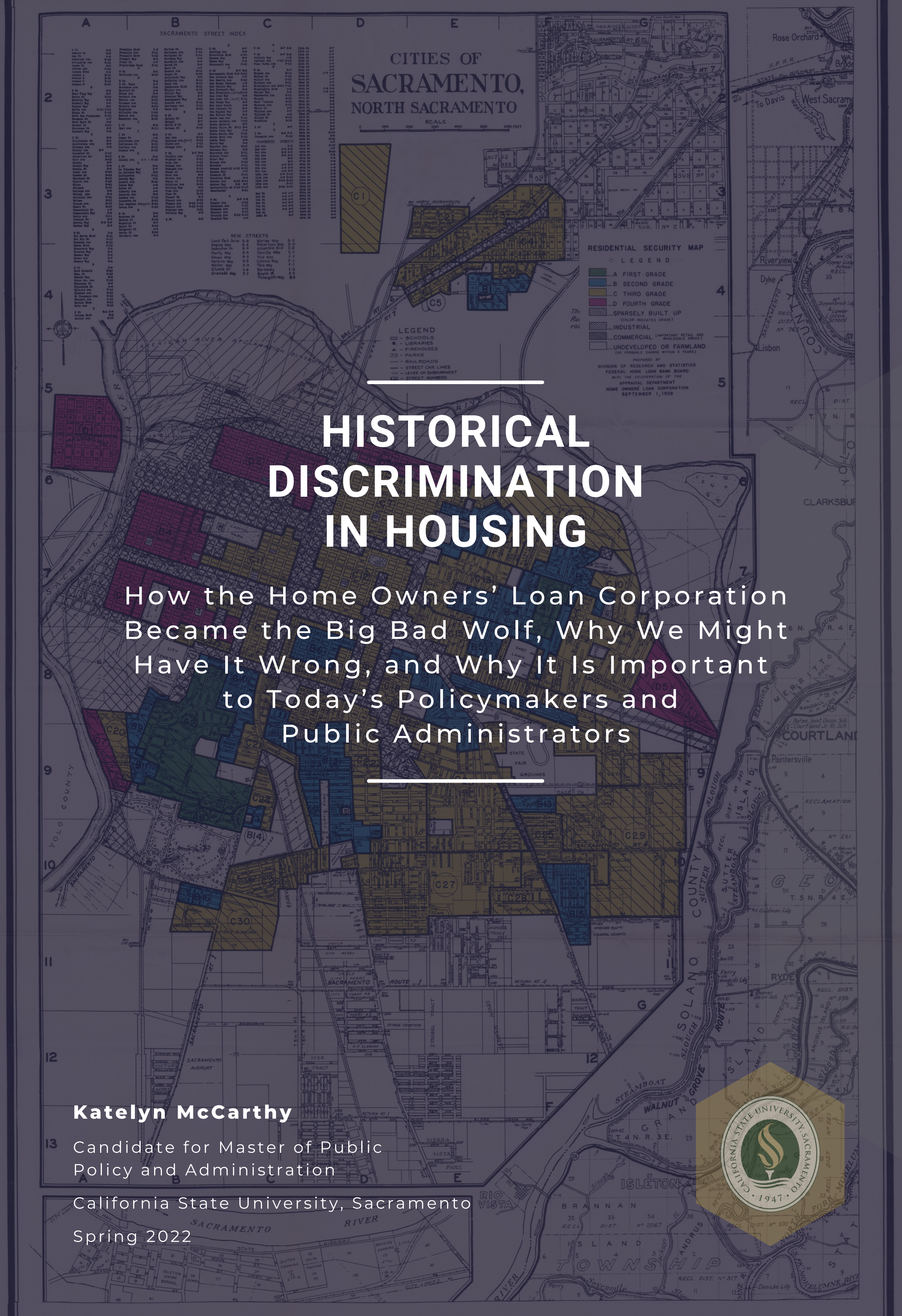

HISTORICAL DISCRIMINATION IN HOUSING

How the Home Owners' Loan Corporation Became the Big Bad Wolf, Why We Might Have It Wrong, and Why It Is Important to Today's Policymakers and Public Administrators

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INTRODUCTION

In today's social and political climates there is a heightened awareness and focus on differences in outcomes between racial groups and deepening analysis into the possible causes of this reality. The role of government institutions in creating and reinforcing systems of oppression is a topic of increasing scientific inquiry. Historical federal housing policies have drawn much criticism because their implementation is believed to have caused disparate outcomes for people of color, including lasting impacts on racial differences in wealth, health, education, environment, policing, and more.

Particular attention has been paid to the Home Owners' Loan Corporation (HOLC), a New Deal era agency tasked with bailing out homeowners who were facing foreclosure because of the economic downswing of the Great Depression. Recently digitized maps of the agency's mortgage activities have allowed researchers to conduct empirical studies showing correlation between modern disparate outcomes and what appears to have been discriminatory policy implemented by the HOLC. These maps have been viewed as the metaphorical "smoking gun" – evidence of the federal government's contribution to systemic racism that has impacted generations of Americans since. The HOLC has been labeled the Big Bad Wolf – the villain responsible for destroying the chance at security that comes with homeownership for so many. Many scholars have lit a fire under the pot and thrown the HOLC in, believing they were doing right by roasting an unethical actor. Belief in the culpability of this agency is widespread at this point, with popular media advancing the narrative as well. But what if we are wrong?

A reconsideration of evidence considering a new study suggests we may be, or that the picture may not be as clear as its been thought. A 2021 study by Fishback and colleagues suggests the HOLC did not engage in activities that had generational impacts on people of color, but rather that the Federal Housing Administration (FHA) may have been more, if not singularly, culpable for development and implementation of racially discriminatory policies that systemically disadvantaged Americans of color for decades to come[i]. Investigating and clarifying the source of these disparate impacts is important for several reasons of concern to current policy makers and public administrators:

1. ***To ensure corrective policies adopted today effectively address systemic disadvantages*** – Discriminatory policies have had major detrimental effects, many of which are generally accepted and not in question, and I provide an overview of what these impacts are to clarify what we know and why this broader issue is of such importance. What is being debated, however, is what should be done to rectify past wrongs, who is responsible for doing so, and how. Understanding the mechanisms by which harm was done is critical to being able to build and implement policies to advance racial equity now.

2. ***To learn from the unintended consequences of past policies*** – Part of the FHA's legislative mandate was to support development of new housing, and while some of the policies the agency adopted to do so may have been overtly discriminatory, other policies seemingly unrelated on the surface may have created (or at minimum – furthered) discriminatory societal patterns that have greatly impacted the chances of wealth accumulation by people of color. Let us not make the same mistakes again

and shift the burden to future generations to clean up a mess we made because we didn't take the time to learn from the past.

3. ***To uphold the ethical standard required of public policy and public administration practitioners*** – We are accountable to our community; unaddressed historical inaccuracies jeopardize the integrity of what we do as political scientists and public servants. Those who were harmed by these discriminatory actions deserve justice, and to do so we must be able to identify the perpetrators.

My goal in this policy report is to show that the issue of mortgage redlining by the federal government is more complex than originally thought, and that clarifying murky areas is an endeavor that could benefit those who are trying to construct modern policies to mitigate negative results and advance the goals of racial equity.

We have significant evidence that redlining did exist and has created disparate outcomes for many Black Americans – I spend time reviewing relevant literature to provide an overview of these impacts – but to understand the actions of the HOLC and the FHA, we must first return to their origin.

NEW DEAL ERA FEDERAL HOUSING PROGRAMS

Two agencies were created as part of President Franklin Roosevelt's New Deal to pull the country out of the depth of the Great Depression of the early 1930s – the Homeowner's Loan Corporation (HOLC) and the Federal Housing Administration (FHA). The agencies had distinctly different charges and functions within the housing sector. The HOLC was created in 1933 as a temporary program specifically directed to refinance loans for borrowers who were "in hard straits largely through no fault of their own".[ii] To do so it acted as a public bank that purchased selected mortgages and then reissued them with a lower interest rate, a more extended repayment schedule, and amortization. The agency only operated for three years, during which time it refinanced nearly one in five existing loans across the country .[iii] In contrast, the FHA was a permanent agency established in 1934 with two mandates: first, to stabilize the homeowners' insurance market by standing up an alternative to the private insurance industry that had collapsed, and second, to revive the housing development market that had plummeted over 90% during the same years. The FHA was charged with insuring only loans it deemed to be "economically sound" but was able to define the term as it saw fit.[iv]

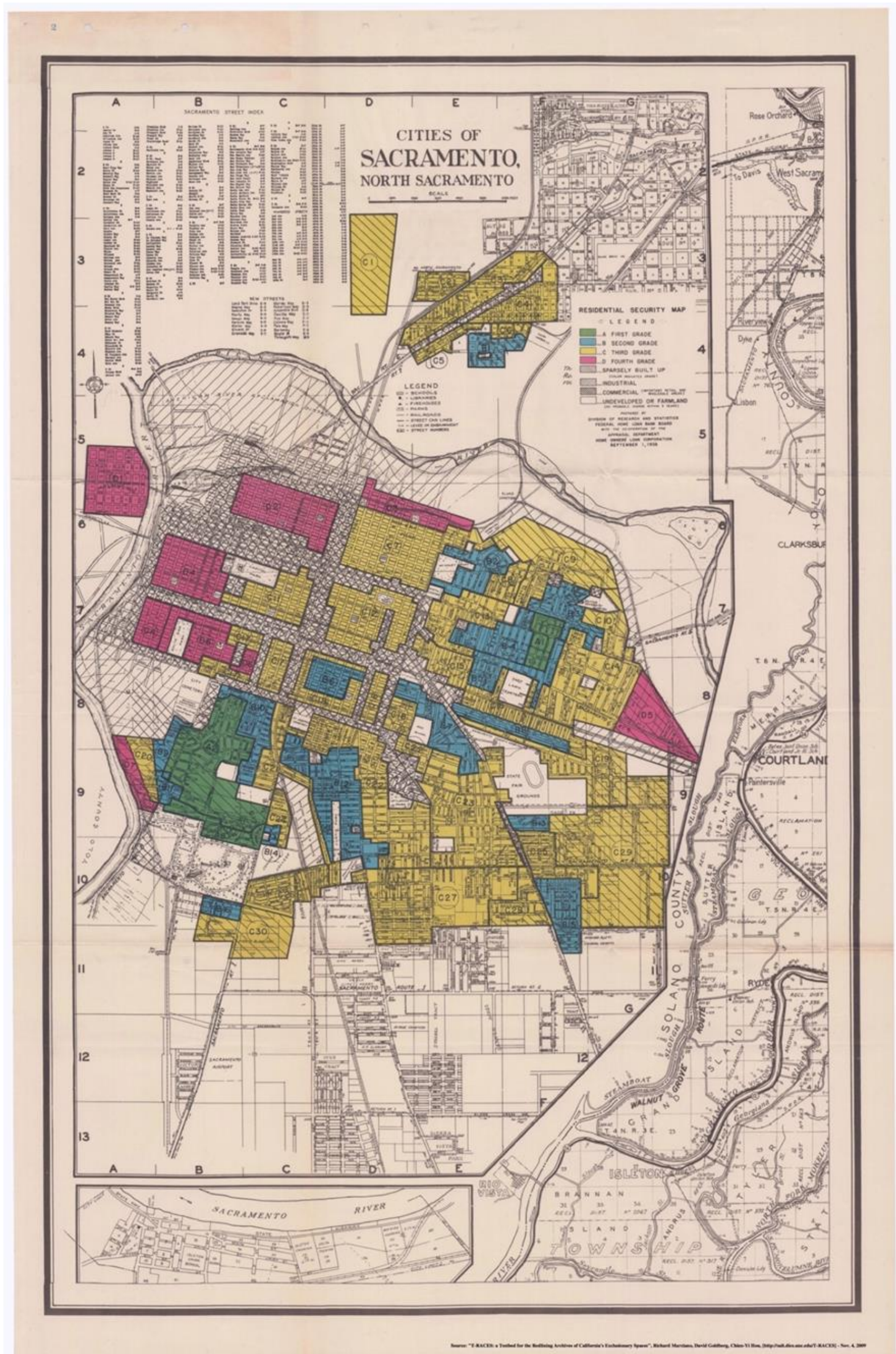
The HOLC was also tasked with implementing standardized property appraisal practices throughout the US. To accomplish this, it created appraisal maps of all major US metropolitan cities (249 in total) through consultation with local real estate and banking professionals.[v] The HOLC appraisal maps identified neighborhoods by the risk they represented to lenders; two of the major factors in determining those risks were the race and ethnicity of the people who lived there.

The most desirable neighborhoods were assigned the color green and consisted of white, upper class inhabitants. Green neighborhoods were often secluded by some type of boundary that would prevent the neighborhood from experiencing demographic changes.

Blue regions were similar to green, but at greater risk of experiencing change based on their proximity to neighborhoods that had been deemed less desirable. Yellow regions were considered high risk and trending toward becoming “hazardous” because of nearby Black residents. Red areas were considered highest risk, and highly unlikely to be able to meet the terms of a loan without defaulting. Under a national ethics code to maintain segregation, the agents making the designations for the HOLC placed neighborhoods with even a small percentage of Black residents into the Red category. As decades passed, the term “redlining” came to be synonymous with the refusal of lenders to issue mortgage loans for specific locations based on the red lines drawn on the HOLC maps.[vi] This has been commonly accepted to be a major contributing factor to disinvestment in those neighborhoods.

Figure 1 shows the HOLC map drawn for the City of Sacramento in 1938. In 2021, the greenlined neighborhoods in the southwest (Land Park) and northeast (East Sacramento) corners of the map still contain the most affluent households in Sacramento, with the highest-priced homes per square foot. The map redlined an area called the “West End”, consequently restricting access to mortgage loans and inhibiting investment in the neighborhood’s properties. During the following decade property in Sacramento experienced a 46% increase in value, but the West End redlined property decreased in value by 30%.[vii] Dingemans notes in his case study that an area he refers to as the “Old City” (which is the same area Hernandez calls the “West End”) is the only neighborhood in Sacramento where public complaints of inability to get mortgage loans originated.[viii]

Figure 1. Federal Homeowner's Loan Corporation Residential "Security" Map for Sacramento[ix]



The HOLC's mapping project began in August 1935, two years after its creation and only one year before it ceased its mortgage activities. The maps could not have guided the agency's lending practices because they were not in existence during the time most of its loans were issued.[x] This is a point commonly misunderstood and misreported by many scholars and may contribute to the narrative of the HOLC being mistakenly labeled as the Big Bad Wolf.

The FHA also created neighborhood rating maps like the HOLC's, though scholars know little about the agency's lending patterns and actions overall due to lack of surviving evidence. The maps were intentionally destroyed by the agency in 1969 in response to a lawsuit, and only one map remains for the city of Chicago. Comparison of this singular map to the HOLC map of Chicago shows 60-80% overlap, but we know little about whether the HOLC maps had any influence on the development of the FHA maps because evidence is thin, in large part due to the agency's secrecy about its practices.[xi]

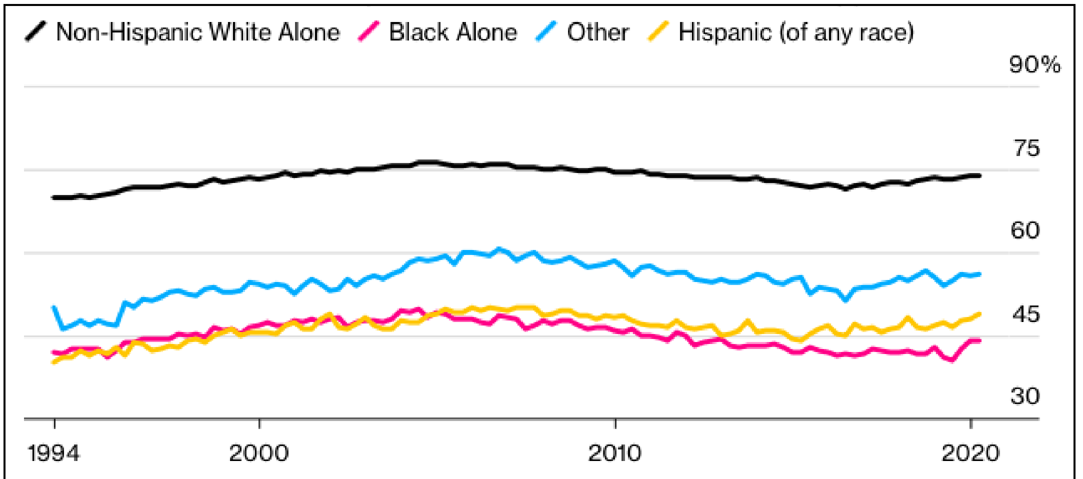
IMPACTS OF MORTGAGE REDLINING

Current literature paints a picture of a range of adverse outcomes connected to the institutional practice of redlining. This section reviews relevant studies attributing negative outcomes to the policy of redlining as a basis for understanding the impacts these housing policies have had. Digitization of the residential security maps has allowed researchers across the world to conduct empirical studies comparing HOLC neighborhoods with data sets on numerous topics. Some notable studies have shown correlations between the neighborhood designations and disparate economic, educational, environmental, and health outcomes, which I provide an overview of here.

Economic Outcomes

The mechanism by which these housing policies influenced the trajectory of those who were impacted must be understood to establish a shared understanding of government's role in creating unequal outcomes. The HOLC purchased mortgages and then reissued them with a lower interest rate, an extended repayment schedule, and amortization. Amortization, which builds a reduction in principal and not just interest into a monthly mortgage payment, is widely used now, but was not common at the time. A family selling an amortized home loan keeps its equity; thus, offering an incentive to maintain and further improve their home while building wealth. Redlining is thought to have directly contributed to the unequal outcomes in the United States today by preventing Black Americans from purchasing homes to begin accruing wealth through gaining equity. As illustrated in Figure 2, the homeownership gap is still prevalent today, with over 70% of white households having owned their homes since the mid 1990s, while less than 50% of black households owned homes as of early 2020.[xii]

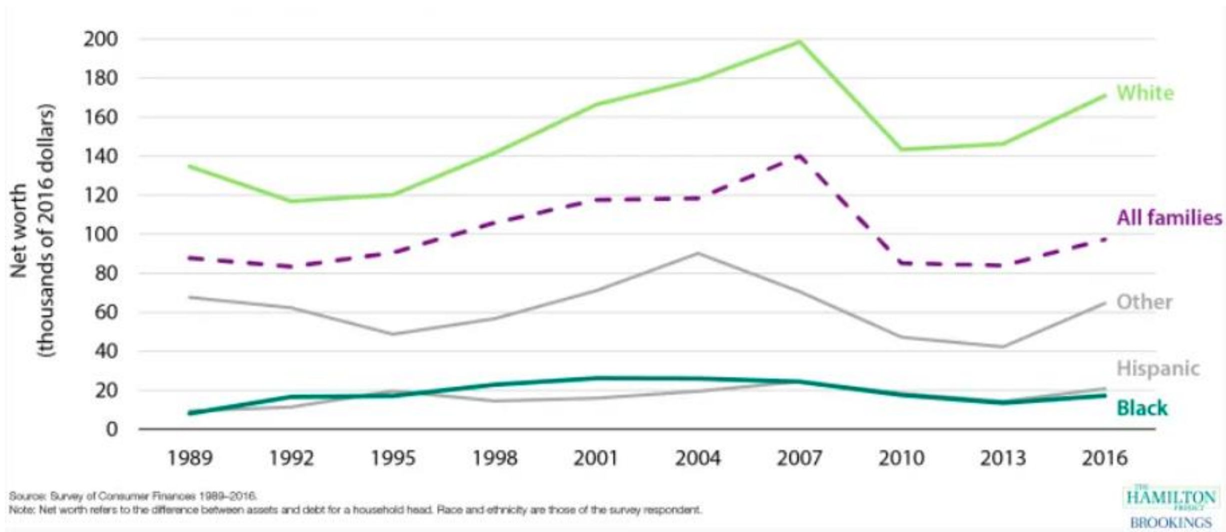
Figure 2. Home Ownership Gap[xiii]



Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey

The racial wealth gap between Black and White Americans appears to be traceable to the homeownership gap just described. In the United States, homeownership is the most used method of accumulating wealth. According to the U.S. Census Bureau, in 2017, the average renter's net worth was $3,036, while homeowners' net worth was $269,100. Home equity accounted for $160,100, or nearly 60%, of that wealth.[xiv] A close examination of 2016 household wealth highlights the overlap between homeownership and wealth because it finds that the net worth of the average White-headed household ($171,000) was nearly ten times greater than that of the average Black-headed household ($17,150).[xv] Furthermore, as illustrated in Figure 3, White households had the highest median net worth between 1989 and 2016, while Black households had the lowest. Much of this was due to White households being far more likely to own their homes and these homes having higher value and equity. Since home ownership is the primary mechanism for building wealth in the U.S., government policies that limited access to homeownership are seen as having played a major role in creating these unequal outcomes.

Figure 3. Median Net Worth by Race/Ethnicity 1989-2016[xvi]



Aaronson and colleagues (2021) investigated the connection between redlining and the current socioeconomic status (family structures, labor market outcomes, incarceration rates, and credit scores) in neighborhoods experiencing it.[xvii] They used data derived from the Opportunity Atlas[xviii] and credit bureaus. They used a differencing regression strategy to compare people living on different sides of the boundaries shown on the HOLC security maps. The findings suggest that residence as a child on the lower-graded side of a HOLC border exerts a sizeable negative effect on the life chances of cohorts born several decades after the HOLC designation was made. For example, the study's authors found that growing up on the D rated side of a D/C border resulted in a household income 2.2 percentiles lower and growing up on the C side of a C/B boundary resulted in having an income 2.9 percentiles lower. They further found credit score gaps showing lower scores on the worse-ranked side of HOLC boundaries. Being on the D side of a D/C boundary resulted in being 8 credit risk points lower and being on the C side of a C/B boundary represented being 9.4 risk points below those on the opposite side of the border.[xix]

Housing Outcomes

I found two studies that specifically examined the connections between HOLC map redlining and a home's sales price or other real estate-related outcomes. Impacts on home values are important because they directly contribute to the amount of wealth a homeowner gains during sale. Appel and Nickerson (2016) used hedonic regression analysis and found that homes in 1995 across major US cities were valued at approximately 5 percent less if they were in formerly redlined zones than homes outside. In their analysis, the authors utilized a discontinuity design that incorporated analysis of map boundaries created by HOLC security maps. They specifically consider buffer areas (approximately 250-1000 meters) around HOLC boundaries between areas of differing HOLC ratings in order to analyze the differences between HOLC borders and administrative borders such as census tracts. Ultimately, they found that HOLC borders had no correspondence with census tract or political wards. The author's testing process worked to rule out confounding factors related to these geographical differences.

Appel and Nickerson controlled for varying neighborhood characteristics from block-level data from the 1940 census including: rental rates, racial composition, household per structure density, vacancy rates and percentages of home in disrepair. Notably, looking at 1990 neighborhood characteristics, they documented that redlined areas have 5-7% more vacant homes, consistent with the assumption that redlining leads to disinvestment and eventual deterioration of housing in those areas. They also discovered that owner-occupied housing is 3.3% lower in these areas, indicating that formerly redlined areas currently have a higher number of renters.[xx]

Krimmel's (2017) difference-in-differences approach to analysis on the long-term impacts of redlining provides another useful resource for investigation. In this model, the author compared census tracts with the most restrictive credit designation ("redlined", treatment group) to relatively equal adjacent census tracts graded slightly more favorably ("yellow-lined", control group). This method's main null hypothesis is one of "parallel trends": without the HOLC's credit restrictive policies, the change in outcomes over time in redlined areas would not have been different than the change in outcomes for the adjacent yellow lined areas. Krimmel controlled for many variables of neighborhood and property characteristics including; housing supply, homeownership rate, race of inhabitants, occupancy status, median house value, median rental price, male labor force participation rate, percent of foreign-born residents, median years of schooling, percent of homes in disrepair, and percent of homes with amenities such as radio, refrigerators and/or heating.[xxi]

Krimmel begins by examining red and yellow lined areas neighborhood quality measures between 1930 and 1940 such as housing stock, population density, and home-ownership rate, finding very little evidence of difference between the two. However, between 1940 and 1970 as redlining grew in influence, redlined neighborhoods actually experienced large declines (approximately 20 percent) in housing supply and population density compared to adjacent slightly more favorably rated neighborhoods, while homeownership rates and racial composition of these areas stayed stable. Krimmel extends the exercise further through 2010 and examines the patterns after fair housing legislation passed in the mid-1970s, finding that redlining indeed had persistently negative effects on housing supply and population density, even though 40 years had passed since the discriminatory policies had been outlawed.[xxii]

Health, Environmental, and Educational Outcomes

Other studies focused on determining a connection between HOLC redline neighborhood designations and adverse health outcomes. McClure et al. (2019) looked at survey results from 1,471 respondents in the Detroit Neighborhood Health Study between 2008 and 2013. They found that residents were more likely to rate their overall health negatively if they were living in formerly redlined areas.[xxiii] The authors controlled for age, gender, and educational attainment. Krieger, Wright, et al. (2020) found an increased risk of a late-stage diagnosis of certain types of cancer linked to residing in these neighborhoods. After controlling for age, sex/gender, and race/ethnicity, they uncovered a greater risk of a late-stage diagnosis of cervical, breast, lung, and colorectal cancers associated with living in a formerly redlined area. Interestingly, their finding held for redlined areas that have been redeveloped and are currently home to high socioeconomic residents.[xxiv]

Researchers have also investigated the influence of a historical HOLC designation and environmental outcomes. For example, Nardone et al. (2021) found in a propensity score matching study of 3,727 census tracts from 102 U.S. metropolitan areas that neighborhoods with lower HOLC grades are associated with less current green space.[xxv] In a similar inquiry, Locke et al. (2021) set out to determine if the practice of redlining has impacted the current tree canopy. The group assembled land cover data from 11 sources covering 188 formerly HOLC-rated neighborhoods in 37 cities across 16 states. They used several analyses of variance tests and found that areas formerly rated "D" have about half the tree canopy coverage as areas that were formerly rated A.[xxvi] The group performed several checks for robustness to tease out if any inherent biases existed due to the multiple data sources but found their results held, however, this study is limited to observing correlation between tree canopy coverage and the practice of redlining and does not claim causality.

Nardone, Casey, Morello-Frosch, Mujahid et al. (2020) used ordinary least squares regression and data from CalEnviroScreen[xxvii] to identify that residents in formerly redlined neighborhoods in eight major California cities were two to four times more likely to visit the emergency department due to asthma. They also found significant increases in diesel exhaust particle emissions, the percentage of residents living in poverty, and the number of black and Hispanic population as the HOLC map grade worsened. The authors controlled for confounding variables representing diesel emissions and residents living twice below the poverty level obtained from the 2010 US Census.[xxviii] Huggins' (2017) study also correlated outbreaks of tuberculosis in 1951 Austin, Texas residents with the previous HOLC rating of the neighborhood living in. He conducts a cartographic study overlying 1950s maps of tuberculosis cases with the HOLC maps and found striking overlap between cluster outbreaks and D-rated neighborhoods.[xxix] Kreiger et al. (2020) linked a higher likelihood of preterm birth to residing in a formerly HOLC redlined area in their analysis of 528,096 births in New York City between 2013 and 2017. The authors use linear regression while controlling for sociodemographic characteristics.[xxx] In a separate study, Matoba et al. (2019) found a similar result using data from 33,586 black mothers in Chicago from 1989-1991. They used logistic regression to compare birth records against census and mortgage data while controlling for known confounding variables impacting pre-term birth: age, education, marital status, parity, and adequacy of prenatal care.[xxxi] Nardone et al. also investigated the relationship between adverse birth outcomes (low birth weight, small for gestational age, and perinatal mortality) and HOLC rating in a propensity score matching study using data from Los Angeles, Oakland, and San Francisco from 2006 to 2015. Low birth weight did not correlate with Grade C and D areas compared to grade A, while other negative birth outcomes were worse in redlined areas.[xxxii]

I found two studies seeking to understand potential connections between redlining and gun violence, often considered a public health issue. Benns et al. (2020) conduct a zero-inflated binomial regression using data from 1307 gunshot victims residing in 310 neighborhoods in Jefferson County, KY, from 2012-2018. They controlled for race and poverty variables in their analyses and discovered that the rate of gunshot victims living in a formerly redlined zone is five times higher than formerly greenlined zones and double the rate of those living in blue-lined zones.[xxxiii] A similar study by Jacoby et al. (2018) leverages an empirical spatial analysis using data on firearm assaults and violent crimes collected by the Philadelphia Police Department between 2013 and 2014. They analyze 404 census tracts and find eight times greater incidence of gun violence in formerly redlined areas.[xxxiv]

A recent study by Lukes and Cleveland (2021) investigates the connection between redlining and education. The authors conduct several difference-of-means analyses using geospatial and demographic data from the National Center for Education studies and student achievement (test score) data obtained from the Stanford Education Data Archive. They overlay HOLC maps with the locations of current districts and schools using GIS mapping and have several findings. First, in their analysis of 3,930 primary and secondary schools, they find that those in historically redlined neighborhoods receive less funding per student than those in A, B, and C-rated neighborhoods. In looking at a sample of 10,010 schools, they find those in redlined neighborhoods have more minority students and less diverse student populations. Of 7,303 schools analyzed, these same schools have lower test scores than those in A, B, or C-rated neighborhoods. They also find that the gap between D-rated areas relative to A, B, and C has grown in each area.[xxxv]

The entirety of the evidence discussed here as well as continuing work by researchers paints a clear picture of disparate impacts created by federal housing policies and understandably creates a need to determine the origin.

AN ALTERNATIVE NARRATIVE: THE FHA AS THE BIG BAD WOLF

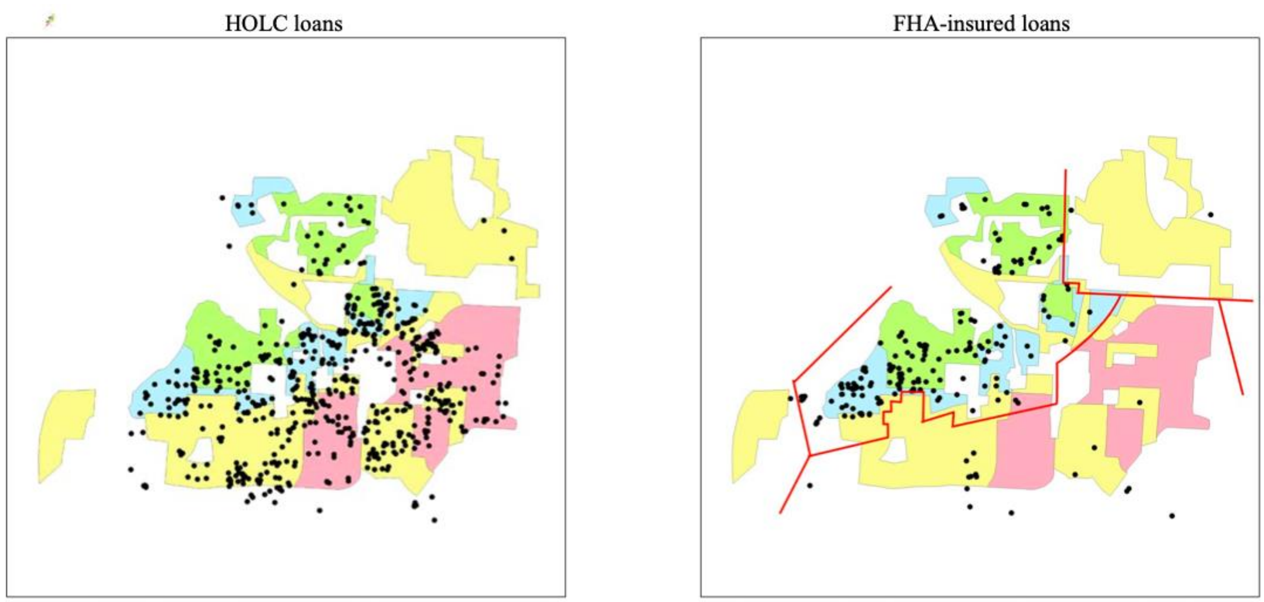
There are a significant number of empirical studies linking the practice of redlining to unequal outcomes, as discussed in the previous section. Each study highlighted relies on the HOLC residential security maps in its analyses to tie together specific outcomes with specific locations within redlined neighborhoods. The residential maps have been seen as the “smoking gun” – remnants of past government policies held up to be proof of institutional racism. However, an alternate line of research challenges the common narrative that the HOLC was the agency responsible for the discriminatory policies and respectively, the disparate outcomes associated with redlining practices. Rather, policies of the Federal Housing Administration are thought to be the true cause of unequal lending practices that impacted residents for decades to come.

A recent study by Fishback and colleagues sought to determine if claims made by earlier academics that the HOLC made significant loans to areas eventually rated C and D were true, thus showing the HOLC not to be the bearer of blame for redlining. To do this, the authors compare the HOLC maps for three cities – Baltimore, Maryland, Greensboro, North Carolina, and Peoria, Illinois – to the FHA loans that were insured in each. Records of HOLC loans were readily available, but the authors had to take multiple steps to recreate FHA loan records that had long since been destroyed. The first step was to use county land records to find FHA-insured loans. They then matched the property records to the 1940 census to identify demographic information about the loan holders. In all, the authors were able to identify over 16,000 data points across the three cities, a sample size significant enough to give confidence that results are broadly representative of the loan activities of the agencies overall.[xxxvi]

The authors note three areas of distinction in the loan activities of each agency that highlight the different approaches of each: geographic patterns, racial patterns, and borrower characteristics. The differences between the HOLC and the FHA illustrate that one agency was significantly more discriminatory in the implementation of its policies.[xxxvii]

Geographic analysis of loans made by each agency for the three cities included in the study debunk the commonly held belief that the HOLC did not refinance loans to homeowners in C and D-rated areas of its maps. In reality, the data shows that the HOLC had significant lending activity in those areas, while the bulk of FHA-insured loans were made in areas outside of these urban centers. This FHA lending activity aligns with what we know of the agency's mission to promote new development, which typically happened in outlying areas since city centers were already developed. This finding was true for all three cities in the study[xxxviii] and supports claims made by earlier authors about Atlanta, Detroit, Los Angeles, and Philadelphia.[xxxix] [xl] Figures 4 illustrates the findings for Greensboro, North Carolina. The findings for Baltimore and Peoria are found in Appendix A.

Figure 4. FHA-insured loans (1935 to 1940) and HOLC loans (1933 to 1936) superimposed on the 1937 HOLC map[xli]



Second, there is a distinct difference the numbers of loans made to Black homeowners by the HOLC and the FHA. The study's authors used data from the 1930 and 1940 censuses to identify the races of loan holders and found the HOLC made significant loans to Black homeowners while the FHA made almost none in all three cities that were looked at. In both Peoria and Greensboro, the authors found that the HOLC made a proportional amount of loans to the number of black homeowners in the city overall. For example, Black homeowners made up 22.9 percent of homeowners in Greensboro and were 21.5 percent of the total number of homeowners serviced by HOLC loans. In Baltimore, we see a higher than proportionate number where about 10% of loans refinanced by the HOLC were for Black homeowners while only about 4% of the city's homeowners were Black overall. In contrast, the FHA made very few loans to Black homeowners. In Greensboro, the FHA insured only one loan to a Black homeowner out of approximately 1300 Black homeowners in the city.[xlii] This paints a clear picture that the HOLC did not restrict its activities to white homeowners, but rather the FHA was the primary perpetrators of these policies.

Lastly, there are differences between the types of borrowers each agency loaned to. Across all three cities, the authors found that FHA loan holders were more likely to have higher incomes and more valuable homes. They also found that FHA loan holders were more likely to have moved in the previous five years, which reinforces the claim that the FHA prioritized loans that would support new housing development.[xliii]

This evidence provides a new perspective on the common narrative that the HOLC was primarily responsible for the impacts mortgage redlining has had on generations of Black Americans. It reinforces earlier, but overlooked, claims made by other academics that the HOLC is not the Big Bad Wolf responsible for redlining as the modern narrative has claimed.

WHY GETTING IT RIGHT IS IMPORTANT

Should we spend time reopening a case that so many have closed? Does the agency responsible for mortgage redlining actually matter, or is it only important that we focus on the outcomes? Identifying the culpable party or parties and the mechanisms through which discriminatory policies effected society are necessary to ensure our actions now are appropriate and effective. I suggest there are three specific reasons we need to correct the record:

1. To ensure corrective policies adopted today effectively address systemic disadvantages created by the correct original policies

2. To learn from the unintended consequences of past policies

3. To uphold the ethical standard required of public policy and public administration practitioners

Corrective Policies

Today there is more evidence and a greater level of awareness that lasting disparate impacts to minority groups, particularly Black Americans, occurred as a result of the decades-old federal government housing policies. While originating from housing policies, these impacts ultimately negatively transformed generational wealth for Blacks and seeped into many other areas of peoples' lives and of society. Because of this, policies to advance racial equity are being considered in many different arenas in addition to housing, such as in healthcare and education. In all the areas, the same questions are being grappled with: how should assistance be provided and who should foot the bill?

A pressing concern for policymakers and public administrators today is to ensure that policies designed to combat the long-lasting effects of New Deal era housing policies are effective and cost efficient. An increased understanding of the actions that lead to disparate outcomes will help in developing policies that appropriately target affected parties. If the HOLC maps are used to identify recipients of funding, we might unintentionally exclude areas that were impacted when the FHA incentivized movement to suburbs but that fall outside of the neighborhoods redlined by the HOLC. This will be particularly important for policies that seek to provide reparation-type payments or investments for improvement in housing to increase property values in specific areas. To ensure public monies are responsibility invested, decisionmakers need accurate data showing where to direct funding, and additional research into FHA actions of cities where these types of policies are being considered would be wise.

However, because housing policies were not the only forms of institutional racism enacted throughout history, it is difficult to pinpoint and quantify their impact. As evidenced by the research done by Fishback and colleagues, significant time and resources are required to recreate FHA data that was destroyed. I suggest that for most policies, this level of depth and understanding into the historical actions of the agency is not needed. We know mortgage redlining did occur and has had significant negative effects but trying to pinpoint individual people who were harmed is not necessary to address what has become a complex and pervasive issue of racial inequity in many, if not most, areas of public policy. Take, for example, a person who lived in a redlined neighborhood during the time the HOLC was operating and benefitted from the refinancing services it offered. Even though they may have retained their home and been able to begin building wealth through equity, they would still have been negatively impacted by the externalities of FHA actions that lead to disinvestment in their neighborhood and decreases in housing values. For this reason, trying to target policies to the individual level is too narrow an approach that does not account for the interplay of the many policies impacting citizens at that time and since.

Most policies to advance racial equity do not need rely on a full understanding and complete picture of how the inequities were created. This is good news because it would be nearly impossible to ever have a full picture of what happened due to lack of records and data, anyway. The understanding we collectively have at this point is sufficient to act on the observed effects.

Unintended Consequences

The FHA's stated goals were well aligned with the New Deal missions to stimulate the economy and provide reforms to avoid another economic depression in the future. Supporting the construction of new homes and providing federally backed mortgage insurance would help the economy through job creation and increased economic activity and make homeownership more accessible. These programs were paramount in the New Deal and were not explicitly racially motivated on face value.

Reviving the housing construction industry, however, was a charge that would have unpredicted disparate impacts on many Black Americans because of how it was implemented and who had access to FHA services. Inner-city areas had already been mostly developed and the space to build new homes existed on the outskirts, so developers began building what we now call the "suburbs" and the FHA offered mortgage insurance for buyers in these areas. Often, these new developments included racially restrictive covenants that explicitly prohibited minorities from purchasing homes in them.[xliv] This incentivized white homeowners to move from cities to the outskirts, a phenomenon that would later become known as “white flight”, where whites flocked to suburbs in high numbers and inner cities became predominantly minority.[xlv]

This is an example of how a public policy can have noble goals on face value (in this case, to revive the construction industry as part of the economic recovery from the Depression) but can have unintended consequences because of how it is implemented. The FHA offering loans in areas of new development altered the socioeconomic structure of society from that point forward by providing a mechanism for whites to build wealth through home ownership and blocking Black Americans from doing the same.

This provides a poignant lesson to policy makers because of the long-term consequences traceable to the actions of the FHA. Most policies are created with noble goals and in service of improving lives, and decision makers have long been aware of the danger that policies may result in unforeseen and unintended consequences. It is a built-in risk that is part of what we do. However, lessons such as this illustrate two things: first, that we need to consider policies through a racial equity lens, and second, that a greater effort needs to exist to ensure there is not a gap between a policy and how it is implemented. While racial equity was not a concern of policy makers or public administrators during the New Deal era and implementing FHA programs in racially exclusive ways was more aligned with social norms than not, it remains a strong illustration of how misalignment between a stated policy goal and its implementation can have serious negative consequences.

The extreme consequences here provide a lesson to public sector decision makers about the need for alignment between policy creation and implementation. There is often a gap between the two that can lead to unintended effects or policy failure. To bridge this gap, policy makers could increase the level of consultation with administrators who will be responsible for implementing programs when developing policy goals and mechanisms to ensure foundational components such as legislation or executive orders are appropriately crafted. There is also significant opportunity for increased support during the implementation phase to make sure programs are built in a way that allows the agency to achieve the policy’s original goals while monitoring for and mitigating any negative externalities that may occur, both in the short and long terms.

Ethical Obligations

As public servants, we must not lose sight of our ultimate goal – to make lives better for those we serve. The discriminatory housing policies of the FHA as well as the HOLC, albeit to a lesser degree, did the opposite of improve lives for generations of Black families in our country. As evidenced in this report, the effects are widespread and still being felt today. While we can acknowledge the social and political climate around race were much less evolved when these policies were created and implemented, and that they reflected the pervasive and damaging ideas of the time, we must acknowledge our wrongdoings as a society in attempt to repair the damage that was done. The people harmed by these policies deserve at least that.

Correcting the historical record to show that the FHA was the main perpetrator of discriminatory housing policies will go to provide some redemption to the HOLC administrators who have somewhat unjustly been held up as responsible for an early and crippling example of creating systemic racial inequity in our country. It also serves all those who were harmed to know who their true attacker was. It has been a convenient narrative that the Big Bad Wolf has been dead for many, many years; pointing the finger at an agency that still plays a critical role in setting national housing policy is less desirable from a public affairs standpoint.

Ultimately, it is in our interest as academics and public policy practitioners to correct errors and inaccuracies when we find them, in this situation or any. Public trust is a critical component of what we do; in a climate where so many are suspicious about the motivations of government actions, we must endeavor to be fully transparent to maintain institutional integrity. This is true even and especially when it involves correcting a narrative we once advanced. It is difficult to admit we were wrong but perpetuating a falsity risks further damaging the public's trust in government. It certainly goes against the principles of scientific inquiry that we hold ourselves to as researchers, and so we must attempt to set the story straight.

CONCLUSION

The story of the HOLC and the FHA and their contributions to institutional racism stemming from New Deal policies provides sobering and poignant lessons to current public policy and administration practitioners about the dangers of unintended consequences and the need to ensure implementation is in line with policy goals. The Home Owners' Loan Corporation, which had been cast in the role of the Big Bad Wolf, deserves some vindication in light of new evidence that illustrates the FHA was significantly more responsible for discriminatory housing policies. It is important to change the common narrative around the agency responsible, but further investigation into FHA actions is only warranted if individual level corrective policies, such as reparations or housing investments, are being considered.

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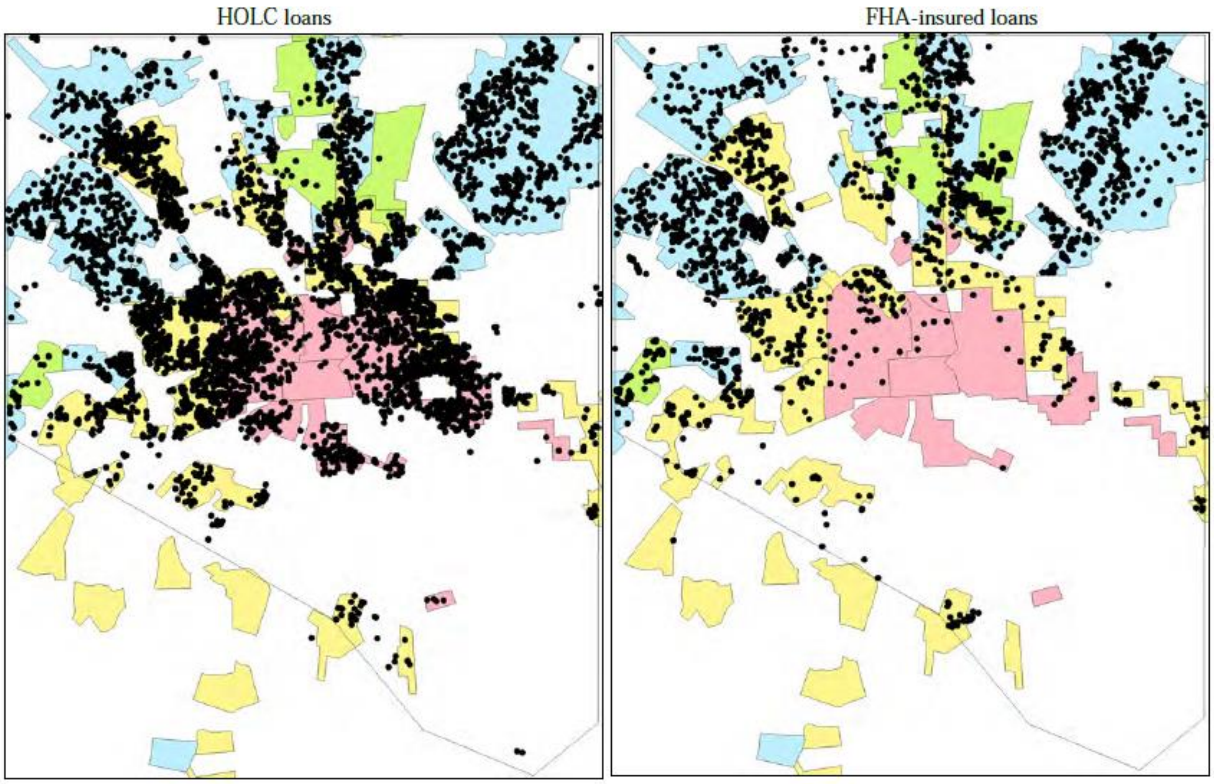
APPENDIX A

FHA-insured loans (1935 to 1940) and HOLC loans (1933 to 1936) superimposed on the 1937 HOLC map[xlvi]



FHA-insured loans (1935 to 1940) and HOLC loans (1933 to 1936) superimposed on the 1938 HOLC map[xlvii]