Annual Report,* Federal Home Loan Bank Board (June 30, 1937) Exhibit 19, pp. 159-60. The provision of Public Law No. 76, 74th Congress (May 28, 1935, c. 150, 49 Stat. 293, Sec. 11) set the terminal date for receipt of application at June 27, 1935.

[b] Only mortgaged, nonfarm, owner-occupied dwellings were potentially eligible for an HOLC loan. The number of these dwellings was estimated for 1930 by assuming for each state that the percentage of nonfarm, owner-occupied dwellings that were mortgaged in 1930 was the same as that reported in the 1940 Census. The method of estimate undoubtedly produces some error. It seems improbable, for instance, that the true figure in Mississippi was 99 percent. Unfortunately, no basis for narrowing the possible range of error has been found.

[c] Includes Alaska, Hawaii, and Puerto Rico.

than one out of four applied; New York's rate—25 percent—was substantially below the national average of 40 percent.[16]

State variations were presumably due in part to differences in

[16] For the country as a whole, nearly 18 percent of all nonfarm owner-occupants, whether their homes were mortgaged or not, applied for HOLC aid. The states with the highest rates were Utah, Arizona, Mississippi, Michigan, and Alabama—29.3, 28.6, 28.6, 26.8, and 26.6 percent, respectively. In eight states one-fourth or more of the owner-occupants sought HOLC aid, and only in Maine, New Hampshire, Vermont, the District of Columbia, and Puerto Rico was the rate less than 10 percent. The data on owner-occupancy are from the 1930 Census.

need, but other factors—the condition of lending institutions and their prior lending policies and state HOLC policy—were also significant. With respect to the last, state offices varied widely in their preliminary screening of applications, especially in the early months when filings were heavy. For short periods, at least, standards diverged widely. Even though the same general rules applied throughout the country, interpretations naturally varied, and with all states reporting to Washington directly, effective supervision was difficult and uniformity obtained only slowly. Some states, for example, apparently placed little emphasis on a requirement enforced by others —that the applicant try to refinance through the private financial system before coming to the HOLC.

The average amount applied for over the country as a whole was $3,272 (Table 2).[17] Here again, state variations were wide. The highest was $6,221 in the District of Columbia; the lowest, $1,584 in Idaho. In Connecticut, New Jersey, and New York the average was around $5,000, while in Massachusetts it was about $4,500. Amounts applied for in the South and in the Missouri Valley and Plains areas were below average.

APPLICATIONS REJECTED

A total of 868,670 applications, 46 percent of all those filed, were either rejected by the HOLC or withdrawn before final HOLC action. Little has been published, however, on the reasons for rejection or withdrawal. On the basis of the first six months' experience, Mr. Fahey stated to Congress that 30 percent of all applications were ineligible and a year later said that in its early days the HOLC accepted many applications which it should never have taken.[18] As time passed, the preliminary screening improved, so that more of the obviously ineligible cases never reached the formal application stage. Yet the definition of ineligibility was not clear; some properties may have

[17] The figures on amounts applied for are by no means unambiguous. In some cases they represent the full amount due on the house, including taxes and back interest; in others they represent the reduced amounts for which the lenders had agreed to compromise. Typically, tax and interest accruals during the processing of the application added to the total due by the time the loan was made, and sometimes application was made for funds to meet other than mortgage debt. Very often the applicant did not know precisely how much he owed when he filed the application.

[18] For a time, the standards in parts of certain states were depressed by policies of local officials that verged upon the corrupt. One official was discharged just as he was about to complete a large group of loans without any appraisal.

been so classed because they were farm properties, housed too many families, were nonhomestead rental properties,[19] or fell clearly beyond the limits set by Congress; others may have been classed as ineligible by the HOLC itself, for example, owing to valuation or lack of distress. While it would be of interest to know something of the reasons for limitations on HOLC aid, it is not now possible to separate these two groups of cases.

The data in Table 3 are from an unpublished HOLC study covering 577,642 cases—two-thirds of the eventual total—and cover all rejections to May 16, 1935. The large category in Table 3—"applica-

TABLE 3 — WITHDRAWALS AND REJECTIONS TO MAY 16, 1935, OF APPLICATIONS RECEIVED, BY REASON FOR REJECTION [a]

Reason for Rejection	*Number*	*Percentage of Total*
Applications Rejected	*487,548*	*84.4%*
Inadequate security [b]	103,145	17.9
Lack of distress	72,778	12.6
Failure of applicant to cooperate	56,186	9.7
Property of nonhomestead type	46,353	8.0
Mortgagee's refusal to accept bonds	44,446	7.7
Unstable credit or income of mortgagor	43,249	7.5
Property primarily for commercial use	27,668	4.8
Defective or insufficient title	20,362	3.5
Miscellaneous	73,361	12.7
Applications Withdrawn	*90,094*	*15.6*
Total	577,642	100.0%

[a] Data made available by the HOLC.
[b] Includes cases classified by the HOLC under "insufficient appraisal."

tions withdrawn"—undoubtedly includes many cases in which the reason for withdrawal was one of those also listed in the table as a reason for rejection.[20] The withdrawn cases include another important type—those where the borrower and the lender (or lenders) were able to agree on terms, rendering HOLC refinancing unnecessary, a condition encouraged by the HOLC. Some part of the HOLC accomplishment, therefore, lay in the help it gave to distressed borrowers in

[19] The definition of "homestead" varied according to different state offices.

[20] Some applications were withdrawn for transfer to the Farm Credit Administration, the federal agency set up to grant help on farm properties.

working out agreements with their creditors or in finding other lenders.

The most important reason for rejection was "inadequate security," even though the HOLC's system of appraisal, discussed in Chapter 3, was generous by prevailing market standards. In general, loans could be made up to 80 percent of the HOLC appraisal, and in most areas appraisals were sufficiently generous to permit loans nearly as large—possibly larger—than current market price. Where the security was inadequate, or where the appraisal was "insufficient," therefore, the owner probably had very little, if any, equity. Thousands of HOLC loans were made where the appraisal was too low to permit the refinancing of all the debt against the property, in which case the original lender sacrificed part of his claim. The willingness of lenders to compromise, therefore, had much to do with determining whether an application would be withdrawn on grounds of "inadequate security." One other very different type of case is included in this category, namely, the occasional case in which the information on the appraisal form was inadequate and for some reason never completed.

There is little to say about the other categories of rejections. Presumably, "failure of applicant to cooperate" often indicated lack of distress, although at times it may have resulted from a knowledge that the application was not eligible or that other arrangements could be made. In other cases there may have been no great desire on the part of the applicant to refinance his debt; indeed, the charge was sometimes made that borrowers let negotiations drag on, even when they had no intention of refinancing, with the object of getting a few more months of costless housing.

Acceptability of Bonds by Mortgagees

The success of the entire HOLC plan depended upon the willingness of lenders to accept HOLC bonds in exchange for their outstanding mortgages, yet it was by no means certain that the bonds would be generally accepted. The chief uncertainties arose from (1) the limitation of the government guarantee to interest only, with no commitment on principal, and the belief that the HOLC, as a type of relief agency, would lose money; (2) the relatively low interest rate of 4 percent, which was, roughly, a third below the customary rate on mortgages; (3) the legal restrictions on investment

policies of some financial institutions; and (4) the lack of confidence in the government's credit.[21] On the other hand were the facts that (1) the government guarantee of interest was much better than the promise of the home owner, since the latter, by definition, was in financial difficulty and a cash return of 4 percent was more attractive than an accruing but uncollectible 6 percent; (2) the acceptance of bonds meant the avoidance of money costs, trouble, and the loss of goodwill resulting from foreclosure; (3) the Corporation's appraisal standards might permit the receipt of more in bonds than could be obtained from sale at foreclosure (although this condition could not have been fully appreciated until after the HOLC operations had started); (4) exchange of the mortgage loan for HOLC bonds would free the lender of collection and servicing costs, which on loans of the quality under consideration must have been substantial in relation to their yield; and (5) the bonds were exempt from state and local property taxes, and the income was exempt from state income tax and from the federal normal income tax. In addition, laws limiting the investments which financial institutions might acquire could be, and were, changed.

President Roosevelt, in originally advocating the plan, specifically stated, giving no definite reasons, that the government should guarantee interest only. Representative Steagall, who had charge of the bill for the Administration in the House, probably expressed the President's position in stating that, since there was a limit to the obligations the Treasury could assume, the guarantee should be restricted to interest.[22] Doubts about the adequacy of the guarantee of interest only were expressed during the initial House debate; however, Administration forces defeated attempts to extend the guarantee to principal without clearly meeting the objections.[23] In the Senate Hearings the lack of guarantee of principal was listed by one

[21] Other features of the bonds, such as callability, do not seem to have been cited as undesirable. Actually, the callability was to prove very costly to persons who exchanged mortgages for bonds, because shortly after agreeing to a settlement in which they were promised, and received, bonds yielding 4 percent, they were compelled to give up the bonds, being offered in exchange bonds with much lower yields. Had the original bonds not been callable, the former lenders might have enjoyed the 4 percent yield for almost eighteen years in some cases and for more than sixteen years in most cases. The original 4 percent bonds were dated July 1, 1933, and matured July 1, 1951; the maturity was thus roughly eighteen years from the first loan and fifteen from the last.

[22] *Congressional Record*, Vol. 77, Part 3, 73rd Congress, 1st Session (1933) p. 2478.

[23] *Ibid.*, pp. 2488, 2500-07, and 2577.

witness as the first of fourteen faults.[24] There was no real discussion of the issues on the floor of the Senate.

Before lending operations started, the Administration and groups sympathetic to the program took steps to enhance the acceptability of the bonds. The New York Real Estate Securities Exchange announced that they would be admitted for trading; President Roosevelt urged savings banks to accept them; [25] the Treasury made the bonds acceptable as collateral for deposits of public money; the Reconstruction Finance Corporation agreed to accept them as collateral up to 80 percent of face value; [26] in August the HOLC in one of its many press releases on the general problem pointed out that the bonds could be used at face value to repay debts to the Corporation; [27] several large financial institutions pledged themselves to accept the bonds.[28] Finally, in late September, the Comptroller of the Currency reversed an earlier stand to permit receivers of national banks to accept them.[29] Effective steps were taken to have state laws revised where necessary to permit financial institutions to accept the bonds, and in 1933 the HOLC authorized a group of prominent banking institutions to form a nationwide organization to distribute them.[30]

[24] U. S. Congress, Senate, Hearings before a Subcommittee of the Committee on Banking and Currency on S. 1317: *Home Owners' Loan Act,* 73rd Congress, 1st Session (1933) p. 37.

[25] *New York Times,* August 8, 1933, 27:1.

[26] *Ibid.,* August 2, 1933, 30:5. To allow over 80 percent would be virtually to redeem debt which the government did not want redeemed. The Postal Savings System authorized acceptance of the bonds at market value as security for postal savings deposits. *New York Times,* August 27, 1933, Sec. 11, 1:3.

[27] This privilege could obviously help materially in maintaining the value of the bonds. Since they were to be issued in denominations as low as $25, their use in payment of amounts due the HOLC was not barred by the lack of availability of convenient units. This use of bonds differed from that referred to in footnote 26 above. Use of bonds as security for an RFC loan gave a claim on the government for cash, whereas use to repay the HOLC in effect produced a claim for a mortgage (or part of one).

[28] *New York Times,* August 8, 1933, 27:1; August 9, 1933, 27:2.

[29] *Ibid.,* September 26, 1933, 31:6.

[30] New York State passed permissive legislation in August, and in a September action allowed receivers to accept HOLC bonds; and Ohio, Pennsylvania, and other states followed (*New York Times,* August 27, 1933, Sec. 1, 8:2; Sec. 11, 1:3 and September 3, 1933, Sec. 2, 5:2); Pennsylvania ruled that insurance companies might acquire bonds in exchange for mortgages but would not be permitted to buy them, and New Jersey did not pass its permissive law until late September, thereby slowing HOLC operations in that state (*New York Times,* September 17, 1933, Sec. 2, 10:2; September 18, 1933, 17:1; and September 29, 1933, 35:1). In a nationwide radio address, Mr. Fahey late in November explained the investment merits of HOLC bonds. His talk is reproduced in *Dun's Review,* Dun and Bradstreet, Vol. 41, No. 2069 (December 1933) pp. 2-5.

"When issued" trading began on the New York Real Estate Securities Exchange on August 29 with a sale at 85, but stopped a few days later at the HOLC's request until a prospectus was available to aid investors in judging values, resuming at 92.[31] The bid fell later and then rose; early autumn sales were largely on the "short" side. The HOLC began at once to repurchase bonds (technically, at the time, interim receipts) offered at large discounts. It found sellers unable to make delivery for several weeks, however, because very few loans had been completed, and virtually no receipts had yet been issued. The HOLC's action helped raise prices of the bonds, so that by the year's end they were selling near par. Through the early lending months, HOLC bonds were quoted at a discount—around 90 to 95—that must have reduced the willingness of lenders to exchange mortgages for the bonds and slowed negotiations between borrower and lender.[32] To this extent HOLC operations were retarded, but, even so, the Corporation was probably processing cases as rapidly as possible.

In the first Congressional session after the HOLC started lending, at least twenty-four bills were introduced providing for guarantee of principal.[33] In January 1934, President Roosevelt recommended guaranteeing the principal of the farm refinancing bonds (which promptly rose over five points) and on March 1, 1934 he sent a message to Congress urging a similar guarantee of HOLC bonds.[34] It was pointed out in House Hearings that a guarantee of interest was tantamount to a guarantee of principal, but that an explicit guarantee of principal would help materially in closing loans, and would enable the Corporation to borrow more cheaply.[35] Mr. Fahey pointed out

31 *New York Times,* August 30, 1933, 27:5; September 12, 1933, 33:1; and September 13, 1933, 30:1.

32 *Ibid.,* January 28, 1934, Sec. 10, 2:2; February 3, 1934, 12:6; and February 18, 1934, Sec. 10, 1:3.

33 *Congressional Record,* Vol. 78, Part 12, Index, 73rd Congress, 2nd Session (1934) p. 215. Mr. Fahey told the author that by late 1933 it was generally believed that the principal would soon be guaranteed.

34 *New York Times,* March 2, 1934, 29:8.

35 Testimony of Mr. Horace Russell, appearing for the HOLC before the House Banking and Currency Committee. (U. S. Congress, House, Hearings before the Committee on Banking and Currency on H.R. 8403 [S. 2999]: *To Guarantee Bonds of the Home Owners' Loan Corporation,* 73rd Congress, 2nd Session [1934] p. 32.) These hearings disclosed that some lenders—banks in Michigan were cited—had required borrowers to give additional notes or cash for the difference between the par value of HOLC bonds and the prevailing discount. Mr. Fahey and Mr. Russell said that the Corporation was trying vigorously to prevent this and had taken the position that such notes were without consideration and hence void.

that the Corporation would soon be taking in funds that it would use for retirement and that as permitted in the proposed Act, new, guaranteed bonds would be exchanged for the old ones.[36] The bill also authorized open market purchases; the tax exemption privileges of the bonds were justified as necessary to make them equivalent to others issued by the government.[37]

Shortly after passage of the bill, which undoubtedly enhanced the acceptability of its bonds, the HOLC announced new eighteen-year bonds, callable in ten years and bearing a 3 percent coupon.[38] The Corporation also benefited from improving government credit and falling interest rates through the next decade. During this period, there were times, as in 1938, when the chances of HOLC liquidation without loss were seriously lessened and at such times the guarantee of principal must have aided its credit. In view of the cessation of new lending, however, there was then no longer any question of getting bonds exchanged for mortgages.

Volume of Original Lending Activities

REFINANCING LOANS

The HOLC made over one million refinancing loans for a total of $3.1 billion (Table 4).[39] Naturally, applications were received far more rapidly in the early months than loans could be completed; by the end of 1933, roughly 723,000 applications had been received, but

[36] *Ibid.*, pp. 80-81. There was some dissatisfaction with the proposal to exchange new bonds at par for old ones that present holders had purchased at a discount in the open market. Mr. Fahey said that there was no practical way the Corporation could check to prevent the proposed exchange in such cases and thus to eliminate profits to speculators. He pointed out, however, that very few bonds had been transferred for less than 85 percent of par (the figure cited in the Hearings) and that not more than $6 million had yet got into the market at all. *Ibid.*, pp. 42-43, 64.

A suggestion of the later struggle over the interest rate charged on HOLC loans appeared when one Representative argued that since the guarantee of principal would reduce the cost of borrowing, the saving should be passed on to the debtors, for whose aid the HOLC had been established. *Ibid.*, p. 76.

[37] *Ibid.*, p. 80.

[38] *New York Times*, April 29, 1934, Sec. 2, 9:7. Mr. Fahey told the author that since the HOLC would begin early to receive funds for retirement of bonds from the amortization payments by borrowers, he believed and urged at the time that heavy reliance could and should be placed on shorter-term, lower-rate issues. The Treasury, however, preferred to have the HOLC depend primarily on long-term issues.

[39] In addition, it made 8,590 supplemental reconditioning loans on the same properties during the original lending period and additional subsequent advances for reconditioning, taxes, interest, and insurance. Also, 184,475 loans were made (through March 31, 1951) to purchasers of houses acquired by the HOLC through foreclosure on earlier mortgages.

TABLE 4 — LOANS CLOSED BY THE HOLC, BY MONTH, AUGUST 20, 1933-JUNE 12, 1936 [a]

Year and Month	Number	Amount (000,000)	Cumulative % of Total		Average Amount
			No.	Amt.	
1933					
August-September	1,397	$4	.1%	.1%	$2,943
October	5,732	19	.7	.8	3,394
November	16,639	45	2.4	2.2	2,686
December	27,004	73	5.0	4.6	2,716
1934					
January	35,781	97	8.5	7.7	2,706
February	43,009	122	12.7	11.6	2,824
March	51,492	157	17.8	16.7	3,047
April	59,594	180	23.6	22.5	3,017
May	71,487	221	30.7	29.7	3,092
June	82,386	251	38.8	37.8	3,045
July	78,765	236	46.5	45.4	2,996
August	70,092	218	53.4	52.5	3,115
September	63,300	191	59.6	58.6	3,016
October	65,777	203	66.1	65.2	3,089
November	58,534	185	71.8	71.2	3,159
December	59,091	180	77.6	77.0	3,044
1935					
January	44,987	136	82.0	81.4	3,029
February	16,325	48	83.6	82.9	2,932
March	9,621	30	84.6	83.9	3,116
April	8,576	25	85.4	84.7	2,968
May	13,212	41	86.7	86.1	3,121
June	11,383	36	87.9	87.2	3,160
July	11,812	36	89.1	88.4	3,043
August	14,030	44	90.4	89.8	3,105
September	14,212	45	91.8	91.3	3,147
October	17,020	55	93.5	93.0	3,209
November	16,328	51	95.1	94.7	3,127
December	14,785	48	96.5	96.2	3,259
1936					
January	10,703	35	97.6	97.4	3,307
February	8,132	28	98.4	98.3	3,437
March	5,619	19	98.9	98.9	3,441
April	5,679	19	99.5	99.5	3,413
May-June	5,317	15	100.0	100.0	2,781
Total	1,017,821	$3,093	100.0%	100.0%	$3,039

[a] Data made available by the HOLC. The figures represent revised estimates and therefore differ from earlier compilations in which the method of classifying supplemental loans on a single property was not uniform in all cases.

only 51,000 loans had been made (Table 4). And it took a year for the number of loans closed per month to equal the number of new applications received. Still, in this first year of operation nearly 395,-000 loans, totaling $1.2 billion, were completed. One should not conclude, however, that the timing of the major initial economic effects was necessarily the same as the timing of the loan closing; of itself, the expectation that loans would be made probably produced some important economic results, such as reduction of foreclosures and forced liquidation, months before the loans were closed. Other effects, such as those resulting from the availability of cash to state and local governments for tax arrears and more liquid assets to former debtors, however, could seldom have appeared before the loan was disbursed. By June 30, 1935, about 87 percent of both the number and the total dollar amount of loans had been completed, but lending continued for another year. The average size of loan made varied from month to month, but, except for a few months at the beginning and close of the lending period, it seldom varied more than 5 percent from the average, which was about $3,000 (Table 4) .

The number of loans completed was 54 percent of the number of applications, and the amount almost exactly half of the dollar total requested. In ten states, generally in New England and on the Atlantic seaboard but also including California, Kentucky, and Mississippi, more than half of the applications were rejected or withdrawn. In eleven widely scattered states more than six out of ten applicants received a loan. The highest ratios of loans to applications were in Nevada and Utah, the lowest (except for the territories) in Maine and New Jersey (Table 5).[40]

Nearly one out of every ten nonfarm, owner-occupied dwellings in the country became mortgaged to the HOLC, and the Corporation made loans on more than one out of every five such dwellings with a mortgage, that is, to the potentially eligible cases. In Arizona, Nevada, South Dakota, and Utah more than half of the potentially eligible cases received loans, whereas in Connecticut, Massachusetts, New Hampshire, and the District of Columbia the rate was one out of ten or less (Table 5) .

[40] At least part of the explanation of the results in these two states, according to Mr. Fahey, is that initial organizations were relatively poor and applied rather low standards in screening applications. In general, however, there seems to be little basis for explaining specific differences in state ratios of loans to applications.

TABLE 5 – LOANS CLOSED BY THE HOLC, BY STATE, AUGUST 20, 1933-JUNE 12, 1936 [a]

Census Region and State	Number	Amount (000,000)	Average Amount	No. as % of Total Eligibles [b]	No. as % of Applications	Loan-to-Value Ratio [c]
New England						
Maine	3,398	$8	$2,276	13%	44%	65.2%
New Hampshire	1,867	5	2,417	9	51	64.0
Vermont	1,576	4	2,664	12	61	68.5
Massachusetts	24,524	109	4,448	9	49	73.7
Rhode Island	6,118	25	4,037	16	50	68.0
Connecticut	10,281	44	4,303	10	46	73.7
Middle Atlantic						
New York	80,115	411	5,134	13	51	72.0
New Jersey	36,339	175	4,825	15	44	67.1
Pennsylvania	58,793	167	2,841	14	48	68.9
East North Central						
Ohio	98,556	306	3,104	27	51	67.3
Indiana	48,815	112	2,298	30	59	66.6
Illinois	69,985	279	3,993	21	55	70.7
Michigan	81,126	240	2,959	31	56	65.2
Wisconsin	33,101	115	3,486	26	59	67.6
West North Central						
Minnesota	21,021	48	2,282	23	58	67.6
Iowa	19,633	39	1,978	26	62	62.9
Missouri	24,535	75	3,052	18	54	69.9
North Dakota	4,416	9	2,047	45	59	60.6
South Dakota	6,122	11	1,780	53	66	62.8
Nebraska	13,597	28	2,068	33	68	67.5
Kansas	18,504	34	1,818	31	59	63.2
South Atlantic						
Delaware	1,642	5	3,109	14	58	72.9
Maryland	15,928	46	2,863	21	55	68.1
Dist. of Columbia	2,087	12	5,819	7	47	75.1
Virginia	12,031	38	3,133	21	57	70.3
West Virginia	9,079	23	2,519	27	49	63.8
North Carolina	12,319	31	2,548	24	51	65.0
South Carolina	5,683	13	2,340	29	57	69.3
Georgia	14,850	34	2,267	36	64	71.3
Florida	13,524	31	2,268	33	54	68.8
East South Central						
Kentucky	9,234	25	2,743	17	45	66.9
Tennessee	13,761	31	2,255	30	56	70.3
Alabama	16,611	37	2,230	47	59	67.6
Mississippi	8,762	16	1,879	47	47	62.1

(concluded on next page)

TABLE 5 – (concluded)

Census Region and State	*Number*	*Amount (000,000)*	*Average Amount*	*No. as % of* Total Eligibles [b]	Applications	*Loan-to-Value Ratio* [c]
West South Central						
Arkansas	10,344	$19	$1,806	48%	52%	63.9%
Louisiana	14,379	40	2,799	40	58	69.4
Oklahoma	23,960	54	2,270	44	62	67.7
Texas	44,355	103	2,327	35	58	66.0
Mountain						
Montana	3,679	7	1,980	36	52	62.6
Idaho	4,692	8	1,744	44	69	64.5
Wyoming	2,446	5	2,234	41	64	65.5
Colorado	11,613	23	1,974	30	59	70.8
New Mexico	2,462	5	2,086	36	52	65.4
Arizona	6,508	16	2,423	56	69	67.0
Utah	10,749	25	2,329	51	72	68.7
Nevada	1,211	3	2,724	50	71	56.8
Pacific						
Washington	21,438	39	1,814	26	54	68.6
Oregon	9,416	19	1,971	20	56	69.0
California	51,554	138	2,652	16	50	72.7
United States [d]	1,017,821	$3,093	$3,039	21%	54%	68.6%

[a] Data on number and amount of loans closed are from tabulations made by the HOLC in February 1944; data on loan amount in percent of HOLC appraisal are from the *Third Annual Report,* Federal Home Loan Bank Board (June 30, 1935) Exhibit 9.

[b] Only mortgaged, nonfarm, owner-occupied dwellings were potentially eligible for an HOLC loan. The number of these dwellings were estimated for 1930 by assuming for each state that the percentage of nonfarm, owner-occupied dwellings which were mortgaged in 1930 was the same as that reported in the 1940 Census.

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

[d] Includes Alaska, Hawaii, and Puerto Rico.

More loans were made in Ohio than in any other state; Michigan was second and New York, third (Table 5). The largest dollar amount was recorded in New York, nearly one-eighth of the national total; Ohio was second. Nevada was lowest in both number of loans and dollar amount. The average loan for the country as a whole was $3,039 (Table 5). The highest state average—$5,134 in New York (the District of Columbia average was $5,819)—was about three times the lowest—$1,744 in Idaho. The average amount of the rejected or withdrawn applications in the United States was about 15 percent

more than the average loan closed. Differences in this respect were striking: in Pennsylvania, for example, the average application rejected or withdrawn was 60 percent larger in amount than the average loan closed, whereas in Idaho the average loan was 40 percent more than the average withdrawal or rejection.

Nearly 40 percent of all loans were for less than $2,000, and 75 percent were for less than $4,000; only 1.4 percent were for $10,000 or more (Table 6).

TABLE 6 – LOANS CLOSED BY THE HOLC, BY ORIGINAL LOAN AMOUNT, AUGUST 20, 1933-JUNE 12, 1936 [a]

Original Amount	*Number*	*Percentage of Total*
Under $1,000	128,228	12.6%
1,000–1,999	255,670	25.1
2,000–2,999	227,964	22.4
3,000–3,999	153,142	15.1
4,000–4,999	96,752	9.5
5,000–9,999	141,830	13.9
10,000 and over	14,235	1.4
Total	1,017,821	100.0%

[a] Data made available by the HOLC.

Another characteristic of the loans deserving special mention is the amount of the mortgage in relation to the value of the collateral as indicated by the HOLC's appraisal. For the country as a whole this figure was 68.6 percent, notably less than the 80 percent permitted by law (Table 5).[41] The average District of Columbia ratio was 75.1 percent, while in Connecticut and Massachusetts it was 73.7; in New York, where the most money was lent, the rate was 72.0 percent, and in Ohio, where the most loans were made, it was 67.3 percent. The Nevada rate was lowest—56.8 percent—and North Dakota was next with 60.6 percent. It seems clear, therefore, that for the million HOLC loans as a group the amount of aid advanced was not effectively restricted by the appraisal put on the property and that the HOLC, on the basis of its own valuations, obtained more coverage on its loans than required by statute. In thousands of individual cases, however, conditions were different, and successful refi-

[41] There were not enough cash loans, on which the permissive loan-to-value ratio was only 40 or 50 percent, to affect the total appreciably.

nancing required some scaling down of debts, as described in the next section.

Just under 90 percent of the original loans—$2.72 billion out of nearly $3.1 billion—went to former mortgagees; $233 million went to governments in payment of taxes, assessments, and other amounts due; nearly $81 million was used for repair and reconditioning of the mortgaged properties and $58 million for insurance, appraisal, legal fees, and other costs. Slightly over one-fifth of the amounts paid to original lenders went to individuals and noninstitutional lenders, and the balance to institutions ($768 million to building and loan associations, cooperative banks and similar institutions and $746 million to commercial banks).[42]

HANDLING OF SECOND MORTGAGES AND OTHER JUNIOR CLAIMS

In the twenties, second mortgages and other junior obligations were commonly used in home financing; many survived to the depression period and were outstanding when the HOLC began giving help. If the HOLC were to succeed in providing relief where such claims existed, some method of reconciling various interests had to be devised. In general, of course, no serious difficulties arose when all claimants could be satisfied in full with a total loan of not more than 80 percent of the HOLC appraisal.[43] In other cases, however, special action was required, and an Adjustment Section was established in each HOLC loan processing office to handle such problems. Each case received special attention, and any of a variety of solutions might be reached.

Sometimes part or all of the claims that could not be satisfied with an 80 percent loan were covered by new junior debt. The total of the HOLC loan and any such junior lien, however, was not to exceed the HOLC appraisal. The HOLC policy of limiting total obligations on a property to 100 percent of its appraisal was established early and though not specifically provided for by statute was felt to be consistent with, and even necessary for, successful carrying out of Congress' wishes. The purpose was to restrict total obligations to

[42] *Sixth Annual Report,* Federal Home Loan Bank Board (June 30, 1938) p. 70; *Fifth Annual Report,* Federal Home Loan Bank Board (June 30, 1937) p. 29.

[43] Exceptions sometimes arose when the HOLC felt that an 80 percent loan was more than the applicant could successfully carry.

an amount which the borrower could reasonably hope to carry successfully. Moreover, the existence of large junior claims could lead to situations in which the borrower, though having gradually repaid much of his first mortgage debt to the HOLC, would eventually lose the house to the holder of the junior obligation. In effect, the holder of a junior debt might wait while the first mortgage was being paid off and then obtain the property or the full satisfaction of his claim, the payments of the owner meanwhile having accrued to the benefit of the holder of the junior lien. The HOLC believed that its mission of providing relief for home owners would thereby be frustrated. If the total loan were limited to the appraised value of the property, assuming the latter to be accurate (or below market price), the owner could reasonably expect to salvage his savings by sale of the property to satisfy all claims. The HOLC, however, did not automatically approve junior liens even within the 100 percent limit. If the owner's inability to carry and repay such debt was apparent, the HOLC would not participate in refinancing involving the junior debt. Where such debt was authorized, the HOLC imposed conditions such as the following: (1) the junior lien would have to be secured by a bond and mortgage, necessitating foreclosure as a means of liquidation; (2) the consent of the HOLC would have to be obtained before the second lienholder would be permitted to foreclose; (3) the junior lien could not be foreclosed until after the HOLC declared its mortgage in default; (4) principal payments would not be demanded for periods of three, five, seven or ten years, depending upon the individual circumstances.

In closing an HOLC refinancing agreement, all lienholders were required to sign releases for amounts not refinanced. Sometimes, however, lienholders and home owners made private agreements for financing excesses not covered in the negotiations authorized by the HOLC. The courts have held in all such cases litigated that agreements of this type are void as being against public policy. No such claims, even though covered by a mortgage, have been enforced by a court.[44]

[44] This generalization is based on a statement supplied by the HOLC and confirmed by the opinion of the New York Supreme Court, Kings County, in *Amos v. Amos*, reported in the *New York Law Journal*, June 27, 1950, Vol. 123, No. 123, p. 2263; this opinion cites decisions of other New York courts and the courts of six other states (Pennsylvania, Michigan, Ohio, California, Illinois, Oklahoma), all of which reached a similar conclusion.

Compromises of many kinds were reached. The holder of a second mortgage was not without bargaining power inasmuch as his failure to agree could prevent a settlement, but as a rule he probably stood to gain little or nothing by preventing HOLC help and thus forcing action through the normal legal channels. Among the types of arrangements made were those in which the holders of the prior lien would purchase junior claims on various terms so that HOLC refinancing would be concluded. Although great ingenuity was employed by the HOLC Adjustment Sections, many problems remained unsolved, and the failure of lienholders to compromise prevented refinancing which the HOLC was willing to conclude and which it felt would have been desirable, especially for the home owner.

No data are available on the claims which former lenders sacrificed.

WHOLESALE OPERATIONS

A special problem was presented by the mortgages held by the hundreds of banks and other financial institutions being liquidated in 1933-34 or near to being closed. Although the policies of receivers, liquidators, and bank supervisory agencies varied, there was great pressure to foreclose overdue mortgages, and the renewal of maturing mortgages was frequently impossible. The net effect, of course, was to depress real estate prices and to add to the force of cumulative economic contraction. To help meet these problems, the HOLC established, in cooperation with the RFC, a "wholesale operation." The RFC would make a loan to a bank in difficulty, accepting mortgages as collateral; these were then processed by a special staff of the HOLC which accepted those eligible and turned its bonds or cash over to the bank, which in turn repaid the RFC.[45] The HOLC's wholesale organization also began to deal directly with the receivers of closed financial institutions, on the ground that a mortgage held by such an institution could be presumed to be in distress and could, in any case, qualify under the section of the Act authorizing refinancing of mortgages held by institutions in distress. Policy, however, varied somewhat from state to state. In some cases proof of inability to refinance privately was required before a mortgage would be taken over; in others all holdings were taken over *en bloc.*

45 Wholesale operations were discussed publicly only in terms of closed institutions, presumably to avoid casting suspicion on banks being helped to stay open.

By the end of 1934, when the operation was almost complete, a total of 121,391 mortgage loans had been acquired from 6,316 closed financial institutions which had asked for help; $344 million had been loaned.[46] These loans made up about 13 percent of the number and value of all original loans. The majority were in Indiana, Louisiana, Michigan, Ohio, and Pennsylvania. No data are available on loans made to help bolster banks on the verge of closing.

The wholesale operation was criticized as using HOLC funds for persons not in great need, but the HOLC maintained that all but a minute fraction of the home owners aided directly by the wholesale operation were themselves in real need. At the end of its lending period, the HOLC had a large unutilized lending power, so that wholesale operations could not have reduced over-all lending significantly and may have had a considerable indirect effect in checking deflationary forces.

CASH LOANS

The typical early discussion and publicity on the HOLC gave much attention to the need for cash loans. It was believed that some lenders would refuse bonds, thereby unfairly denying help to needy borrowers. Moreover, the problem facing some home owners was primarily one of overdue taxes, which required cash to forestall tax sales. Congress, and to some extent the Administration, seems to have wanted to provide some means of helping in these cases, yet it wanted to avoid making excessive cash lending commitments. It was also anxious to discourage deliberate or avoidable defaults, a danger which it hoped to forestall by offering payment in bonds rather than in cash. The final legislative compromises provided for cash loans up to 40 percent of appraised value at 6 percent interest when lenders would not take bonds and up to 50 percent of appraised value for taxes, at 5 percent interest on otherwise unencumbered property when there was only a tax lien on the property and when sale for taxes was imminent.[47]

The Corporation seems to have discouraged applications for cash loans, calling attention to its limits on cash resources on which there

[46] *Second Annual Report,* Federal Home Loan Bank Board (December 31, 1934) pp. 83-84. Mortgages totaling over $400 million were taken from closed institutions; such aid was, therefore, obviously not limited to wholesale operations. *Sixth Annual Report,* Federal Home Loan Bank Board (June 30, 1938) p. 70.

[47] June 13, 1933, c. 64, 48 Stat. 128, Sec. 4 (c) and 4 (f).

were other important drains. Nevertheless, 11,305 such loans were made—8,991 for taxes only and 2,314 for cash. The average loan for taxes was only about $600; the average 40 percent cash loan was $1,360.[48] The demand for cash loans was doubtless reduced below the expectations of the spring of 1933 by the strengthening of the financial system and by the increasing willingness of lenders to accept HOLC bonds. No data are available to compare the experience of the cash loans with that of bond loans, but since the average cash loan was smaller and the percentage of collateral greater, it is probable that delinquencies were less frequent and losses small to the point of nonexistence.

Cost of Closing Loans

Of a total cost to the HOLC of $58.5 million for closing loans, $40.1 million was attributed to loans that were closed and the balance, $18.4 million, to applications that were rejected or withdrawn.[49] The last-mentioned amount was generally absorbed by the HOLC, though attempts were made in the early months by a few offices to recoup from the applicant. When loans were closed, however, the costs were included in the face amount of the loan. The average cost per loan closed was $39, and the average cost of each rejected or withdrawn application was estimated at slightly over half as much—$21 (Table 7). State variations were wide. In Nevada, New Mexico, Vermont, and the territories, the average cost of completing a loan was over $70; the lowest average cost—$23—was in Indiana. In general, costs in the Midwest, Southwest, and the Pacific regions were below the national average, while costs in the Northeast and in the South were above average. Differences were due in part to variations in HOLC costs, such as salaries and overhead costs, in part to lower unit costs of handling wholesale cases, and in part to differences in the complexities of legal requirements in the various states.

48 These averages are based on data covering all cash loans closed through June 1935 —88 percent of the total.

49 For cases that were rejected the costs may include no allocated overhead.

TABLE 7 — AVERAGE COST TO THE HOLC OF CLOSING LOANS AND HANDLING REJECTED APPLICATIONS, BY STATE, JUNE 13, 1933-JUNE 12, 1936 [a]

State	*Average Cost*		*State*	*Average Cost*	
	Closing Loans	Handling Rejections		Closing Loans	Handling Rejections
New Mexico	$86	$31	Kentucky	$42	$18
Nevada	71	31	Oklahoma	41	19
Vermont	71	36	Illinois	40	21
South Carolina	65	34	Maryland	40	23
Louisiana	60	34	Pennsylvania	40	25
Maine	60	32	Utah	39	21
Virginia	60	30	Alabama	38	23
West Virginia	60	30	Colorado	37	16
Dist. of Columbia	59	26	Rhode Island	37	20
Mississippi	59	30	Wisconsin	37	21
New Hampshire	58	25	Florida	36	20
Delaware	56	21	Kansas	36	19
Montana	54	24	Arizona	35	17
North Dakota	54	24	Minnesota	35	20
Tennessee	54	28	Michigan	34	17
Arkansas	52	27	California	33	19
Connecticut	51	29	Missouri	33	15
North Carolina	50	21	Iowa	32	17
Wyoming	50	22	Texas	32	16
Nebraska	49	26	Washington	32	16
New Jersey	49	25	Ohio	29	18
Georgia	48	29	Oregon	29	15
Massachusetts	48	26	South Dakota	27	14
New York	48	25	Indiana	23	11
Idaho	44	23	United States [b]	$39	$21

[a] Data made available by the HOLC.
[b] Includes Alaska, Hawaii, and Puerto Rico.