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Summary

THE Home Owners' Loan Corporation was established during the summer of 1933 to help families prevent loss of their homes through mortgage foreclosure. The program provided for (1) the exchange of HOLC bonds (with federal guarantee first of interest only but later, beginning in the spring of 1934, with guarantee of both interest and principal) for home mortgages in default and, in a few cases, for (2) cash loans for payment of taxes and mortgage refinancing. HOLC loans were restricted to mortgages in default (or mortgages held by financial institutions in distress) and secured by nonfarm properties with dwelling space for not more than four families and appraised at not more than $20,000 by the HOLC; no loans could exceed 80 percent of HOLC appraisal, nor could any loan exceed $14,000. Loans were to bear not over 5 percent interest and were to be amortized by monthly payments during their fifteen-year life.

Serious troubles arose in building an adequate organization on very short notice and in initiating the actual lending operations, but by the autumn of 1934 over 400 HOLC offices were accepting applications. During the initial lending period—from June 1933 to June 1935—the HOLC received 1,886,491 applications for $6.2 billion of home mortgage refinancing, an average of $3,272 per application. According to estimates in the present study, HOLC refinancing was requested for about 40 percent of all mortgaged properties of qualifying size, value, and location, and for about one-fifth of all the nation's nonfarm, owner-occupied dwellings. Nearly half the applications, however, were withdrawn or rejected. Roughly, one million refinancing loans totaling $3.1 billion and averaging $3,039 per loan were made, 70 percent of which were made during the twelve-month period beginning in March 1934. For the country as a whole, owners of about one out of ten nonfarm, owner-occupied dwellings (one- to four-family structures) and one out of five mortgaged dwellings re-

ceived HOLC refinancing aid. Seventy-five percent of the loans were for less than $4,000 and amounted, on the average, to 69 percent of the HOLC appraised value of the property. The average loan cost $39 to close though this varied widely from state to state.

Appraising presented a critical and difficult problem. In an effort to obtain the quality of appraisals desired, the HOLC trained and supervised appraisers, most of whom it employed on a part-time fee basis; HOLC training of personnel in, and systematizing of, appraisal methods are credited with having helped raise the general level of American real estate appraisal methods. The HOLC standard was based on three factors weighted equally: (1) the estimated current market price, (2) the cost of a similar lot at the time of appraisal plus the cost of reproducing the building, less depreciation, and (3) the capitalization of the monthly reasonable rental value of the property for the last ten years. This formula generally yielded appraisals above prevailing market prices. In addition to its appraisal, the HOLC obtained a credit report on the reputation of the applicant.

Not much detailed information is available about the properties on which the HOLC made loans, the borrowers, or the loans refinanced. Nevertheless, there is clear evidence that their cases were bad, though they were not the very worst distress cases of the early depression. A special National Bureau study of a sample of cases in Connecticut, New Jersey, and New York revealed the following: over half of the families applying for loans had monthly incomes of from $50 to $150; 66 percent of the applicants, most of whom had more than one dependent, were from thirty-five to fifty-five years old; seven out of ten applicants had purchased the property in the 1920's; most properties were less than fifteen years old when the loan application was filed; one-third of the properties were used to some extent for business purposes, but 43 percent were single-family dwellings having no business use; 87 percent had central heating; and 84 percent had the same number of baths as families.

One-third of the sample loans in these three states were on houses in New York City and slightly more were in communities of less than 25,000 population. One-fourth were appraised at less than $5,000 and 40 percent from $5,000 to $8,000; two-thirds were in districts classified as "residential" and "stable." The properties were in moderately good physical condition, inasmuch as in 70 percent of the cases the appraiser had estimated depreciation at less than 25 percent.

Over half the loans in these three states were for less than $5,000; three-fourths were for from 60 percent to somewhat over 80 percent of the appraisal; even on the basis of estimated current market values, 54 percent of the borrowers had an estimated equity in the property of one-fourth or more above their obligations on the property.

At first, servicing of loans consisted of little more than the mailing of monthly statements of payments due. Gradually, however, the HOLC developed much more elaborate and effective loan-servicing methods. Each account delinquent for more than two or three months received individual attention; and in more difficult cases an HOLC representative tried to help the borrower plan and adjust his affairs. Amounts in arrears were frequently added to the remaining balance. Varied, extensive, and time-consuming efforts were made to help prevent foreclosure. Borrowers—especially those who showed good faith—were treated very leniently.

Yet the HOLC acquired almost 200,000 houses—82 percent by formal foreclosure and the rest by voluntary transfer—half of these by the end of 1937. In New York and Massachusetts, over 40 percent of all loans were foreclosed; the average for the Mountain and Pacific Coast states was slightly over 11 percent. At the time of foreclosure, most loans had been many months delinquent—56 percent for eighteen months or more. The HOLC attributed foreclosure to the following reasons: noncooperation of the borrower, 45 percent; obstinate refusal to pay, 22 percent; total inability to pay, 18 percent; abandonment of property, 11 percent; and death of borrower and legal complications, combined, 5 percent. In only a small minority of cases did the HOLC believe that economic conditions made impossible the successful carrying of the loan; much more significant was the borrower's lack of determination to make the necessary effort—not his economic inability to meet his financial obligations. The special National Bureau study of cases in Connecticut, New Jersey, and New York throws some light on factors associated with differences in foreclosure rates. "Over-housing," as suggested by loan amounts and average rental values high in relation to income, seemed commonly associated with foreclosures. Above-average foreclosure rates were associated with the younger and the older borrowers; with properties having some business use; with properties of higher value, more rooms, and high ratios of land to total value; with loans for larger amounts and for higher loan-to-value ratios. The total amount

due at time of foreclosure averaged 11 percent more than the original loan.

The management and sale of acquired properties was for many years a major HOLC problem. Each house was treated as an individual problem. Local real estate brokers were relied upon, for the most part, to handle details; general policies, major decisions, and over-all supervision came from the HOLC. An average of $451 per property was spent on reconditioning and $135 on maintenance during HOLC ownership. Most houses were rented until sale could be arranged on satisfactory terms. Special and successful efforts were made to reduce fire losses, and, for some time, the HOLC acted as a self-insurer on the properties it owned. The HOLC ordinarily announced a price at which each property would be sold and made the necessary listing with brokers. Especially in the early years, however, little or no effort was made to sell at what were considered sacrifice prices. The HOLC did, however, offer prospective buyers of its properties financing terms which at the time were more favorable than those obtainable elsewhere. On the basis of its own accounting, the HOLC computed its total net loss on properties acquired—all of which have been sold—at $310 million. The average loss per property (after deducting income earned while the property was owned by the HOLC) was $1,568. Losses were especially heavy in Massachusetts, New Jersey, and New York. Two-thirds of all properties had been sold by December 1940. In the final accounting, total sales prices equaled 93 percent of the original HOLC loan amount.

HOLC lending was not confined to refinancing distress mortgages. By June 30, 1937, 444,226 reconditioning loans for $83 million had been completed, an average of $190 a case; in other words, more than four out of each ten original borrowers received supplemental loans for reconditioning. Almost half the applications for such loans were rejected, however; of the $400 million of reconditioning funds at its disposal, the HOLC used only one-fifth, leaving about $320 million unused.

To prevent tax defaults and to insure continuation of insurance coverage, the HOLC by 1934 found it desirable to make additional loans for taxes and insurance; within a few years an extensive program had been developed for the collection of accruing taxes and insurance premiums with regular monthly payments. Formal or informal extensions of time for payments of amounts in default con-

stituted in effect a large amount of lending. Though the HOLC believed that it was using its authority to grant extensions wherever conditions justified its so doing, pressure to increase its authority and to liberalize payment terms led Congress in 1939 to pass the Mead-Barry Act, permitting the HOLC to add as much as ten years to the original fifteen years of loan life. Monthly payments for amortization were thereby reduced. By the end of 1942, however, only 30 percent of outstanding loans—generally, the larger loans—had received Mead-Barry extensions; a small fraction of applications for such extensions were rejected, but most borrowers simply failed to request liberalization. Purchasers of properties from the HOLC received loans and advances of $604 million through March 31, 1951; the record of these loans has been good. The interest rate for all borrowers was cut one-tenth—from 5 to 4½ percent—in October 1939.

In carrying out its functions, the HOLC faced unique and difficult administrative problems. Some of the original personnel appointments were unfortunate, the result of political maneuvering in some areas and unwise decisions in the face of a pressing need for immediate action, but, before the end of 1933, better standards had become effective. In fifteen months, the HOLC built to its peak an organization of 20,000 employees; thereafter, staff reductions were made more or less regularly. Enough local offices were maintained into the 1940's to permit easy personal contact with most borrowers. Local staffs were supervised by regional offices, which in turn were subject to general policies formulated at the national level. In addition to its staff of salaried personnel, the HOLC maintained personnel on a fee and commission basis for appraisals, legal work, and property management and sale. The HOLC made deliberate efforts to develop and maintain good personnel policies. Morale was good, especially in the early years, and large amounts of uncompensated overtime were worked voluntarily.

Except at the start of its operations, HOLC financing was subject to general and increasing Treasury direction; by 1941 Treasury control dominated. Fortunately for its financial record, the HOLC was able to take advantage of large declines in the rates of interest at which the government could borrow funds. For the period 1933 through 1949, the average rate paid by the HOLC was 2.243 percent; the net spread between what it paid and what it received was about 2.5 percent. The HOLC met its operating costs out of its own in-

come, subject, however, to limits specified by Congress in the ordinary appropriation process for salaried personnel, office space, equipment and supplies. The HOLC never spent for operations the full sum authorized by Congress.

Most observers and supporters originally expected the HOLC to lose money—perhaps a great deal. Yet by the spring of 1951,[1] the HOLC had finally liquidated at a slight profit; borrowers had paid off their loan balances, for the most part, and the remaining balances were sold to private institutions. Many things explain this surprisingly good outcome. In a broad sense, perhaps, the desire of home owners to keep their homes was most important; good management by the HOLC and a large decline in the rate of interest it had to pay for borrowed funds were also important. It is not clear whether World War II and the prosperity associated with it had good or bad effects on balance on the HOLC financial record. Had the sale of loans to private institutions after 1948 not been pressed by Congress, the financial results would, however, have been somewhat more favorable.

[1] A minor technical problem complicated somewhat the selection of a final closing date for our statistical compilations, with the result that while we use March 31, 1951 as a terminal date the official closing date of HOLC is April 30, 1951. This discrepancy arose from the following circumstance: when our data were collected the HOLC anticipated that its books could be completely closed on March 31 but it was found necessary to extend this date to April 30 when payment for one piece of property was received after March 31 and certain other minor bookkeeping adjustments had to be made. However, insofar as these incidents affect our data they were properly anticipated prior to March 31 with the result that our data are complete to the final liquidation of HOLC though we use a terminal date which precedes the official closing by one month.