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## **How FDR Promoted Racial Segregation**

**by Jim Powell**

President Franklin Delano Roosevelt had a reputation as a friend of black people, yet he signed laws that promoted racial segregation throughout the United States. The laws were supposed to promote “affordable housing.”

Until the 1930s, buying a home required making a down payment equal to a quarter or a third of its value, and a mortgage had to be repaid in about a half-dozen years. Banks were reluctant to accept smaller down payments, because this would have attracted borrowers with less capital, who were more likely to default. Offering mortgage money for a longer period would have further increased the risks of lending since this might have exposed a bank to more economic risks, such as inflation or depression. State and federal laws banned banks from making long-term mortgage loans for more than half the value of a home.

Concerns about risk were borne out during the Great Depression, when people across the United States defaulted on their mortgage loans. FDR stepped in so that more people could afford to buy their homes. On June 13, 1933, he established the Home Owners Loan Corporation (HOLC) which replaced his predecessor Herbert Hoover’s Federal Home Loan Bank. HOLC spent some \$3 billion refinancing mortgages for people who had trouble making their mortgage payments. In the process, HOLC promoted the long-term, self-amortizing mortgage. As many as 40 percent of HOLC-financed properties ended up in foreclosure.

In an effort to minimize risks, HOLC developed more formal, consistent methods for assessing properties. HOLC rated properties and neighborhoods on a descending scale from most desirable to least desirable, and maps were produced to help speed-up the process of evaluating mortgage applications.

Neighborhoods were marked as A (green), B (blue), C (yellow) or D (red). An “A” neighborhood was suburban with recent construction, low crime, business and professional people — a white neighborhood. A “D” neighborhood was inner city, old buildings often in need of repair, sometimes high crime — a minority neighborhood. HOLC avoided “D” neighborhoods. This was how official redlining began.

To be sure, HOLC didn't originate the practice of rating neighborhoods. At least as far back as 1909, the New York City Department of Taxation and Assessment had produced land value maps. New York mortgage banker Richard M. Hurd, author of *Principles of City Land Values*, expressed the view that the socio-economic characteristics of neighborhood residents were the most important factors influencing property values there. What HOLC did was use government power to enforce its policies across the country.

A year after FDR established HOLC, he launched the Federal Housing Administration (FHA). It didn't loan money or build anything. Rather, it provided "insurance" that guaranteed to make bankers whole when they wrote mortgages for properties approved of by the FHA. Since the risk of mortgage defaults was high, the FDA, like HOLC, adopted policies intended to minimize risks.

FHA mortgage insurance was originally limited to \$20,000, so FHA officials favored "B" housing — modest, single-family homes with comfortable lots in all-white suburban residential neighborhoods where business and professional people lived. In "A" neighborhoods, homes tended to cost more than \$20,000, and not many people needed help from the FHA. Officials were concerned about the presence of "inharmonious racial or nationality groups." Few FHA-insured loans went to blacks. The FHA steered mortgage lending away from cities.

Although the FHA seemed to be secretive about exactly where its money was going — generally releasing only aggregated statistics — FHA policies were evident in its underwriting guidelines. For instance, this summary from a 1938 *Underwriting Manual*:

980 (3). Recorded restrictive covenants should strengthen and supplement zoning ordinances and to be really effective should include the provisions listed below. The restrictions should be imposed as a blanket encumbrance against all lots in the subdivision, and should run for a period of at least twenty-five to thirty years. Recommended restrictions should include provision for the following:

- a. Allocation of definite areas for specific uses such as single or two-family houses, apartments, and business structures
- b. The placement of buildings so they will have adequate light and air with assurance of a space of at least ten feet between buildings
- c. Prohibition of the re-subdivision of lots
- d. Prohibition of the erection of more than one dwelling per lot
- e. Control of the design of all buildings, by requiring their approval by a qualified committee, and by appropriate cost limitations or minimum square foot ground floor areas
- f. Prohibition of nuisances or undesirable buildings such as stables, pig pens, temporary dwellings, and high fences
- g. Prohibition of the occupancy of properties except by the race for which they are intended

h. Appropriate provisions for enforcement.

These policies were in force for decades. “FHA exhorted segregation and enshrined it as public policy,” observed historian Kenneth H. Jackson.

Experience with the HOLC and FHA offers a couple lessons for us today. Government money always seems to come with strings. Political power magnifies harm done by human error — in this case, local prejudices elevated to a national policy backed by the federal government.

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**This article was originally published in March 2009.**