From the Suburban Dream to the Urban Nightmare: The Federal Housing Administration from 1934 through Today

Sarah Pope

April 30, 2002
Urban & Environmental Policy
Senior Comprehensive Project

Table of Contents

Preface

There is a street that runs along the outskirts of downtown Los Angeles, and if you look closely at the houses while driving down it you will notice a neat row of fourplexes. However, if you drive slowly, you will notice something eerie. All three of the fourplexes are in different stages of foreclosure. Coming from the south side of the street, the first fourplex you pass is boarded up with Golden Feather Realty signs in the windows. Four houses up, and on the opposite side of the street, you will come to a second fourplex, also completely empty with the same realty signs in the windows. Right next door sits the third fourplex. Ironically, this fourplex is in much worse shape than its neighbor even though it is partially inhabited. You almost have to come to a complete stop to read the federally posted sign in the window of the two empty units. The sign reads that the property belongs to the Department of Housing and Urban Development (HUD). Unsuspecting observers will probably not think much about the Golden Feather realty sign. Those who read the small print about HUD might note this information as strange since HUD is part of the Federal government. However, one of the families that lives in the third fourplex has a story to tell that is more infuriating than it is strange.

An organizer from the Association of Community Organizations for Reform Now (ACORN) was sent to this property to find out if anyone living there was interested in hearing about a community group that organizes low to moderate-income people. An organizer was sent because ACORN had received information from the Los Angeles Legal Aid Foundation that tenants living in a series of properties throughout the city were being harassed by HUD and faced eviction. Although the man living in one of the fourplexes was skeptical at first, he let the female organizer in and offered her a seat.

During the course of the discussion the man recounted how a HUD official came into his house one night around ten, completely uninvited, and demanded that he sign some papers that were to serve as his family's eviction notice. Luckily, at least for now, the man refused to sign any papers. While the organizer spoke with this man in Spanish, his wife and two-year-old daughter stayed in the back of the house. The man explained that his wife was still petrified of visitors ever since the HUD representative came.

This man's story is not unique. In fact, the official name for the HUD representative's visit (although not the manner in which he entered) is "occupied conveyance." The row of fourplexes on this street all have one thing in common; they are all insured by the Federal government through a loan insurance program at the Federal Housing Administration (FHA). HUD contracted with Golden Feather Realty (in Southern California) in 1999 in order to resell the foreclosed properties at market rates. Hence, one indicator of foreclosed FHA properties in the city of Los Angeles is a Golden Feather Realty sign in the window.

Evictions from FHA-insured properties are the result of one of two scenarios. In the first scenario, families are evicted after falling three months behind on their mortgage payments. People fall behind on mortgage payments for a variety of legitimate reasons. For example, in New York soaring real estate prices, coupled with changes in lending practices, and job losses in the aftermath of 9/11, have resulted in default rates three times higher than the nation's average.[1] Homeowners with FHA-insured loans in New York witnessed similar skyrocketing default rates. According to HUD, between 1999 and 2000 the rate almost doubled. Since FHA insured homes are concentrated among first-time and low-income homebuyers, it is not uncommon for the loan to default due to individual financial circumstances. As a journalist with the *Chicago Reporter* writes, "FHA loans have higher default rates because they are riskier."[2]

In the second scenario, people are evicted as a result of abuse within the FHA program. Brian Boyer in *Cities Destroyed for Cash*, chronicled the most famous FHA abuse at HUD during Nixon's Administration. The scandal Boyer chronicled, includes a web of bankers, realtors, appraisers, and public servants who worked together to sell derelict properties to first-time, low-income, and predominately minority homebuyers in a process called property flipping. Boyer quantified this problem during the early 1970s through the title of his first chapter, "The $70 Billion Slum." Although this is the most famous example of FHA abuse, it is by no means the last. In 1998, HUD established the Housing Fraud Initiative (HFI) to deal with the continual and rampant misuse of the FHA. The HFI's work continues through today, prosecuting people who over the years have become quite creative at using the FHA program as a means to their own financial ends. Although foreclosures as a result of economic downturns and abuse of the FHA program are a problem, this paper focuses on the second scenario because these foreclosures are preventable through FHA policy changes.

The impetus for this project stemmed from my semester long internship with Los Angeles ACORN. While I was interning with ACORN, the Los Angeles lead organizer began receiving complaints from members (and nonmembers) about harassing phone calls and visits from the Department of Housing and Urban Development (HUD) and Golden Feather Realty Company. During these visits the HUD/Golden Feather representatives threatened eviction. The complaints were all from members living in FHA (Federal Housing Administration) insured properties. My research and interest in this topic grew as I began to realize the prominent role that the federal government has played (and continues to play) in deciding where and how we live. The FHA quickly became much more than some innocuous acronym. Although much has already been written about the FHA and its role in suburbanization in the 1950s, this paper will bridge the gap between the FHA's history of suburban subsidies and its more recent programs that have focused on the urban core. This missing link adds to the great debate among social scientists and historians over the origins of the urban crisis.

Introduction

Eric Schlosser in *Fast Food Nation*, does a remarkable job at deconstructing America's Happy Meal. Schlosser weaves together a series of complex social problems—globalization, corporatization, worker's rights, immigrant rights, obesity, commercialization—but he connects them all to a very simple and tangible commodity. Fast food is a powerful metaphor for many social and economic trends, but equally as basic as the food we eat, is the place we live. In this paper I will argue that where people live (or don't live) has always been determined by a complex interplay of social, economic and above all, political forces. The housing market has transformed not only American landscapes (cities, suburbs, and rural America), but also our economy, workforce, schools, and cultural identity.

I am most concerned with how American landscapes are becoming increasingly unequal. Throughout America there exists a "ruthless [residential] segregation by minute gradation of income."[3] In essence, the rich live with the rich, while the middleclass live in predominately middle class neighborhoods, leaving the poor heavily concentrated in central cities and distressed inner suburbs.[4] In this paper I will explain the political forces which created intense residential segregation. In the words of john a. powell, "Federal and local policies have served to segregate and stratify the metropolitan areas of the United States based on race and income."[5]

Government policies from highway development to public housing construction have influenced where and how Americans live. However, I am focusing on the federal government's role in American suburbanization and the economic deterioration of the inner cities through the lens of the Federal Housing Administration (FHA). I will argue that the FHA, from its origins in 1934 through 1968, *directly* facilitated suburbanization, and *indirectly* aided in the rapid economic decline of America's urban centers. I will then look at the FHA's tremendous policy shift in 1968, which unintentionally but *directly* perpetuated urban economic decline and "white flight." I will conclude by assessing how well the FHA is living up to its current mission of promoting homeownership.

This report is divided into five chapters. In chapter one I trace the Federal government's role in creating a hypersegregated society through the FHA, its mortgage insurance program. I will take a historic look at the FHA in order to explain why it was created, its intended purpose and its "unintentional" consequences. The FHA's history and particularly its market-centered orientation, discredit widely held beliefs that public housing is the only form of federally subsidized housing, and thus the suburbs are the natural byproduct of the free market. Suburban developments, in fact, were made possible through federal subsides.

The FHA's history is followed by an evaluation of the legislative and judicial factors that led up to the FHA's policy shift in 1968. The factors I will examine include: the U.S. Supreme Court's decision in *Shelley v. Kramer* in 1948, the Federal Housing Act of 1949, 1954 *Brown v. Board of Education*, 1954 Housing Act, Kennedy's Executive Order in1962, the 1964 Civil Rights Act, and the 1968 Fair Housing Act.

In chapter two I describe the FHA from 1968 until 1973. In this section I argue that the FHA's sudden focus on the inner cities had the unintended but deleterious effect of furthering their economic decline. I justify this argument with historical research on the abuse and mismanagement of the FHA throughout the nation.

In chapter three I take a contemporary look at the FHA since Nixon's moratorium in 1973. This chapter begins with a discussion on the FHA's current role in the mortgage insurance market. After quantifying the FHA's function, I look at studies analyzing its defaults in order to determine if they are concentrated in certain neighborhoods. Within this context I will describe the abuses, which are perpetuated by its consolidation and privatization, that continue to plague the FHA.

The fourth chapter provides a more detailed look at the impact of FHA policies in Los Angeles. This chapter describes how it all comes together in the city of angels. In other words, how Los Angeles' built environment and residential patterns have been and continue to be impacted by the FHA.

The fifth chapter concludes by proposing policy changes to ensure that the FHA can no longer be characterized as responsible for the thousands of "families HUD abandoned [FHA]."

Chapter 1: The FHA from 1934 through 1968

The American Government's Double Standard

There is a growing body of social science research that underscores the powerful, and complex role politics and public policy have played in creating inequality in America. Alice O'Connor describes the government's contradictory treatment of "poor places" as a critical factor perpetuating their further economic decline. O'Connor argues:

> Small-scale interventions are intended to revive depressed communities while large-scale public policies undermine their very ability to survive. Nowhere are these policy contradictions more clear-cut and familiar than in the case of central cities, which were targeted for limited amounts of assistance and renewal beginning in the late 1940s even as more substantial federal subsidies for home mortgages, commercial development, and highway building were drawing industry, middle-class residents, and much needed tax revenues out to the suburban fringe.[6]

O'Connor clearly exposes the American government's double standard, where "subsidies" flow freely to the suburbs while "aid" is cut to the nation's economically strapped centers. Although O'Connor's view is supported by other social scientists, it is a controversial point. On the opposing side of this debate are proponents of social choice who argue that neighborhoods are homogeneous largely because of personal preferences.[7] In other words, "birds of a feather flock together." This sentiment is exemplified by a senior FHA official in 1939 who stated "decentralization is taking place. It is not policy, it is reality—and it is as impossible for us to change this trend as it is to change the desire of birds to migrate to a more suitable location."[8] The following sections will reveal the inadequacies in a statement equating the decentralization of people to the migratory patterns of birds.

"One of the Last Bastions of Socialism?"[9]

The American government has always had general reluctance when it comes to directly providing housing assistance, especially for the poor. In 1918, Congress appropriated $110 million to build housing for WWI workers. Since the emergency housing effort began only five months before the Armistice, it only produced a few developments. According to Kenneth Jackson, the program was delayed because of "the general belief that homeownership promoted incentives to thrift and the lingering suspicion that subsidized rental units would be socialistic."[10] This sentiment largely plagued the 1920s, and led to the federal government's hands-off approach to housing. Senator William Calder of New York exemplified this policy approach by declaring that "the Government is an organization to govern, not to build houses or operate mines or run railroads or banks."[11]

It took the devastating impact of the Great Depression in 1929 to warrant initial government intervention in the homeownership arena. Peter Dreier writes "until the Depression, most American opinion leaders believed that the private market, with a helping hand from private philanthropy, could meet the nation's housing needs."[12] By the early 1930s, three housing related initiatives—the Federal Home Loan Bank Act, the Emergency Relief and Construction Act, and the Greenbelt Town Program—were passed, however, none of these programs had a lasting impact. It was not until 1933 under President Roosevelt's New Deal that housing conditions (and in retrospect, the face of America's landscape) started to change.[13]

Home Owners Loan Corporation (HOLC) & "Residential Security Maps"

Roosevelt signed the Home Owners Loan Corporation (HOLC) into law on June 19, 1933. HOLC was designed to protect homeownership, and protect it did (but only for a very narrow segment of the population). HOLC directly changed homeownership policy in three fundamental ways. First, it "introduced, perfected, and proved in practice the feasibility of the long-term, self-amortizing mortgage with uniform payments spread over the whole life of the debt."[14] Extending the life of the mortgage from 5-10 years to 15-20 years allowed homebuyers to no longer be at the mercy of the money market. With only a five to ten year payment period people were routinely forced to renew their unpaid mortgages. But, if the mortgage expired when money was tight, then homeowners were likely to face foreclosure.[15] In addition to extending mortgages, HOLC's other positive impact was lowering interest rates for people facing foreclosure.[16] HOLC's third impact was to systemize appraisal methods.

HOLC is rightfully credited with dramatically improving some aspects of the mortgage process. However, one of its key impacts, systemizing appraisal methods, proved to be detrimental. An appraisal is an evaluative process used by loan companies to determine whether or not they will grant a loan. The method in which a property is appraised remains an important factor *throughout* history, not just in this period before 1968.[17] This systemized method consisted of a series of elaborate questionnaires on "occupation, income, and ethnicity of the inhabitants and the age, type of construction, price range, sales demand, and general state of repair of the housing stock."[18] In and of itself, a detailed appraisal is not a problem. However, the fact that the detailed information was then evaluated using a biased rating system, led to the literal redlining of entire neighborhoods. Neighborhoods were graded (A, B, C, D) with each grade representing a color, green, blue, yellow, and red, respectively. This information was translated into "Residential Security Maps" by appraisers. The maps were placed in "City Survey Files," but widely used by the lending industry to help determine "current and future values of real estate."[19]

Neighborhoods would receive a "D" rating if appraisers felt they were on the "decline." A declining neighborhood was usually older (not suburban), located in the city, and housed a minority population. "Not surprisingly, even those neighborhoods with small proportions of black inhabitants were usually rated Fourth grade or 'hazardous'."[20] Although the federal government, through HOLC, did not initiate discrimination in the real estate market, they legitimized it by incorporating it into their appraisal process.[21] By 1939, this racist appraisal method was further legitimated by "scholars" at the University of Chicago who published their theories on the "declining" effect of blacks on a neighborhood's value.[22]

Arguably even more important than the origins of discriminatory practices, was its institutionalization through government sanctioned practices. Kevin Gotham comments on this phenomenon, "thus, once racial discrimination was encoded into the structure and operation of the FHA, the racialization of private housing industry developed a life of its own."[23] Discriminatory practices in the loan process still persist, a problem which will be discussed in more detail in subsequent sections.

Make Way for the FHA: A "Compromise" Between the Public Good and Private Interests

No agency of the United States government has had a more pervasive and powerful impact on the American people over the past half-century than the FHA.—Kenneth Jackson[24]

The Federal Housing Administration (FHA) was created on June 27,1934 as part of the National Housing Act. FHA mortgage insurance was established under Franklin D. Roosevelt, primarily as a way to alleviate unemployment in the construction industry. According to the Federal Emergency Relief Administrator:

> Probably more than one-third of all the unemployed are identified directly and indirectly, with the building trades…Now, a purpose of this bill, a fundamental purpose of this bill, is an effort to get the people back to work.[25]

The FHA's secondary objective was to increase homeownership. As a result of rising affluence coupled with the Veteran's Administration (VA)[26] and the FHA's insurance programs, homeownership dramatically increased. Between 1934 and 1969 homeownership increased from 44% to 63%.[27]

Table 1: The number of houses purchased under the FHA's mortgage insurance program:

Year:	1933	1937	1938	1939	1940	1941
Housing Sales:	93,000	332,000	399,000	458,000	530,000	619,000

Source: Kenneth Jackson. *Crabgrass Frontier*: 205.

The FHA indisputably facilitated the homeownership process, but it is especially important that it accomplished this *through* the largely unregulated private sector. Unlike the HOLC, which physically supplied the collateral (upwards of $3 billion between July 1933 and June 1935) for more than one million loans,[28] the FHA *insured* private mortgage companies. The Federal government's transition from collateral supplier to mortgage insurer was a strategic move on the part of Roosevelt's administration to alleviate unemployment and increase homeownership without direct federal dollars.

In 1933, Roosevelt convened the National Emergency Council (NEC) to coordinate and oversee the New Deal's relief programs. During a NEC meeting where the HOLC's expansion was debated, Roosevelt questioned whether there was "any way to get the government out of the lending business?" Roosevelt's question was a response to:

> growing conservative discontent with relief expenditures…thus, in explaining the so-called housing bill in his message, Roosevelt subtly addressed these concerns, carefully distinguishing its potential for job creation from *boondoggle*[29] work relief and deferring unequivocally to business interests and the free-market.[30]

Frank Walker, executive director of the NEC and longtime political ally of the Democratic National Committee, immediately began formulating such a program.[31]

Walker appointed Marriner S. Eccles, "a fiscally liberal Utah banker,"[32] to head a subcommittee to develop a lending program that did not directly involve the federal government. Eccles was a staunch believer in the free market, as evidenced by this comment. "I felt that in a depression the proper role of the government should be that of generating a maximum degree of private spending through a minimum amount of public spending."[33]

Leading officials in the real estate and lending industry not only set the agenda for the 1934 Housing Act, but congressional hearings were dominated by these same interests.[34] For example, Eccles' subcommittee heard testimony from representatives from the American Institute of Architects (AIA) and the National Association of Real Estate Boards (NAREB). Missing from the Congressional table were "organized labor, housing reformers, civil rights activists, or interracial housing advocates."[35] Kevin Fox Gotham writes extensively on the NAREB and its historic role in "racializing urban spaces." By this, Gotham means identifying places where specific racial groups live with culturally specific behavior.[36] In "Urban Space, Restrictive Covenants and the Origins of the Racial Segregation," Gotham identifies the real estate industry, representing its trade association the NAREB, as a key player in perpetuating residential segregation. Gotham writes:

> Before the rise of the modern real estate industry and the creation of segregated neighborhoods, there is no evidence that residents in Kansas City perceived a connection between race, culturally specific behavior and place of residence.[37]

An examination of those voices heard during the FHA's developmental stages helps explain its legislative structure.

The NAREB's influential role in molding the FHA not only led to legislation laden with discriminatory practices, but it also encouraged the government's laissez-faire approach. The NAREB molded the FHA around HOLC's racial framework, where low risk loans were only equated with racially homogenous neighborhoods. In terms of its laissez-faire approach, the NAREB staunchly advocated a "properly balanced" program between private business and the public good. However, the NAREB only *talked* about a truly balanced program. In reality, it feared a real estate market heavily regulated by the Federal government.[38] As a result, it did everything it could to influence policy in favor of the private sector. In the end, with the "Brain Trust" for the FHA being largely made up by businessmen, in conjunction with the ideology of the committees offering Congressional testimony, it is not surprising that the 1934 legislation structured the FHA as an insurer of *private* money.

The real estate industry's involvement did not end with drafting the 1934 Housing Act's legislation. Once the legislation was passed, the NAREB continued its massive involvement by largely running the newly established organization. The real estate members who were "consciously" and "selectively" placed within the FHA, and who participated in writing its manual "had once maintained official policies of racial segregation and had lobbied against fair housing laws."[39] According to Marc Weiss, author of *The Rise of the Community Builders*, the FHA was "run to a large extent both by and for bankers, builders, and brokers, [and] exercised great political power in pressuring local planners and government officials to conform to its requirements."[40] From the Congressional drawing board to the recruitment of its staffers from the private sector, the FHA was a puppet of the private real estate industry. According to R. Allen Hays:

> Thus, the FHA was, in a very critical sense, a conservative program...Since it facilitated the profitable business transactions of a key group of private market participants, it was less likely to be viewed as excess government interference and was guaranteed political support by a very powerful interest group [bankers and other investors] which at other times stood in opposition to various forms of governmental activism.[41]

The following section will describe how the FHA transformed the homeownership process.

The Suburbs, the Other Subsidized Housing Program

It can be said with considerable truth that the vast landscape of suburban ranch houses and apartment complexes that sprawled outward from every US city during the late 1940s, 1950s, and beyond was—no less than the grimmest public housing—"federally subsidized housing."—Thomas Hanchett[42]

By insuring banks issuing loans, the FHA drastically lowered the initial amount of collateral needed for a first down payment. Originally, private banks required "half the assessed value of a home before making loans. The FHA program, in contrast, guaranteed over 90% of the value of collateral so that down payments of 10% became the norm."[43] In addition to lowering the amount of collateral needed to buy a home, the FHA took off where the HOLC left off and extended the repayment period to 25-30 years. This policy not only reduced the average monthly payment, but it also helped to lower the foreclosure rate. "The latter declined from 250,000 non-farm units in 1932 to only 18,000 in 1951."[44] While the amount of needed collateral fell, so did interest rates. Interest rates fell by two or three percentage points because the FHA mortgage insurance program eliminated risk to the banker.[45] In order to protect against "gross structural or mechanical deficiencies,"[46] the FHA established uniform standards in writing that were enforced by on-site inspection.[47] This standard literally gave a face to suburbia and will be discussed in more detail later on. In essence, the FHA made it cheaper to buy a new house in the suburbs than to rent an older house in central cities.[48]

The FHA met its overt goals, providing jobs and increasing homeownership. However, the FHA's more controversial impact had to do with where it increased homeownership and for whom it was increased. At its conception, FDR clearly excluded the nation's poor as beneficiaries of the FHA loan insurance program. Roosevelt explained how his legislative package "should improve conditions for those who live in houses, those who repair and construct houses, and those who invest in houses."[49] The FHA was not a poverty program because it still required a significant amount of equity from homebuyers.

The FHA had a combination of practices and policies that clearly favored all-white, single-family, suburban developments over racially diverse urban ones. First, it favored single-family projects and flatly discouraged multi-family projects. The FHA's legislation favored owner-occupied structures over rental housing by exercising more controls over rental than over sale housing.[50] Second, it was easier to garner FHA insurance for building new single-family homes than it was to renovate older ones. This was the result of FHA legislation which only made small loans for short durations available to people who wanted to repair existing structures. "But the most important factor encouraging white suburbanization and reinforcing the segregation of blacks was the FHA requirement for an 'unbiased,' professional appraisal of insured properties, which naturally included a rating of the neighborhood."[51]

The FHA's appraisal process went much further than HOLC's. The FHA not only rated neighborhoods, it "allowed personal and agency bias in favor of all-white subdivisions in the suburbs to affect the kinds of loans it guaranteed—or, equally important, refused to guarantee."[52] As Hays points out, from the 1940s on, the FHA became increasingly intertwined with the mortgage industry. Around this time the seeds of privatization were planted:

> Responsibility for the initial processing of FHA-insured mortgages was assumed by private savings and loans and by mortgage bankers, with the result that the concepts of sound underwriting prevalent in this segment of the banking industry became those which governed FHA lending.

The "lax attitude toward supervision"[53] of the FHA's hired appraisers was largely the result of the FHA's close relationship with private lenders. The appraisers' role is essential in facilitating white suburbanization in this period before 1968, and as will be discussed later, the appraisers' role was crucial in urban deterioration after 1968.

Literally built into the FHA bureaucracy was an *Underwriting Manual* that included the following guideline: "if a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes."[54] These guidelines, which were written into the deed, insured that "the vast majority of FHA and VA mortgages went to white middle-class[55] suburbs, and very few were awarded to black neighborhoods in central cities."[56] In 1948, the Supreme Court ruled in *Shelly v. Kramer* that restrictive covenants could not be enforced through the courts. But, the court did not go so far as to declare these covenants unconstitutional.[57]

One observer summarized the FHA's policies and practices as "separate for whites and nothing for blacks."[58] This observation is supported by housing statistics from 1946-1959. During that time, less than two percent of all housing insured by the FHA or VA went to blacks.[59] The history of a neighborhood in Wyoming during the 1930s exemplifies the FHA's discriminatory policies. The Eight Mile-Wyoming was an all black neighborhood surrounded by nearly all white neighborhoods and undeveloped land. Thomas Sugrue, in *The Origins of the Urban Crisis*, describes the "compromise" made in order to allow an FHA-insured development adjacent to the Eight Mile-Wyoming:

> The developer worked out a compromise with the FHA, garnering loans and mortgage guarantees in exchange for the construction of a foot-thick, six-foot-high wall, running for a half-mile on the property line separating the black and white neighborhoods.[60]

The physical wall built around the Eight Mile-Wyoming is a powerful illustration of the FHA's restrictive covenants.

Equally as effective as the half-mile long wall at isolating African Americans from new suburban housing developments were the deeds written into such developments. For example, when the suburban tract communities of Levittown (the name given to a series of planned communities) opened in 1958, "its homes were marketed and sold to whites only."[61] It is important to note that until 1968, "it was official FHA policy to promote racial segregation and unofficial policy to promote suburbanization."[62] But, regardless of "official" versus "unofficial" policy, the FHA played an instrumental role in both residential segregation and urban decentralization.

It is important not to overstate the FHA's role in creating residential segregation in America because it was by no means involved in every real estate transaction. During the FHA and VA's peak years of activity, two thirds of all homes sold did *not* rely on the government's mortgage insurance program. However, what cannot be ignored is the FHA's powerful role in sanctioning discriminatory practices in the private home loan market.

> Governmental standards not only influenced the [home finance industry]… directly [by] participating in federal programs, but [it] also profoundly affected the way the rest of the business worked. In a highly fragmented industry dependent on federal support with many thousands of builders, realtors, lenders, salesmen, and rental agents, federal standards had a powerful national impact. The record…can only be read as a powerful and persistent use of public power to segregate American cities.[63]

The government not only sanctioned discrimination in the private mortgage industry through the FHA, but federal agencies also approved similar practices in the conventional market by turning a blind eye to its member institutions that had policies "favoring racial homogeneity."[64] By 1961, only one of the four regulatory agencies that regulated conventional lenders (for example the Federal Home Loan Bank Board) had adopted a resolution condemning discrimination.[65] In essence, the FHA "exhorted segregation and enshrined it as public policy."[66]

During this time, the FHA was not the only political factor fueling urban decentralization and residential segregation. Federal investment in freeways, urban renewal programs, and public housing projects (although created by local governments, they existed with the federal government's approval and funding) all contributed to white flight and black urban isolation. In 1999, a group of urban scholars ranked the "top 10 influences on the American metropolis of the past 50 years."[67] The government directly sponsored three of the top four influences; these included the 1956 Interstate Highway Act (and the automobile's dominance), the FHA, and urban renewal (downtown redevelopment and public housing). The top-10 list did not solely consist of government initiatives, it also emphasized how private enterprises seized on opportunities afforded by the federal government. These private developments include Levittown (5), the shopping mall (7), and Sun-belt sprawl (8).

The House that Sprawl Built

Little boxes on the hillside,
Little boxes made of ticky tacky
Little boxes on the hillside,
Little boxes all the same.
There's a green one and a pink one
And a blue one and a yellow one
And they're all made out of ticky tacky
And they all look just the same.—Malvina Reynolds[68]

The FHA's was not just a loan insurance program that perpetuated a white exodus to the suburbs. It was literally responsible for the house that sprawl built. Duany, Plater-Zyberk, and Speck, in *Suburban Nation*, describe suburban sprawl as the fast-food version of the American dream. The fast food industry at its conception enabled working class families (for the first time) to go out to dinner; suburbs, like Levittown, allowed white working class families (also for the first time) to become homeowners.[69]

The FHA influenced the suburbs architecturally by implementing construction standards. The FHA had a stake in the quality of the homes built because it was in the insurance business. If something structurally went wrong with an FHA-insured house, then the federal government had to bail the bank out. In order to make the house a secure investment for the FHA and a "desirable" house for potential buyers, it established home construction standards:

> In 1939 FHA asked each of its fifty regional offices to send in plans for six typical American houses….Virtually all of the entries were bungalows or colonials on ample lots with driveways and garages. In an attempt to standardize such ideal homes, the Federal Housing Administration set up minimum requirements for lot size, setback from the street, separation from adjacent structures, and even for the width of the house itself.[70]

The FHA's construction standards became the norm among contractors because potential purchasers would not consider a house that had not been approved by the FHA.[71] The "typical American house" was branded and then mass-produced by entrepreneurs, like Abraham Levitt and his two sons, William and Alfred. Jackson writes that the Levitt family "had the greatest impact on postwar housing in the United States."[72] The Levitt's built more than 140,000 houses, with their most famous subdivisions (all called Levittown) located in New York, New Jersey, and Pennsylvania. The speed in which the Levitts helped erect suburbia is reminiscent of the production of Henry Ford's Model T. The following passage from D.J. Waldie's *Holy Land*, underscores this similarity:

> If the workmen looked up from laying rafters, they saw a row of houses with bundles of shingles being lifted by conveyor belts to shinglers on the roof. Beyond them was a row of house frames being sheathed in tar paper and chicken wire. Beyond them was another row of houses gray with new stucco. Beyond that row would be another row of houses, only a few days older, being painted. Behind them, nearly out of sight, would be a street of finished houses, forty-six to a block…The Los Angeles Daily News described the construction of the houses as a huge assembly line.[73]

The FHA primarily benefited large-scale "community builders" because of its "conditional commitment." According to Marc Weiss, a community builder is involved in every stage of the development. Such a builder "designs, engineers, finances, develops, and sells an urban environment using as the primary raw material rural, undeveloped land."[74] The FHA's conditional commitment mandated if a lender's plans met underwriting standards (and the borrowers were properly qualified) then the FHA would insure *all* the home mortgages in a given development.[75] Between 1938 and 1959, such builders went from accounting for 5 percent of all new housing to 64 percent.[76] In Los Angeles by 1938, "less than one percent of all builders took out permits for nearly 15 percent of the houses."[77]

The FHA aided in a uniquely American type of spatial development. According to Kenneth Jackson there are four elements to America's spatial organization that are not found anywhere else in the world:

> Affluent and middle-class Americans live in suburban areas that are far from their work places, in homes that they own, and in the center of yards that by urban standards elsewhere are enormous. This uniqueness thus involves population density, home-ownership, residential status, and journey-to-work.[78]

As Jackson explains, the "American Dream" became defined as a single-family house in the suburbs. This dream was then mass produced by community builders. As a result of this developmental course (unique to America), homebuilders have become really good at creating "the private realm, the inside of the house" at the expense of investing in public places like parks, open space, and downtowns.[79]

The Slow March of Time: From *Shelly v. Kramer* to the Fair Housing Act

The FHA played an integral role in expanding the parameters that define middle-class status. Kenneth Jackson, Arnold Hirsch, and other historians, point out how the white working class was the primary recipient of FHA-insured loans.[80] For the first time, white working class families "acquired the most heavily weighted symbol of the middle-class status."[81] Homeownership soon overshadowed traditional measures of class like education, occupation, background, and wealth.[82] The previously defined white working class went to great lengths to defend their newly acquired middle-class social status. As a result, from 1943 to 1965, there was a dramatic increase in Homeowners Associations as a means to protect this "entitlement." [83] Homeowners Associations were also called "civic associations," "protective associations," and "improvement associations."[84] These associations were made up of white homeowners who staunchly defended all-white neighborhoods.

David Sugrue, in *The Origins of the Urban Crisis*, refers to the marked rise in Homeowners Associations as a powerful example of a white backlash to the very notion of desegregation in the housing market, and ultimately black civil rights. Homeowners Associations came into existence as a way to keep black families out of white neighborhoods. In some situations these Associations were made mandatory by developers who wanted to maintain all-white developments. For example, J.C. Nichols, a prominent developer-builder,[85] "recognized a mandatory homeowner association could operate as a racial gatekeeper, an organizational means to foster white racial solidarity and cohesiveness as an impetus to enforcing the racial exclusiveness of the neighborhood."[86]

Homeowners Associations built momentum by sanctioning all white neighborhoods as a "right." A black journalist in 1946 writes, "the white population…has come to believe that it has a vested, exclusive, and permanent 'right' to certain districts."[87] The Homeowners Associations' rhetoric is laden with references to the *Declaration of Independence* and the *Bill of Rights*. For example, the Federated Property Owners of Detroit was founded to "promote, uphold and defend the rights of home and property ownership and small businesses as the cornerstone of American opportunity and prosperity."[88] Homeowners Associations framed the debate surrounding segregated neighborhoods as a white entitlement, an entitlement that if encroached, jeopardized "white rights." Sugrue describes this either/or binary:

> Rights for blacks were acceptable in the abstract, as long as blacks remained in their own neighborhoods and kept to themselves. But many whites believed that civil rights for blacks were won only at the expense of white rights.[89]

Whites who staunchly opposed desegregation did not simply hold Homeowners Association meetings. It was not uncommon for these all-white homeowners to use racial violence as a means to an end.[90] This historical context frames the following discussion on the pieces of legislation and judicial decisions that eventually changed the FHA's practices.

The Supreme Court in 1948 decided *Shelly v. Kramer*. *Shelly* declared restrictive covenants "unenforceable as law and contrary to public policy."[91] The Court's decision came a year after Frank S. Horne, special assistant to the new HHFA (Housing and Home Finance Agency), reported to President Truman on the discriminatory practices in the housing market. Arnold Hirsch points to this ruling as the beginning of a legislative window (which lasts until *Brown v. Board of Education* 1954) in which restrictive covenants *could* have been corrected. However, the FHA's response to *Shelly* is reflective of its historic opposition to residential racial diversity. In reaction to the Supreme Court's ruling, FHA officials are quoted as saying "there would really be no serious change in policy."[92] In terms of *Shelly*, Nancy Denton and Douglas Massey in *American Apartheid* write "covenants continued to be used informally to organize resistance to black entry, and the FHA advocated their use until 1950."[93]

On the coattails of *Shelly* came the 1949 Federal Housing Act. While the FHA was aiding white flight to the suburbs, the Housing Act of 1949 was ensuring blacks were isolated in public housing programs in the poorest parts of cities. Robert C. Weaver called the 1949 act a "triple threat" that could be used "as a guise for displacing minorities from desirable areas," or for "breaking up established racially democratic neighborhoods," or "to even further the already inadequate supply of living spaces available" for African Americans.[94] In an attempt to kill the 1949 Housing Act, two Republican Senators (John Bricker of Ohio and Harry P. Cain of Washington) tacked on an amendment which would have banned discrimination in the housing market. In an interesting twist of events, the bill was passed, but unsurprisingly without the Bricker-Cain amendment.[95] In the end, Weaver's hypotheses came true.[96] Arnold Hirsch describes public housing as a federally sponsored "second ghetto" where "government took an active hand not merely in reinforcing prevailing patterns of segregation, but in lending them a permanence never seen before."[97]

The Supreme Court's historic *Brown v. Board of Education* decision in 1954, which made school segregation unconstitutional, had detrimental effects on housing segregation. Within weeks of *Brown*, President Eisenhower signed the Housing Act of 1954, dubbed "urban renewal." The 1954 Housing Act awarded federal funds to localities to purchase slum properties in declining cities and redevelop them. But first, local governments had to "guarantee" replacement housing for displaced families. To accomplish this provision, local governments turned to public housing.[98] According to Hirsch, the harshest critics of the federal government's reliance on public housing to promote "urban renewal" argued that "'minority housing programs' were 'conceived to counteract the effect of the United States Supreme Court's decisions calling for public school integration.'"[99] Frances Levenson, with the National Committee Against

Discrimination in Housing, went as far as describing how some southern cities were "actually using the program [1954 Housing Act] to insure future school segregation by moving minority families out of presently integrated neighborhoods."[100] Outside the South, the 1954 act led to the "clearance" and "containment" of poor blacks in central cities in the name of urban renewal. Not only does Levenson's comment refer to the necessity of desegregated neighborhoods in order to ensure desegregated schools, but it also underscores how "a conscious, deliberate choice for segregation lay at the heart of national policy."[101]

Hirsch describes the era between *Shelly* in 1948 and the 1954 Housing Act as a lost window of opportunity in which the government had the chance to alleviate residential segregation, but instead continued to intentionally enable it. Following this long history of segregation, it is not surprising that John F. Kennedy's Executive Order 11063 was unable to end discrimination in the housing market. Hirsch writes:

> Boldly asserting the ease with which a "stroke of the Presidential pen" could eliminate such discrimination in the 1960 campaign, Kennedy's writing style remained cramped through virtually all of 1962.[102]

Theoretically, redlining in "federally supported housing" programs was made illegal under Kennedy's Executive Order. However, it was not until 1980 that the "US Department of Housing and Urban Development finally issued the last regulations to implement the requirements of 11063."[103]

While Washington was creeping towards less discriminatory policies, the conditions in urban centers were racing towards their breaking point. Massey and Denton write "the economic deprivation, social isolation, and psychological alienation produced by decades of segregation bore bitter fruit in a series of violent urban riots during the

1960s."[104] In August of 1965 riots ensued in Los Angeles, followed by Chicago and Cleveland in the summer of 1966, and by the following year "black ghettos in sixty U.S. cities exploded in a cataclysm of frustration and rage."[105]

As a result of civil unrests throughout the nation and a growing civil rights movement, President Lyndon B. Johnson and Congress enacted the Civil Rights Act of 1964 and the Voting Rights Act of 1965. The Civil Rights Act prohibited discrimination in the workplace and in all federally funded organizations.[106] However, fair housing legislation was intentionally omitted from the 1964 act. Liberal northern legislators feared the wrath of well-organized working class communities involved in Homeowners Associations who routinely went to the polls.[107] Conservative Republicans explicitly opposed fair housing legislation on ideological grounds, since they believed it to be government interference in the "free" market. In addition to ideological opposition, some conservative Republicans and Southern Democrats still harbored racist feelings.[108] For various political reasons, badly needed fair housing legislation was deliberately left out of the 1964 Civil Rights Act.

Despite the passage of the Civil Rights Act, conditions in the nation's cities had reached such a breaking point by 1968 that President Johnson appointed the Kerner Commission "to explore the links between racial discrimination and urban policy."[109] By March of that same year, the Kerner Commission concluded, "Our nation is moving toward two societies, one black, one white—separate and unequal." The Commission went on to write:

> What white Americans have never fully understood—but what the Negro can never forget—is that white society is deeply implicated in the ghetto. White institutions created it, white institutions maintain it, and white society condones it.

The Commission's stark findings led them to propose the need to integrate the "two societies."[110] To accomplish this aim, the Commission recommended enacting "a comprehensive and enforceable open housing law to cover the sale or rental of all housing," and reorienting "federal housing programs to place more low and moderate income housing outside of ghetto areas."[111]

The Kerner Commission recommended open housing laws and the construction of six million low and moderate-income houses within five years to be located in "non ghetto areas."[112] Within months of these recommendations, Congress passed and President Johnson signed the 1968 Fair Housing Act and the Housing and Urban Development Act (same year). The 1968 Fair Housing Act was touted as the simultaneous solution to ending the riots and the housing crisis. The Fair Housing Act "banned discrimination in the sale or rental of housing"[113] in federally supported programs as well as the private market, and promised 26 million new low-income housing units within ten years.[114]Although the terms of the Fair Housing Act were quite extensive, it was criticized for its lack of enforcement provisions. George Metcalf wrote, "what Congress did was hatch a beautiful bird without wings to fly."[115] The FHA's lack of enforcement provisions would prove particularly disastrous for America's urban centers.

Chapter 2: The FHA from 1968 through 1973

Section 235 Paves the Way for Block Busting and Property Flipping

For the last three decades, community groups and housing advocates have singled out the FHA program as the main catalyst for devastation in America's city neighborhoods.—Gail Cincotta[116]

The 1968 Housing and Urban Development Act liberalized FHA policies by establishing the Section 235 program.[117] Instead of only insuring mortgages for working and middle class whites in the suburbs, the FHA's newly created Section 235 program established a "mortage interest subsidy program to support home ownership for low and moderate-income families."[118] Theoretically, the FHA's Section 235 program sought to address economic disinvestment in America's inner cities. However, research shows that after 1968, the FHA quickly became "the mortgage insurance program of last resort."[119] According to Massey and Denton, Section 235 mandated "an avalanche of unregulated lending into the inner-city" as a "quick-fix for what was deemed the 'urban crisis'."[120] This following section will examine the problems created after 1968 by the FHA's largely unregulated, market-oriented approach, and specifically how its "liberalization" actually exacerbated economic decline in America's central cities as a result of block busting and property flipping.

Section 235 was billed as the answer to both the housing crisis and the wave of riots. With this massive mandate, the federal government acted quickly at the expense of acting carefully. In order to rapidly begin addressing the massive housing shortage, the understaffed FHA relaxed their inspection standards. According to R. Allen Hays, "this tendency to interpret a lowering of standards as a philosophy of 'anything goes' was exacerbated by the push from top HUD officials for high volume construction and rehabilitation of units, plus a lack of adequate staff in many field offices."[121] In the end, the FHA's "anything goes" attitude, coupled with its reliance on "private money sources"[122] *reinforced* residential segregation.

Kevin Fox Gotham used Kansas City, Missouri from 1969 through the 1970s as a case study to examine the FHA's role in perpetuating separate and unequal housing conditions after the 1968 Housing Act. In his case study, Gotham cited a 1971 study by the U.S. Commission on Civil Rights which found "that most new Section 235 units were being built in the suburbs and were being purchased by white buyers, while most existing and substantially rehabilitated units located in racially transitional areas were being purchased by minority buyers."[123] Gotham points out that it is harder to build new housing in central cities because land is much more scarce. Regardless of land's availability, Gotham's findings highlight the government's role in perpetuating residential segregation after the 1968 Fair Housing Act.

In Kansas City from 1969 through mid-1972, HUD's data indicated that 475 low-income families on the Section 235 program lived in a mere eight square mile area.[124] Since HUD's data did not indicate the race of those families, Gotham used census tract data to show "the rapid racial transition at the height of the Section 235 program."[125] In the area Gotham researched, in 1950, three out of 33 census tracts had a population of 50% or more African Americans. By 1980, 20 out of 33 of the same census tracts were over 90% African American.[126] Two interdependent conditions led to this intense residential segregation. Whites left central cities in great numbers at the same time that blacks were being isolated in the neighborhoods whites were fleeing. This degree of residential segregation was not a natural phenomenon. Instead, it was perpetuated by the

1968 Housing Act which "allowed private capital to transfer the risk of financing inner city housing to the FHA, in the process creating a lucrative new market that was almost totally unregulated."[127]

During this time, real estate agents and mortgage bankers encouraged whites to leave central cities using a process called panic selling or block busting. Residents in Kansas City recount, "unscrupulous realtors were trying to scare our residents with racial fear in order to buy houses cheaply and make big profits. Phone calls were often made to white home owners and told that their property values were dropping and they had better move quick and get as much as they could before 'they' move in."[128] This tactic was so prevalent that city officials equated the Section 235 program with black homeownership. An Assistant City Manager in Kansas City recounted, "every black family that moved in became a 235er."[129]

Blockbusting was not unique to Kansas City. Hillel Levine and Lawerence Harmon, in *The Death of an American Jewish Community*, chronical how the same panic selling tactics dramatically changed the face of Boston's largely Jewish communities. Before 1970, the Boston communities of Roxbury, Dorchester, and Mattapan were home to 90,000 Jews. "More than fifty years of Jewish settlements were overturned during a two-year period from 1968 to 1970."[130] By the mid-1990s, the same neighborhoods were home to the majority of Boston's 120,000 African American residents. "Whole areas went from white to black in a matter of months."[131]

In the predominately Jewish communities throughout Boston, the mayor and local lenders created the "B-BURG" line (Boston Banks Urban Renewal Group) using the funding from the 235 program. The B-BURG line was the opposite of classic redlining where banks and insurance companies withhold loans from minority residents. Levine and Harmon write:

> Under the guise of expanding homeownership opportunities for the city's black community, the heads of twenty-two Boston savings banks were complicit in establishing a carefully limited and well-defined inner-city district within which, and only within which, blacks could obtain attractive, federally insured housing loans.[132]

One Boston real estate agent explained the B-BURG line. "The banks had decided to take a certain area and designate it with a red pen."[133]

Boston bankers were eager to move blacks into the predominately Jewish neighborhoods for their financial gains. With FHA insurance, "bankers could replace the three and five percent loans held by long-term white homeowners with more profitable eight and a half percent loans—risk-free."[134] In Boston, the bankers worked with real estate agents who intimidated white residents into moving. An anonymous author described how he sold homes in several Boston neighborhoods during the late 1960s:

> Some of the milder things were: property values are going down, you're going to get a thousand dollars less next month than this. Market values really didn't decline…We weren't subtle about it. You'd say, how would you like it if they rape your daughter, and you've got a mulatto grandchild?…There were instances of housebreaks that were arranged only to scare people out.[135]

Blockbusting led to a neighborhoods economic decline because the FHA's Section 235 program was offered to many buyers who could not financially afford to own their own homes and as a result their loans quickly went into default. One Boston blockbuster describes:

> Under these federal programs, many of the buyers shouldn't have owned a house. Anyone who doesn't have any equity in a house is a high risk. I've sold homes to people who never made a first downpayment. Why should they? It never cost them a thing to get in. In some cases, the seller paid the closing costs, the year's

> insurance, and moving costs. It cost them nothing to move in, so they just waited for foreclosure.[136]

In addition to blockbusting, FHA's relaxed inspection standards paved the way for property flipping. Hays writes, "with the FHA willing to relax its standards, there were numerous builders and real estate agents willing to exploit the situation for quick profits."[137] Property flipping is buying low and selling high. But, unlike the stock market, property flipping is illegal and it destroys entire neighborhoods.

With the 1970's FHA scam, unsuspecting, low-income buyers bought homes with the help of the FHA's various programs.[138] But, unbeknownst to the buyers, they paid in upwards of double the true cost of the property. Once the homeowners moved in, the property began to fall apart because the flippers never did any substantive rehabilitation work, only a cosmetic renovation in order to resell the properties.[139] As a result of the costly repairs that the new homeowners faced, many frequently fell behind in their mortgage payments. Once the loans were more than 90 days delinquent, the banks foreclosed. Since the loans were insured or subsidized by the federal government, HUD owed the bank the unpaid balance. After bailing out the bank, the federal government became the new owner of the derelict properties. Boyer, in *Cities Destroyed for Cash*, writes:

> There is a kind of macabre humor to the idea that the majesty of the federal government sits behind these ruins, and the little children who play in the graceless yards of the broken houses seem to appreciate it.
>
> "Is you the FBI?" they jeer at strangers. "You gonna arrest this house?"
>
> The adults smile, with the bittersweet cool of people who have nothing left to lose. "That man ain't no FBI," they say. "He's a speculator, gonna buy up this house and trick some poor mother again."
>
> As they say in almost every big city in the United States, "The neighborhoods have been FHA'd."
>
> To be FHA'd is to be ruined.[140]

In summary, property flipper's winners are the appraisers, real estate agents, land speculators, and banks: property flipper's losers are the federal government and the people the program was intended to help move into positions of homeownership.

Boyer chronicled the most famous FHA scandal at HUD during Nixon's Administration. At the heart of the flipping scams lay a web of conspiring bankers, realtors, appraisers, and public servants. Boyer blames these men for economically destroying entire neighborhoods in places like: the Lower East Side of Detroit, New York's South Bronx, Brooklyn, and Harlem; Woodlawn in Chicago's South Side and Austin on the West Side; North Philadelphia; St. Louis; Seattle; Los Angeles; and Lubbock, Texas. Boyer writes:

> Let me say at the onset that the disaster known as the FHA scandal was not caused by ignorance or unsophistication. Instead, it was a deliberate program of urban ruin for profit, under the cover of the federal government housing law and with an endless flow of federal money.[141]

Boyer quantified the FHA scam during the early 1970s through the title of his first chapter, "The $70 Billion Slum." Since there was a massive discrepancy between Washington D.C.'s records on foreclosed properties and regional offices, Boyer was forced to estimate the actual number of HUD-owned FHA properties. After being in contact with U.S. Secretary of Housing and Urban Development, George Romney, Boyer approximated that 390,000 units sat in HUD's jurisdiction. If each house was worth $15,000, then HUD's real estate "assets" totaled $5 billion. However, properties that ended up in HUD's hands usually sat vacant for months, sometimes years. Neighborhoods still exist throughout America with row after row of vacated houses. "Houses in Motor City [Detroit] have remained in the HUD inventory for an average stay of forty-three months."[142] Hence, missing from this estimate was the government's four dollars a day holding cost, about $5,000 more per house. In addition to the HUD's holding costs, the federal government also owed interest subsidies to the largest insurance companies, mortgage companies, banks, and other investors. Boyer estimated this pay out at $66 billion. Although not taking into account the human cost, the final calculable cost included in Boyer's estimate was the billions in tax breaks given to the "rich for investing"[143] in one of the FHA's subsidy programs. Boyer concluded, "when we talk about the results of the Nixon Administration's administration of the 1968 Housing Act…we are really talking about a $70 billion slum."[144]

The FHA abuses were made public in 1971 in a report issued by the House Committee on Banking and Currency. As more and more scandals were brought to light, President Nixon's Housing Secretary George Romney shut down the Section 235 program. However, Romney's actions "had the practical effect of redlining the inner city as private interests and banks refused to invest in city neighborhoods without the backing of governmental support or subsidies."[145] Exactly two years after the House released their findings, Nixon "dropped a bombshell on the housing industry by imposing a moratorium on all subsidized housing programs."[146] The following section will show that Nixon's moratorium was not the end to the Federal Housing Administration, nor did it come close to ending the abuse and mismanagement of the FHA program.

Chapter 3: FHA from 1973 through Today

How Important is the FHA Today?

In 1973, abuse of the FHA program gained national attention as a result of grassroots organizations. During this time, the NTIC (National Training and Information Center) initiated action to insure that FHA homes were properly inspected and guaranteed. As a result of lobbying, organizing, and judicial intervention from a number of community groups, a "steady downward trend in foreclosures took place going from a high of 63,113 in 1973 to less than 20,000 in 1980."[147] Since the 1980s, "HUD relaxed many of the FHA reforms advocated in the 1970s."[148] As a result of HUD's reform reversals, FHA foreclosures began steadily increasing. Within the past five years, the FHA has found itself once again in the national limelight. The FHA's relatively recent public attention is the result of its abuse and mismanagement that closely parallels earlier problems like property flipping.

According to Laurie Maggiano at HUD's asset management and disposition office in Washington D.C., as of August 31, 2001, there were 6,613,853 FHA insured loans in the nation. This translates to $498.8 billion dollars of FHA insured loans. Of the six and a half million insured loans, 275,552 were 90 days delinquent, equivalent to a default rate of 4.5%. Ms. Maggiano explained that one percent of the FHA insured loans are in foreclosure at any one time. Between October 1, 2000 to August 31, 2001, there were 55,283 foreclosures. Ms Maggiano pointed out that 49,446 FHA insured loans were currently part of HUD's loss mitigation program. Under this program, delinquent loans are reinstated or sold prior to foreclosure. The number of FHA insured loans part of loss mitigation is up an astounding 61 percent from the prior year. However, Ms. Maggiano did not specify the number of insured loans being reinstated vs. sold.[149]

Foreclosure data from one year alone does not tell the whole story. When delinquency and foreclosure data for the third quarter of 2001 are compared to data from the same time last year, a huge explosion is revealed. The delinquency rate was up 30 percent from the third quarter 2000 to 2001. Similarly as stark as the jump in delinquency rates was the 23 percent increase in foreclosures within the same time frame.

Table 2: Delinquencies and Foreclosures for the Third Quarter of 2001

	Latest Quarter	Previous Quarter	Same Quarter Previous Year	% Change from Previous Quarter	% Change from Last Year
Total Past Due (%)	4.87	4.63	4.01	+5	+21
90 Days Past Due (%)	0.73	0.69	0.56	+6	+30
Foreclosures Started	0.38	0.36	0.31	+6	+23

Source: U.S. Housing Market Conditions National Data[150]

This trend is not unique to 2000-2001. Kemba Johnson, a journalist for *City Limits,* writes that between January 1998 and March 1999:

> The default rate for FHA rose 21 percent. And since 1994, the foreclosure rate for FHA-backed loans has risen an astonishing 39 percent, during a period when foreclosure rates for conventional loans held steady or decreased.[151]

The following sections will look at possible reasons for this increasing foreclosure and delinquency rates.

Today, the FHA plays a smaller role in the mortgage insurance business than it did when the program began in 1934. From 1938 until 1942 the FHA insured approximately one third of *all* mortgages. From the mid-1940s through the 1960s the FHA and VA insured almost one fourth of all new houses, with a peak of 40.7 percent in 1955.[152] By 1994, with the advent of the private mortgage insurance (PMI) industry, the

FHA's role dropped to fifteen percent of *all* mortgages and thirty-five percent of all *insured* mortgages.[153] Between 1984 and 1994 the majority (55 percent) of mortgages were not insured. In general, mortgage insurance is used when the borrower makes a down payment of less than 20 percent of the value of the home.[154] Although the FHA's role is smaller than at its origins, it is still important. For example, it is estimated that in 1994, two-thirds of the FHA-insured homebuyers would not have qualified for mortgage insurance in the private market.[155]

Although the FHA plays a smaller mortgage insurance role within the entire homeownership population, its role is more significant among first-time, low-income, or minority homebuyers. In 1994, the FHA insured 20 percent of all low-income homebuyers and 24 percent of all minority homebuyers.[156] Not only does the FHA insure more first-time and/or low-income homebuyers, but a majority of those groups of home buyers are dependent on the FHA. In 1995, 77 percent of the first-time homebuyers insured by the FHA would not have qualified for private mortgage insurance. An even greater percentage (85 percent) of low-income FHA-insured homebuyers would not have qualified for private mortgage insurance.

"The Devil's in the Details"

The FHA is misnamed. It ought to stand for the thousands of Families HUD Abandoned. If the neighborhoods are poor, if they are predominantly black or Latino, the government gives mortgage bankers a green light to rip off homebuyers there.—Gale Cincotta[157]

Community groups like the National Training and Information Center (NTIC) in Chicago, and ACORN throughout the US, continue to question if FHA defaults are concentrated in certain neighborhoods and if these defaults are attributable to specific originating lenders. This inquiry stems from suspicion that since the FHA became concentrated in the inner cities, “HUD has allowed, through its lack of effective administration, the misuse and abuse of FHA.”[158]

National FHA foreclosure data only provides aggregate statistics for the entire country. Lost in this discussion are the practices in individual cities. The NTIC’s 1997 report, “The Devil’s In the Details,” analyzed the concentration of FHA defaults and lender performances in 20 U.S. cities at the census tract level. This data is much more helpful in order to understand the scope of the foreclosure problem because some census tracts have a larger prevalence of FHA foreclosures than others.

A major inadequacy in HUD’s data keeping practices was revealed by the NTIC’s study. In 1990, the Cranston-Gonzalez National Housing Act made Section 335 (not to be confused with the FHA’s Section 235 program) data available. Section 335 data is incredibly helpful when researching FHA loan patterns because it dissects data by census tract. Although Section 335 data is available, HUD refuses to use it and instead relies on much larger pools of data from Metropolitan Statistical Areas (MSAs) in order to evaluate their programs. To exemplify the extent to which HUD underestimates foreclosure data, the NTIC cites Albany, New York. In Albany, the default rate using data from the Metropolitan Statistical Area is 3.14%. When relying on Section 335 data, the foreclosure rate for FHA insured loans in that geographic area is 10.4%. Compounding this inadequacy is HUD’s practice of only reviewing defaults and claims for mortgages originating during the previous 15 months. This time frame is not long enough. Even HUD commissioned a study which discovered that FHA defaults usually occur within seven to ten years. As a result, the NTIC uses a five-year window. Although this is not perfect, it is much more thorough than HUD’s data used for evaluation.

The NTIC did not rely on HUD's data collection methods for its report, but it did use HUD's definition of high lender default rates. According to HUD, a high lender default rate greater than 1.5 times the field office default rate (aka MSA default rate) is considered cause for concern. For example, in Los Angeles, the MSA default rate is 8.36%. This means that "High Default Census Tracts" in Los Angeles, must have a default rate higher than 12.55%. Only 11.03% of Los Angeles' census tracts could be defined as high default areas, however, these census tracts contained more than half of defaulted FHA loans (54.46%). This indicates that defaulted FHA loans are concentrated in high default census tracts. It is interesting to note that Los Angeles' "normal" (aka MSA default rate) default rate is significantly higher than all of the other 17 cities studied.[159]

The NTIC's study then calculated how much higher the default rate is in "High Default Census Tracts." In Los Angeles, there are 30 "High Default Census Tracts." Of those tracts, 49.18% had default rates more than three times the HUD MSA default rate. In addition to the concentration of defaults previously explained, those defaults are more than *three times* higher than a normal default rate for the area.

NTIC's second research question examined whether or not FHA defaults are attributable to specific lenders. In Los Angeles, the default rate in "High Default Census Tracts" was 24.31%, which is more than double almost every other city studied. Of those defaults, almost half of them were originated by Los Angeles' "10 worst lenders." Lenders with the highest defaulted loan volume for each respective city made up the "10 worst lender" list. In comparison to the other cities studied, Los Angeles' defaults are less likely to have been originated by the "10 worst lenders." For instance, in Albany, 100%

of the defaults in the "high default census tracts" were originated by the "10 worst lenders." This is compared to L.A.'s 47.65%. Regardless of the degree, this finding establishes a connection between a group of original lenders who are repeatedly making "bad" FHA insured loans. At the national level, these lenders include: Norwest Mortgage, Fleet Mortgage, Chemical Residential, Bank United of Texas FSB, Sibley Mortgage Corp., Manufacturers and Traders, MNC Mortgage Corp., Norwest-Independence One Mortgage, and Temple-Inland Mortgage Corporation.

Although the NTIC's report did not lead to immediate action, in the middle of August 2000, HUD issued a 90-day moratorium on foreclosures in New York City, Atlanta, Chicago, and Los Angeles. "The abuse of FHA insurance has gotten so bad that HUD placed a moratorium…on these mortgages in zip codes where rates of default on these loans, as well as complaints of abuse by lenders, are high."[160]

HUD issued a response to the NTIC's study at the end of 2001. HUD's study reached the following five main conclusions. HUD began by justifying the FHA's heightened foreclosure rate because the program serves "less affluent borrowers."[161] HUD then went on to write how "some of the differences in default rates across neighborhoods and lenders are plausibly traceable to characteristics of the borrowers."[162] This statement describes HUD's belief that first time homebuyers, who are "more often black, have higher loan-to-value ratios, lower incomes, and smaller values of assets after closing"[163] are inherently more likely to foreclose. However, then HUD backtracked and claimed that a borrower's income does not "completely determine" their default behavior. HUD specifically attacked the NTIC's statistically analysis, writing that "more sophisticated techniques"[164] will lower the number of high default neighborhoods and lenders. But HUD did acknowledge that regardless of the specific technique, "there still appears to be some high-default neighborhoods and high-default lenders in most of the urban areas examined."[165] HUD's final conclusion highlighted the variation in default rates depending on the loan origination year, suggesting "that some problems generating high default rates are temporary."[166]

"The Two Faces of FHA"

The irony…is that for over twenty-five years, many…minority communities—led by minority residents who have FHA mortgages—have organized against the concentrations of FHA lending in their markets…For these communities, the letters F H A stand for the Four Horsemen of the Apocalypse.—Calvin Bradford[167]

A year after the NTIC's report, Calvin Bradford with the Chicago Area Fair Housing Alliance, released "The Two Faces of FHA." Bradford made a statement before Congress on May 13, 1998 where he addressed his major findings. Unlike the NTIC's report that focused on finding the devils among the FHA's details, Bradford literally revealed the FHA's two faces, "one white and one minority, separate and unequal."[168]

Bradford's study focused on the Chicago area, specifically Cook and DuPage counties. However, he declared before Congress that his findings are transferable to most major cities across the country.[169] Bradford's four main findings reveal major inadequacies within the FHA.

First, Bradford found that the FHA's concentration in the very communities it redlined before 1968 have made it the very antithesis of the Fair Housing Act.[170] HUD frequently congratulates itself on the FHA's significant role in minority and racially changing communities. Bradford complicates this achievement by pointing out that the FHA's high level of mortgage insurance in primarily minority communities is a measure of remaining discrimination in the conventional market. This irony is not lost on Detroit, Birmingham, Richmond, and the Washington D.C. area where jurisdictions within those cities have identified FHA lending practices as an *impediment* to fair housing practices.[171]

Bradford's second finding describes how FHA-insured loans are concentrated in minority communities regardless of income. Bradford refers to this pattern as "home loan steering." Bradford's research found that the levels of FHA-insured lending decreased in predominately white areas where income levels increased. But in comparable African American and Hispanic areas the levels of FHA-insured lending increased as the area's income increased. In addition to evaluating FHA patterns, Bradford designed an experiment where whites and minorities approached a lending institution requesting a loan. In this experiment, the minority testers were either equally qualified or slightly better qualified than their white counterparts. The results are described by the Chicago Area Fair Housing Alliance:

> White homeseekers were steered toward white communities and toward conventional loan products. Minorities, however, were steered into minority and changing communities and toward FHA products.[172]

Bradford's results highlight the role "loan steering" plays, and not natural market forces, in the concentration of FHA lending in minority and racially changing communities.

Bradford's third finding stems from his second. Since FHA-insured loans are concentrated in minority and racially changing areas, then FHA defaults are also concentrated in the same neighborhoods. Bradford explains that a significant number of FHA defaults are the result of poor underwriting and not just economic downturns. Loan underwriting is used to describe the process in which a potential homebuyer's financial history is evaluated. Bradford arrived at this conclusion by relying on the commonly accepted standards used for measuring the quality of loan underwriting. These standards examine the rates of loan default in the first year of origination because a poorly underwritten loan will default quickly (within the first year). Bradford's study found 21 census tracts with high early default rates (over 6%). Of those tracts, 20 were in minority or racially changing areas, and the remaining tract had a minority population over 40 percent and it was adjacent to a racially changing area.

The concentration of FHA-insured loans in minority and racially changing areas leads to the concentration of abandoned properties in these same areas. Bradford explained before Congress:

> HUD requires that properties be delivered vacant in order to collect an insurance claim. HUD's poorly run system of property disposition lets the properties sit and deteriorate. All of this creates blight in minority communities, depresses property values, and contributes to beliefs that racial change leads to community decline. HUD's operation of the FHA program becomes a self-fulfilling prophecy of decline for the community where loans are concentrated.[173]

Bradford's study shows how the first face of the FHA led to white suburbanization, while its second face (post 1968) is leading to a concentration of abandoned properties in minority and racially changing areas. Bradford's study addresses misuse of the FHA in general. The following section will look more specifically at recently exposed cases of FHA abuse.

And the Abuse and Misuse Continues: Baltimore, New York City, and Some Non-profits Fall Prey

The thousands of families who get FHA mortgages every year [is] a meaningless statistic if last month's homeowners become next month's home losers because of FHA-related foreclosures.—Gail Cincotta[174]

Former U.S. Inspector General Susan Gaffney has made numerous statements before the U.S. Senate and House of Representatives about the FHA. She frequently prefaces her testimony on the FHA by first acknowledging that many factors beyond HUD's control (like unemployment and interest rates) impact the soundness of the FHA program. However, she goes on to explain that she is most concerned with ensuring that the FHA is run efficiently and effectively by minimizing the opportunities for fraud and abuse by focusing on opportunities within HUD's control.[175] Gaffney's preface is important because it acknowledges that people default on FHA-insured loans for primarily two reasons. The first is a result of changes in the economy or their personal financial state. The second reason for foreclosures of FHA-insured homes is due to abuse within the program. This section focuses on the re-emergence of property flipping and other scams. Although abuse of the FHA does not lead to all defaults, they are the focus of this report because they can be managed by policy changes within HUD.

Over thirty years after the major FHA scam that Boyer chronicled in *Cities Destroyed for Cash*, the FHA remains fraught with similar abuses. Newspaper headlines such as *The Washington Post's* "U.S. Conducting 240 Probes of Possible Mortgage Fraud," or "Flip, Flip, Flip, Flop" in *Shelterforce* (housing journal) underscore the re-emergence of property flipping scams across the country. Former Inspector General Gaffney, before the House Subcommittee on Housing and Community Opportunity on June 30, 2000, confirms this re-emergence. Gaffney states:

> Our audits and investigations have indicated that flipping is *increasing* and has become a major problem for many communities. What is similar about these communities is the high volume of decaying properties and an eager group of potential…low-income buyers who are anxious to achieve the American Dream of home ownership. In many cases we find that the dream of homeownership ultimately turns into a nightmare. (emphasis added)[176]

Abuse of the FHA's programs occurs in most major cities throughout the nation. In August 2000, HUD focused its property flipping investigations on four major "hot zones," New York City, Atlanta, Chicago, and Los Angeles. Although Baltimore, Maryland has been home to a tremendous amount of property flipping scams, by August 2000 the city was on its way towards becoming a test case for reform. This is in large part due to the hard work of community groups like ACORN, journalists at the *Baltimore Sun*, and Senator Barbara Mikulski from Maryland.

In August 1999, John O'Donnell, a *Baltimore Sun* reporter, broke a story on the flipping of 400 Baltimore properties. O'Donnell's story paved the way for large-scale investigative efforts in Baltimore. In October 2000, Ada Focer in *Shelterforce* writes:

> In Baltimore, 2,000 properties were resold within 120 days in the past four years for at least twice, and sometimes up to ten times, what the seller paid. According to the Cleveland Plain-Dealer, 1,000 flips, worth more than $31 million, have occurred there since 1997, about 80 percent in the lowest income East Side neighborhoods.[177]

In conjunction with the *Baltimore Sun's* news stories which chipped away at the web of flipping scams, ACORN in Baltimore helped forge alliances with key politicians. These alliances forced HUD to acknowledge the "quiet crisis,"[178] and to ensure work was being done to prevent property flipping. One of the key political alliances formed was with Senator Mikulski. In the media Senator Mikulski has been given all the credit for making former Secretary Cuomo and HUD care about abuse of the FHA.[179] A hearing held by Senator Mikulski led to: the previously mentioned 90-day FHA foreclosure moratorium, the creation of a joint task force with HUD, and a three-month intensive research effort in Baltimore. In May 2001, Senator Mikulski and Senator Paul Sarbanes announced $5 million in grants from HUD to the Baltimore Department of Housing and Community Development. Five hundred thousand dollars of the grant will go towards establishing a flipping victim clearinghouse.[180]

Since the first stories on property flipping ran in the *Baltimore Sun*, numerous additional cases of FHA fraud have been brought to light. At the end of September 2001, the Inspector General's Office summarized the most recent cases of abuse in their semi-annual report to Congress. One of the cases announced by the U.S. Attorney's Office revealed how 16 defendants were accused of obtaining 58 FHA insured mortgages for individuals who were not qualified. As of September 2001, 48 of the mortgages had gone into foreclosure, resulting in $3.9 million in claims on the FHA insurance fund.[181]

Like Baltimore, New York City has also been the focus of intense investigations into FHA fraud after a scam in Harlem came to light. Kemba Johnson, a journalist for *City Limits,* wrote a two part series on the Harlem case. Johnson writes:

> More than 150 rowhouses in Harlem…have fallen prey to a high-stakes profit making scheme that has shamelessly exploited a federal affordable housing loan program and left decaying and gutted buildings-and a hotly disputed $50 million-plus bill[s]-in its wake.[182]

The families that lived in these Harlem rowhouses fell victim to abuse of the FHA's 203(k) program. Under the FHA's 203(k) program, nonprofits are able to buy single-family houses (1-4 units) in low-income neighborhoods, renovate them, and then sell them.[183] Unlike the FHA's standard mortgage insurance, the 203(k) program promotes renovation of properties by nonprofits. In Harlem, real estate speculators were buying buildings cheaply and then quickly reselling them to nonprofits at a much higher price.

The FHA scam in New York City did not end with the 150 Harlem rowhouses. In September 2001, John C. Weicher, the Assistant Secretary for Housing, made a statement before the House Committee on Financial Services Subcommittee on Oversight and Investigations where he chronicled the 203(k)'s abuse throughout New York City. Assistant Secretary Weicher explained that on October 29, 1996 HUD suspended participation by investors in this program. A number of these prohibited investors persuaded various nonprofits to front for them in order to purchase single-family houses under the 203(k) program. From 1998 through 1999, 54 non-profits bought 720 properties in and around New York City (Brooklyn, Harlem, and the Bronx) under the 203(k) insurance program. According to Assistant Secretary Weicher:

> In fact, the actual purchase, renovation, rental and/or resale was conducted by companies with ties to loan officers. Escrowed monies to be used for property rehabilitation were then funneled to so-called developers, who actually did little or no rehabilitation. Kickbacks were paid to the various parties involved in the fraud. Lenders failed to perform their legal duties to ensure that repairs were completed, and that escrow funds were handled in a responsible manner; some were in collusion with the investors.[184]

As Weicher's statement describes, the 203(k) program is inherently more risky than the FHA's standard mortgage insurance (203(b) program) because it insures mortgages for both the finance and rehabilitation of a single-family property.[185] The 203(k) program is more prone to abuse because the rehabilitation of properties introduces an entirely new set of players that the FHA must monitor.

The FHA's 203(k) program is very similar to its recent partnership with nonprofits. Nonprofits across the nation were authorized to buy recently foreclosed FHA-insured properties at a discount, rehabilitate them, and then sell the properties at a discount to low and moderate-income people. However, like the abuses made evident in the 203(k) program, HUD's nonprofit program was recently the focus of an audit report.

In November 2001, the Office of the Inspector General released an audit report on nonprofit participation in HUD's single-family programs. "The audit disclosed serious problems with HUD's discount sales program which bring into question the viability of the program."[186] The report found that low and moderate income homebuyers did not significantly benefit from the $220 million in discounts awarded through the program from January 1, 1998 through April 30, 2001. This was largely because "HUD's current regulations, guidelines, and controls have allowed profit motivated entities and individuals to manipulate the program and reap the benefits of discounted sales prices."[187] The report also found that homeownership centers (especially in Santa Ana and Atlanta) inadequately controlled the establishment of revitalization areas. The nonprofit program was intended to promote homeownership in revitalization areas defined as "economically distressed." The report found that HUD properties were sold at a discount to ineligible areas. This deficiency was attributed to problems within homeownership centers that administer the FHA program across the country. [188]

In response to the Inspector General's audit report HUD suspended the nonprofit program. Until approximately October 2002 a HUD task force will be studying the program and in the meantime no agreements with local agencies will be renewed.[189] In Los Angeles this means that HUD's agreement with the Enterprise Foundation is suspended until further notice. Before the April 2002 suspension, the Enterprise Foundation had bought, rehabilitated, and sold 235 houses in the city of Los Angeles. The Enterprise Foundation was slated to sell as many as 1,700.

In Gaffney's statement to the House, she explains how HUD established the Housing Fraud Initiative (HFI) in October of 1998 in order to *detect* and *prosecute* fraud within HUD programs. HFI sites were designated in Eastern New York, Maryland, Washington D.C., Maryland, Northern Illinois, Central California, and Northern Texas. In the Inspector General's Semiannual Report to Congress on September 30, 2001, case after case of FHA abuse are described in detail. The Housing Fraud Initiative's emphasis on detection and prosecution enables HUD to accumulate impressive lists of judicial intervention as evidence that problems are being investigated. However, the intervention by the HFI exists well *after* thousands of families have been evicted while thousands more properties sit empty. The following section will examine the problems that resulted from the FHA's consolidation and privatization that caused some of these evictions and highlight opportunities to prevent fraud.

The Private Realty Market Tightens its Grasp: The Consolidation and Privatization of the FHA's Single-Family Program

FHA relies on *private* lenders to determine borrowers' creditworthiness and to make and fund loans. FHA also uses *private* appraisers to assess the value of the properties that it insures. Finally, FHA relies on *contractors* to help assess lenders' compliance with its requirements, monitor the performance of appraisers, and manage and sell the properties it acquires through foreclosure.(emphasis added)[190]

From the FHA's days on the legislative drawing board in 1934, its history has been layered with involvement from the private sector. The FHA's relationship with the private sector continues to expand through today, and with this expansion comes a whole new set of accountability problems and potentials for abuse.

In 1994, a plan was introduced to consolidate the Office of Single Family Housing into homeownership centers (HOCs). In 1997, the HUD Secretary issued "HUD's 2020 Reorganization Plan" which stimulated the completion of the singly family programs organizational changes. By the end of 1999, HUD had finished consolidating its single-family program activities and staff from 81 field offices into four HOCs. These HOCs are located in Santa Ana, Denver, Atlanta, and Philadelphia.

After this consolidation, the FHA's reliance on the private sector drastically increased in order to fill staffing shortages. Former Inspector General Susan Gaffney made a statement before the House of Representatives in April 1998 where she explained that "In 1994, there were 2,700 plus HUD staff operating single family program nationwide; by the end of 1999, the staffing level is projected to be at 759."[191] In 1999, the HOC hired private real estate companies to manage and market foreclosed properties (M&M contractors) in hopes of filling their staffing shortages.[192] The FHA's sixteen contracts with seven private realty companies are the center of numerous GAO reports and audits by the Inspector General.

The FHA's mission—1) expand homeownership 2) strengthen neighborhoods and communities 3) ensure a maximum return to the mortgage insurance fund—remained the same after outsourcing.[193] However, an audit report by the Office of the Inspector General in September 2000, which focused on the private contractors, concluded that outsourcing brought both successes and failures. The report states "despite these positive strides, FHA did not accomplish other core elements of its program's mission."[194]

The Inspector General's audit report cited three "positive strides" achieved by outsourcing. The first positive change included an increase in sales volume and hence a decrease in the number of vacant properties in HUD's inventory. The second accomplishment included the contractors' implementation of new marketing tools such as bidding on properties through the internet. Lastly, according to the audit report, contractors seemed to be able to react more quickly to changes in the market than previously.

Regardless of these positive achievements, the audit found problems with all seven contractors reviewed. Former Assistant Secretary Apgar praised the FHA's contractors during his testimony before the Senate Committee on Banking, Housing, and

Urban Affairs, Subcommittee on Housing and Transportation in May 2000. However, the "audit results indicate such optimism is premature and misleading."[195]

The audit reported that the FHA did not meet *core* elements of its mission. "It did not maximize the return to the mortgage insurance fund or maintain properties in a manner that strengthened neighborhoods and communities."[196] In terms of the mortgage insurance fund, the audit determined that outsourcing reduced returns by about $188 million. The report attributed the loss to poor contractor sales performance and "substantially increased program costs."[197] In terms of maintaining properties in a way that strengthens neighborhoods, the audit found that none of the contractors reviewed followed contract requirements. "Contractors did not perform timely initial inspections, perform adequate inspections, correct hazardous conditions, make repairs, or perform routine maintenance to preserve and protect properties."[198]

The audit report's third finding chronicled how contractors did not comply with other contract requirements. "For example, contractors did not obtain timely property appraisals, approve disposition programs timely, properly review HUD-1 Settlement Statements, or perform other contract requirements."[199] In addition to not complying with contract requirements, the report found "numerous other problems with the contractors."[200] These included: bankruptcy by one of the contractors, inability to meet deadlines, countless complaints by homebuyers and real estate professionals, and billings for ineligible costs. The report also mentioned how employees at two of the contractors were arrested for taking kickbacks.

The FHA had an opportunity to respond to the audit report. They disagreed that outsourcing led to revenue losses and additional expenses. However, the FHA generally agreed with the audit report's other findings and recommendations.

Outsourcing was in part a response to the FHA's consolidation into homeownership centers, which in turn brought about staffing shortages. In addition to audit reports focusing on the effects of outsourcing, the United States General Accounting Office (GAO) investigated the homeownership centers (HOC) since they are responsible for *overseeing* the private contractors. In July 2001, the GAO released a report focusing on the HOC's staff. They concluded "the center's reliance on contractors has grown, but the ability of HUD staff to monitor contractors has not kept pace."[201] Various center managers told the GAO "that it was a challenge for their staff to shift from performing insurance endorsement and property disposition activities themselves to monitoring the performance of contractors."[202] As a result of the homeownership center's increasing dependence on private contractors, it is difficult to separate the HOC's activities from the contractors they hired. In other words, sometimes an activity may fall within HOC's jurisdiction when in actuality private contractors perform the duty. Hence, the main problem lies not solely with the private contractors but instead in the relationship the HOCs have with those contractors and specifically the lack of monitoring. The remaining section will take a closer look at the homeownership center's monitoring role.

In the midst of the HOC's responsibilities changing from insurer to monitor, there were no consistent standards to assess the contractor's work. This problem is particularly salient in terms of the contractor's approval process in assuring that *qualified* lenders are issuing FHA-insured loans. The GAO's testimony before the Senate's Subcommittee on Investigations, Committee on Governmental Affairs, underscored this problem. As a result of a lack of a lender approval process, "HUD's homeownership centers have applied the guidance differently and have approved lenders that made multiple and serious underwriting errors."[203] Underwriting errors made by HUD approved lenders include failing to:

> 1) verify the borrower's employment and income, 2) ensure that the borrower had sufficient income to support the monthly mortgage payments, 3) explain delinquent accounts and collections on the borrower's credit reports, and 4) properly calculate the borrower's debts or liabilities.[204]

It is imperative that underwriting standards are upheld in order to protect against early defaulting loans.

In addition to approving poor quality lenders, the HOC's monitoring process does not adequately focus on the riskiest lenders and loans. By not focusing monitoring efforts on the "riskiest" lenders, HUD is prone to approve shoddy lenders. For example, "a Santa Ana, center official estimated that half of the reviews the center performed in fiscal year 1999 were of lenders that had few or no early defaults—that is, loans that defaults within 24 months."[205] Because loans that default this quickly are an indicator of poor lending practices, these lenders *should* be the focus of HOC's monitoring efforts. However, the Santa Ana example shows how that is not the case.

The final problem highlighted by the GAO's testimony before the Senate Subcommittee on Investigations included how the HOC's efforts have been insufficient to hold poor performing lenders accountable. HUD may suspend a lender's direct endorsement authority. However, this power relinquished to the HOCs have not been efficiently used. If a lender's direct endorsement authority is suspended then they must submit their mortgage case files to the homeownership centers before deciding on whether to insure the loan. Of the lenders the GAO reviewed, at least 131 should have been candidates for this action.[206] "As of October 1, 1999, HUD's homeownership centers had not suspended any of these lenders."

HUD's Attempt at Change Through Credit Watch

HUD's Credit Watch program began in May 1999 as a way to sanction lenders with excessive defaults and insurance claims on FHA-insured mortgages. Under Credit Watch, HUD planned on terminating any lender (approved to make FHA-insured loans) whose default rates on mortgages exceeded the national average and "300 percent of the average rate for the HUD field office serving the lender's geographic area."[207] Similarly, HUD planned to place lenders on "credit watch" if their default and claim rates exceed the national average and 200 percent of HUD's field office average. A lender on "credit watch" can continue to originate FHA-insured loans, but HUD scrutinizes its performances.

This program is extremely limited because it only allows HUD to sanction lenders who *originate* FHA-insured loans, it says nothing about lenders who underwrite but do not originate the loans. The different is seemingly small but important. Originating mortgage loans entails accepting mortgage applications and obtaining information on the borrower like employment verification and credit reports. Underwriting mortgage loans entails determining whether or not borrowers will be able to make mortgage payments and ultimately whether the loan should be approved. HUD officials told the GAO that "underwriting lenders contributed to excessive defaults and insurance claims but that the Credit Watch program's regulations did not permit them to take enforcement action against these lenders."[208] Results from the first round of the Credit Watch program illustrate its limitations. Of the 33 lenders HUD terminated, 17 relied on other lenders to underwrite the 6,200 loans they originated and the FHA insured during the two-year period of analysis. "Nevertheless, the underwriting lenders escaped sanctions under the Credit Watch program."[209]

Chapter 4: It all Comes Together in Los Angeles

Where the Sun is Abundant and FHA-Insurance Flows like Water: Los Angeles and the FHA

One can find in Los Angeles not only the high technology industrial complexes of the Silicon Valley and the erratic sunbelt economy of Houston, but also the far-reaching industrial decline and bankrupt urban neighborhoods of rust-belted Detroit or Cleveland. There is a Boston in Los Angeles, a Lower Manhattan and a South Bronx, a São Paulo and a Singapore. There may be no other comparable urban region which presents so vividly such a composite assemblage and articulation of urban restructuring processes.[210]

Edward Soja in *Postmodern Geographies*, described how it all comes together in Los Angeles. From theoretical writings to the world of politics, Los Angeles is frequently referred to as a microcosm of the world, where global elites literally work within blocks of "third world" sweatshops and where the poor live next door to Beverly Hills. Los Angles' spatial organization—sprawling suburbs surrounding *numerous* decaying centers—illustrates the FHA's historic and contemporary practices *many* times over.

Sprawling Los Angeles is a powerful illustration of the FHA's historic role as "The American Dream Machine."[211] Thanks in large part to Los Angeles, by 1940 California had become the FHA's leading state. California had more than two times the FHA-insured loan volume than any other state. During this period in California, eighty-three percent of the FHA-insured loans went towards newly constructed single-family houses, aka suburban subdivisions.[212]

Is L.A. Number 1?

Similar to the magnitude of FHA-insured subdivisions in California, in *Cities Destroyed for Cash* Boyer predicted that the size of the FHA scam in Los Angeles would be second only to Detroit. In 1973 Boyer writes "So it's possible to anticipate that the nation's largest inventory of foreclosed properties could be in Los Angeles which, of all major cities, started core city FHA business last, and where the scandal has just begun to surface."[213] Today the same problems Boyer faced in quantifying the size and cost of the scam are compounded by the FHA's privatization where employees bounce inquires posed to them between the private contractors and the homeownership centers. In the city of Los Angeles, as of March 31, 2002 there were 77,254 FHA-insured loans. Between April 1, 2000 and March 31, 2002 there were 2,022 current defaults. The number of current defaults had dramatically increased by 1,688 within the last month. Between April 1, 2000 to March 31, 2002 there were 2,875 defaults within the first year of origination and 3,244 defaults within the first two years of origination. Defaults within the first year of origination are used as an indicator that a loan that should not have been made. [214] Yet regardless of the exact size of the current FHA scam, "According to an FBI source in California, mortgage fraud continues to be 'rampant and an epidemic' in Southern California."[215]

The Housing Fraud Initiative (HFI) has uncovered specific cases of FHA abuse in California totaling billions of dollars. In December 1999, the Central District of California became the site of the Housing Fraud Initiative's first-ever case. The Central District of California is a seven-county district (which includes Los Angeles) with more than 17 million residents. During fiscal year 1999, one-eighth of the FHA's $124 billion in FHA-insured single-family mortgages was funded in California's Central District. This proportion translated into 119,514 single-family mortgages worth $14.7 billion.[216]

The December 1999 case involved more than thirty-nine former real estate agents and mortgage brokers who issued $110 million in fraudulent loans. At the time of the indictment, the mortgage scams had resulted in $25 million in government losses. The case involved several types of complicated schemes including fraudulent loan origination, equity skimming, and home improvement loan fraud.

California's Central District might have been home to the HFI's first case, but it was by no means the initiative's last case in this district.[217] In the U.S. Inspector General's 2001 Semi-annual report to Congress, four individuals pled guilty to a loan origination scheme where they illegally qualified ineligible people for FHA-insured loans by creating false documents. These four individuals falsified documents in order to secure over 1,200 federally insured loans totaling over $163 million. As of the end of September 2001 the scheme cost the government between $26 to $31 million ($15 to $20 million of which is wrapped up in government insured defaults).[218]

The FHA's Concentration in Neighborhoods Throughout L.A.

In addition to the scandals brought to light by the Housing Fraud Initiative, the NTIC's study reveals that the devils are in fact in Los Angeles' details. In Los Angeles, FHA defaults are concentrated in "high default census tracts," and a majority of these "bad" loans were originated by a handful of lenders. The NTIC is releasing a new study in the end of May 2002. In this study they looked at the default rates in primarily minority and low-income areas and whether or not these rates were attributable to a handful of lenders. According to Cathy Klump, a national housing organizer at NTIC, the default rates for FHA-insured loans for the city of Los Angeles had increased dramatically and there were "huge disparities" between the default rates in low-income and minority areas and those in primarily white and middle-class areas. According to Klump, the NTIC's soon to be released study indicated that "something is seriously wrong."[219]

The NTIC's report and HUD's response are important since they reveal default trends in FHA-insured mortgages. From this framework, Carolyn Aldana and Gary Dymski offer insight into the FHA's role in Southern California (Los Angeles, Riverside, Ventura, Orange, and San Bernardino County). Using Home Mortgage Disclosure data from 1992, 1994, 1996, and 1998, Aldana and Dymski found that for each year studied, FHA loans for whites are concentrated in the suburbs, while FHA loans for minorities are concentrated in inner-core areas. In terms of conventional and FHA-insured loans, African American and Latinos are "far more likely to be at a disadvantage in suburban than in inner-core loan markets."[220] Aldana and Dymski's data confirms that 30 years after the 1968 Fair Housing Act, the FHA and the conventional loan market continue to rely on "racialized logic"[221] which reinforces residential segregation.

Calvin Bradford in "The Two Faces of FHA," explains how the concentration of FHA-insured mortgages in primarily minority and racially changing areas results in the concentration of FHA defaults in the same communities. According to former Inspector General Gaffney:

> The disconcerting trends in FHA foreclosure and delinquency rates are attributable to inadequate management controls to mitigate the increased risk resulting from 2020 Management Reform, specifically the outsourcing of virtually all aspects of the single family loan origination process under substantially liberalized underwriting standards.[222]

In her semiannual report to Congress, Gaffney proposes that the FHA's consolidation and privatization caused alarming foreclosure rates in the neighborhoods at the center of Bradford's research. California's Santa Ana homeownership center does not escape these accusations.

Problems in Santa Ana

As a result of a loan origination scam by Allstate leading to 427 fraudulent loans totaling $97 million, in April 2000 the Office of the Inspector General released an audit report focusing on the Santa Ana homeownership center. The report found that the Santa Ana HOC "did not implement the management controls needed to adequately oversee mortgagees' loan origination practices and compliance with HUD regulations and requirements."[223] The loan origination scam at the center of this audit was not the first problem that sprang from the Santa Ana HOC's poor oversight.

In February of the same year, the Office of the Inspector General audited the Los Angeles Real Estate Owned (REO) Division because HUD owned properties were being arbitrarily marked down and resold as a result of "insufficient supervision" by the former HUD Los Angeles Office (now the Santa Ana homeownership center). The report concluded that with the Los Angeles Office's restructuring into the Santa Ana HOC and its contract with Golden Feather Realty Company, "improvements are needed in the Santa Ana HOC's monitoring of Golden Feather in order to ensure compliance with the established procedures and to best safeguard HUD's interest."[224]

Santa Ana's close monitoring of Golden Feather is especially important in light of Golden Feather's past record. In Baltimore, HUD replaced Golden Feather Realty Service with Intown Management Group LLC. James S. Kelly, the spokesman for the Baltimore HUD office, did not explain why Intown was selected over Golden Feather:

> I don't know the specifics whether the quality of the provider and the quality of the service was the same or if Intown was cheaper. Or they thought that Intown was offering them different or better services, or if it was a quality issue. HUD didn't shut out Golden Feather across the board.[225]

Although not necessarily cause for concern, but still important to note, "Golden Feather's only winning bid to sell HUD-foreclosed homes came in California."[226]

New Types of FHA Abuse Emerge in the City of Angels

As a result of HUD's contract with Golden Feather in California, one indicator of an FHA-insured foreclosed property in Los Angeles is a Golden Feather Realty sign. The Legal Aid Foundation of Los Angeles (LAFLA) is concerned with FHA-insured mortgage foreclosures because of row after row desolate houses with Golden Feather Realty signs in the windows.

The Legal Aid Foundation provides legal assistance on housing issues confronting poor and moderate-income people. Tai Glenn, a lawyer at LAFLA, worked with one of the families that lived on such a street. Glenn's client had faced a HUD "occupied conveyance"—where an FHA-insured home is foreclosed and the people living in the building are evicted—and she became suspicious that this scenario was not an isolated instance in Los Angeles.

Robin Urevich, with KPCC news in Los Angeles, reported on HUD "occupied conveyances" in November 2001. Urevich estimated that in the city of Los Angeles, HUD evicts around 2,000 mostly low-income tenants a year. Urevich's story focused on how HUD is actually exacerbating the housing shortage by evicting people from *rent-controlled* properties it acquires through the foreclosure of FHA-insured loans. Urevich explains:

> HUD is exempt from L.A.'s rent control law, which forbids evictions in cases of foreclosure or sale. The federal agency has agreed to pay families who are evicted the five thousand dollars in relocation money called for by L.A.'s law. But critics say HUD is making the housing crisis worse, first, because the housing it puts on the market sometimes sits empty for years before its bought, and second, because the poor families who get evicted lose the protection of rent control.[227]

Urevich's story raises numerous questions about not only HUD, but specifically how the FHA program is being abused in Los Angeles. FHA-insured single-family properties (one to four units) are supposed to be owner-occupied. But in Legal Aid's experiences this is almost never the case.[228] The description of the street that opened this report is an example of this problem.

With traditional property flipping, an unsuspecting usually first-time and low-income homebuyer is tricked into paying too much for a property that is about to fall apart. In Los Angeles, FHA abuse is abundant but in many different forms. According to Glenn, people are flipping property titles in order to avoid slum issues. In this scenario someone takes out an FHA-insured loan with no intention of living in the property. Although this breaks FHA policy, people get away with it because HUD does not monitor these properties in order to verify that they are in fact owner-occupied. These buyers then rent out all of the units and when their loan goes into default, the bank forecloses, and HUD evicts all the tenants. Joe Bates, who works on the FHA program at HUD's Western Regional office, explains "the government has to have enough money to repay lenders when buyers default on their loans. The best way to do that is to re-sell the foreclosed properties unoccupied."[229]

The situation in Los Angeles is suspicious and warrants further investigation. The owner not living in the FHA-insured property is an abuse of the program in and of itself, but that is not where the problems end. Properties that are not owner occupied are much more likely to be rundown because the owner has no incentive to keep them up since they are not living there. Glenn describes how these owners just "suck everything out of the property."[230]

Dilapidated properties are not the only result of FHA abuse. In at least one of the three boarded up fourplexes that opened up this report, Los Angeles Legal Aid was unable to track down the owner. According to Glenn this is not uncommon. She said that "very rarely or ever do we see an owner."[231] With FHA-insured properties, owners leaving town is complicated by the fact that banks have no incentive to go after them because the loan is insured by the federal government and hence the bank is completely covered. Much like traditional cases of property flipping, the bank wins at the expense of the federal government. However, in the situation being revealed in Los Angeles there are potentially more victims than in traditional cases of property flipping. Instead of a single family being evicted, when the property is rented out it is occupied by as many as four different families. In addition to the larger number of evicted families, the city of L.A. loses another rent-controlled building because HUD is exempt from the city's rent control laws.

From the FHA's historic suburban bias favoring white homebuyers to its current reversed redlining, it all comes together in Los Angeles. Not only did HUD identify Los Angeles as a "hot zone" in its 2000 FHA foreclosure moratorium, but preliminary research on the FHA in L.A. reveals suspicion that something is amiss in the city of angels. More investigative work is needed in order to prevent red flags, like Golden Feather signs, from cropping up around the city. These signs all point towards the possibility of another quietly brewing million dollar slum.

Chapter 5: Policy Recommendations

Imagine that the year is 1934, and the Federal Housing Administration is being established. Franklin Roosevelt and his advisors are considering the basic rules to govern the country's new federal mortgage insurance program…Alternative A bows to contemporary racism…Alternative B would be a bold departure…limiting FHA insurance to racially integrated communities…—David Rusk[232]

David Rusk poses an interesting scenario in *Inside Game/Outside Game* when he asks readers to imagine a different history, to literally go "back to the future" and revisit the formation of FHA's rules. Rusk proposes that changing FHA's policies would have in turn "shredded the practice of racial covenants…promoted racially integrated communities…local schools would be much more racially integrated…society would probably be a less economically segregated society as well."[233] Rusk assigns a significant amount of importance to the FHA's role throughout history and into today (much more than most social scientists) in creating segregated neighborhoods.

Rusk's passage underscores how the FHA is a powerful example of the government's role in where we live (or don't live). For example, in 1954 opponents of school desegregation relied on housing segregation in order to maintain all-white schools. Similarly, today academics argue that at the heart of continued racial segregation within the nation's public schools lies the problem of residential segregation. Although changing the FHA will not eliminate residential segregation, its role in the housing market for first-time, low-income, and minority homebuyers is significant.

There is both irony and anger in Boyer's statement describing how the FHA "is supposed to be a way to help the poor!"[234] Yet regardless of its less than noble beginnings and current inadequacies, it would be shortsighted to dismantle the FHA. The FHA is *intended* to promote homeownership and strengthen neighborhoods and communites. The challenge to policy makers, community groups, and the business world, becomes figuring out a way to walk the fine line between fixing the FHA without destroying its intended effects. Although the Housing Fraud Initiative established by HUD is an important tool to catch scam artists, serious policy changes need to take place in order to prevent widespread abuse and misuse of the program.

The NTIC recommends six significant policy changes that would go a long way to prevent the FHA's abuse. Their first proposal is to reduce the FHA's 100 percent insurance level on loans. Under the current system the lender carries no risk, and hence no investment in the loan's success. NTIC describes the domino effect of abuse which follows, "irresponsible underwriting, lack of flexibility in refinancing, and a reflex towards quick foreclosures."[235] The size of the reduction in the FHA's insurance level must take into account the FHA's role as an insurer of predominately low-income and first time homebuyers. The NTIC proposes the FHA insure 75 to 80 percent of the loan.

The NTIC goes on to recommend that HUD must examine FHA default rates and individual mortgage company default rates by census tract instead of metropolitan statistical areas (MSAs). MSA areas are too large, and hence mask true neighborhood impact. HUD must use the available data to track FHA defaults at the census tract level.

With a more thorough data collection system HUD must regularly analyze this data and then punish poorly performing lenders. In other words, HUD must punish lenders who routinely make loans that go into foreclosure within the first year. HUD's adoption of Credit Watch is a first step. Senator Paul Sarbanes of Maryland made Credit Watch part of the National Housing Act of 2001. This was a second step because under this act Credit Watch can no longer be legally challenged. However, the third challenge is enforcing the program. According to Cathy Klump with NTIC, the mortgage industry's voice (as represented by the Association of Mortgage Bankers) overpowers the new administration and as a result the administration is not doing its part to enforce the program.

The NTIC's fourth proposal is to mandate alternatives to foreclosures. Unlike the private market that offers an array of options when a borrower falls behind on mortgage payments, the FHA does not insist upon any such program. In 1997, HUD made loss mitigation programs voluntary for lenders. The fact that foreclosure rates are still extremely high, and the lack of proof that lenders are regularly offering alternatives to foreclosures, all indicate that the program is not consistently offered to people facing foreclosure. The lack of consistent alternatives to foreclosures, coupled with the lender's no risk loan, "dooms many people who fall behind on their payments to foreclosure."[236]

The NTIC goes on to suggest that HUD implement a Homebuyer's Warranty Program that would provide a HUD certified inspection of all properties being insured through the FHA. A Homebuyer's Warranty program would help prevent property flipping scams by providing a check against the appraisers. In the past, the FHA assigned independent appraisers to "inspect homes and set a fair value."[237] However, lenders wanted to select their own appraisers arguing it would "streamline" the process. Betwee 1991 and 1994 lenders made $2.3 million in campaign contributions to politicians in D.C. Their legislation to select their own appraisers passed. "But since lenders have been allowed to select their own appraisers, investigators say, foreclosures have skyrocketed."[238] Not only do lenders choose their own appraisers, but the FHA does not even review the ten percent of all appraisals they are supposed to. One former FHA official said “there just isn’t the staff or the know-how to pull off that kind of thing.”[239]

The NTIC concludes by proposing HUD require homebuyer equity of at least three percent. Currently, the FHA accepts gifts in lieu of a borrower’s cash for a downpayment and rolls closing costs into most loans. “As a result, many borrowers end up with no real equity in their homes and no investment to fall back on if a problem occurs.”[240] In other words, although the FHA promotes homeownership for underserved populations, people with no investment to fall back on cannot qualify without a great risk to themselves and the FHA.

The NTIC’s recommendations are fairly extensive but they do not address three sources of problems: outsourcing, lack of loan counseling programs, and the private mortgage insurance (PMI) industry. Numerous GAO investigations and audit reports from the Inspector General underscored the need for improved monitoring within homeownership centers of private contractors. In order to improve monitoring HUD must invest in the training of its current employees and hire more staff to fill the shortages that arose after consolidation.

In addition to better oversight of contractors, HUD should promote counseling for first time homebuyers. ACORN has played this role in the past, offering free sessions with a mortgage specialist for people who are looking into buying a home. There will always exist shoddy lenders who prey on first time, primarily low-income homebuyers. It is worth arming potential homebuyers with the tools to discern the good loans from the bad.

It would be shortsighted to limit policy changes solely to the FHA. As Calvin Bradford points out in "The Two Faces of FHA," there still exists a significant amount of discrimination in the lending sector. In order to truly move towards a more just society without segregation by race and class, this discussion must be opened up to include the private mortgage insurance industry where discrimination persists.

Footnotes

[1] Sarah Kershaw, "Failing Mortgages Soar in New York, *New York Times*, March 27, 2002, A:1.
[2] Paul Caine, "Losing out on FHA," *Chicago Reporter*, May 1993, B-2.
[3] Andres Duany, Elizabeth Plater-Zyberk, & Jeff Speck, *Suburban Nation* (New York: North Point Press, 2000), 43.
[4] Peter Dreier, John Mollenkopf, & Todd Swanstrom, *Place Matters* (Kansas: University Press of Kansas, 2001), 1.
[5] john a. powell, "Fair Housing & Affordable Housing Crisis: Recommendations to the Millennial Housing Commission."
[6] Alice O'Connor, "Swimming Against the Tide," *Urban Problems and Community Development* (Washington D.C.: Brookings Institution Press, 1999), 79.
[7] Mickey Lauria, "A New Model of Neighborhoods Change: Reconsidering the Role of White Flight," *Housing Policy Debate* 9, no. 2 (1998): 396.
[8] Kenneth Jackson, *Crabgrass Frontier: The Suburbanization of the United States* (New York: Oxford University Press, 1985), 190.
[9] Bob Dole called public housing the "one of the last bastions of socialism in the world." Marshall Jay Kandell, "Local Autonomy: Can LHA's Handle It?" *Journal of Housing and Community Development* 52, (November/December 1995): 10-15.
[10] Jackson, 192.
[11] Ibid., 193.
[12] Peter Dreier, "Labor's Love Lost? Rebuilding Unions' Involvement in Federal Housing Policy, *Housing Policy Debate* 11(2), 331.
[13] Jackson, 196.
[14] Ibid.
[15] Ibid., 196-7.
[16] Dreier et. al., 108.
[17] Ironically, the level of detail accrued by appraisers in this period before 1968 led to rating system ala redlining. While, it was the systematic lack of information gathered on properties that led to block after block of abandoned—formerly FHA insured –properties in the period after 1968.
[18] Jackson, 197.
[19] Jackson, 199. Douglas S. Massey and Nancy A. Denton. *American Apartheid: Segregation and the Making of the Underclass* (Massachusetts: Harvard University Press, 1993), 52.
[20] Jackson, 201.
[21] Jackson, 198. Dreier et al., 108.
[22] Jackson, 198.
[23] Kevin Fox Gotham, "Racialization and the State: Housing Act of 1934 and the Creation of the Federal Housing Administration," *Sociological Perspectives* 43(2), 311.
[24] Jackson, 203.
[25] Ibid., 204.

[26] The Veterans Administration (VA) was created in 1944 under the GI Bill. The VA program helped the 16 million WWII veterans purchase homes. According to Jackson, 204, "Because the VA very largely followed FHA procedures and attitudes and was not itself on the 'cutting edge of housing policy,' the two programs can be considered a single effort.
[27] Massey & Denton, 53.
[28] Jackson, 196.
[29] "Boondoggle" is a derisive term for supposedly unproductive work relief. It came into general usage in the spring of 1934.
[30] Gabrielle Esperdy, *Modernizing Main Street: Everyday Architecture and the New Deal*. Ph.D. Dissertation, City University of New York, 1999.
[31] Ibid., 19.
[32] Ibid., 26.
[33] Ibid., 27.
[34] Gotham, "Racialization," 303.
[35] Ibid.
[36] Kevin Fox Gotham, "Urban Space, Restrictive Covenants and the Origins of Racial Residential Segregation in a US City, 1900-50," *International Journal of Urban Spaces and Regional Research* 24, no. 3 (2000): 221.
[37] Ibid., 218.
[38] Marc A. Weiss, *The Rise of the Community Builders* (New York: Columbia University Press, 1987), 145.
[39] Calvin Bradford, "Financing Homeownerhsip," *Urban Affairs Quarterly* 14(3): 324.
[40] Weiss, 142.
[41] R. Allen Hays, *The Federal Government and Urban Housing* (New York: State University of New York Press, 1985), 84.
[42] Thomas Hanchett. "The other 'subsidized housing'," *Journal of Housing and Community Development* 58(1): 18.
[43] Massey & Denton, 53.
[44] Jackson, 204.
[45] Ibid., 205.
[46] Ibid.
[47] Ibid.
[48] Ibid. After WWII, homes in Delaware's Edgemoor Terrace sold for $5,150. With an FHA insured mortgage, purchasers only needed a $550 down payment and $29.61 a month for five years.
[49] Esperdy, 13.
[50] Jackson, 206. "Between 1941-1950, FHA-insured single-family starts exceeded FHA multi-family starts by a ratio of almost four to one. In the next decade, the margin exceeded seven to one."
[51] Massey & Denton, 53.
[52] Jackson, 207.
[53] Hays, *Federal Government*, 85.
[54] Massey & Denton, 54.
[55] Massey and Denton's statement is not exactly correct. Originally, the suburbs were filled with white, working class families. White working class families were instrumental in talking about their middle class status once they became homeowners. For an interesting discussion on this process see Barbara Kelly, *Expanding the American Dream: Building and Rebuilding Levittown* (New York: State University of New York, 1993).
[56] Massey & Denton, 54.
[57] J. John Palen, *The Suburbs* (New York: McGraw-Hill, Inc, 1995), 123.
[58] Alexander Polikoff, *Housing the Poor: The Case for Heroism* (Massachusetts: Ballinger Publishing Company, 1978), 18.
[59] Dreier et al., 110.
[60] Thomas J. Sugrue. *The Origins of the Urban Crisis: race and inequality in postwar Detroit* (New Jersey: Princeton University Press, 1996), 64.
[61] Dreier et al., 110.
[62] Ibid., 108.
[63] Polikoff, 19.

[64] Ibid.
[65] Ibid.
[66] Jackson, 213.
[67] Robert Fishman, "The American Metropolis at Century's End: Past and Future Influences," *Housing Policy Debate*, 11(1): 199. The complete list is as follows: (1) The 1956 Interstate Highway Act and the dominance of the automobile (906 points). (2) Federal Housing Administration mortgage financing and subdivision regulation (653). (3) Deindustrialization of central cities (584). (4) Urban renewal: downtown redevelopment and public housing projects (1949 Housing Act) (411). (5) Levittown (the mass-produced suburban tract houses) (439). (6) Racial segregation and job discrimination in cities and suburbs (436). (7) Enclosed shopping malls (261). (8) Sunbelt-style sprawl (242). (9) Air conditioning (234). (10) Urban Riots of the 1960's (219).
[68] Malvina Reynolds, "Little Boxes" cited in J. John Palen, *The Suburbs*.
[69] Kelly, 16. Jackson, 211.
[70] Jackson, 208.
[71] Ibid., 205.
[72] Ibid., 234.
[73] D.J. Waldie, *Holy Land* (New York: St. Martin's Press, 1996), 10-11.
[74] Weiss, 1.
[75] Weiss, 147.
[76] Gotham, "Racialization," 308.
[77] Weiss, 156.
[78] Jackson, 6.
[79] Duany et al., 43.
[80] Jackson, 211.
[81] Kelly, 16.
[82] Ibid., 17.
[83] Arnold R. Hirsch, "Choosing Segregation," *From Tenements to the Taylor Homes*, ed. John Bauman, Roger Biles, and Kristin M. Szylvian (Pennsylvania: Pennsylvania State University Press, 2000), 208. Hirsch explains how this dramatic increase in homeownership led many to consider housing a working class entitlement.
[84] Sugrue, 211.
[85] Gotham, "Urban Space," 625. J.C. Nichols was one of the first and most prominent developers-builders to promote the use and enforcement of restrictive covenants before homes were constructed.
[86] Gotham, "Urban Space," 627.
[87] Sugrue, 209.
[88] Ibid., 219.
[89] Ibid.
[90] Ibid., 232.
[91] Jackson, 208.
[92] Hirsch, "Choosing Segregation," 213.
[93] Massey & Denton, 188.
[94] Hirsch, "Choosing Segregation," 215.
[95] Ibid.
[96] Ibid., 214.
[97] Ibid.
[98] Massey & Denton, 55.
[99] Hirsch, "Choosing Segregation," 221.
[100] Hirsch, "Choosing Segregation," 221.
[101] Ibid., 207.
[102] Arnold Hirsch, "Containment on the Home Front: Race and Federal Housing Policy from the New Deal to the Cold War," *Journal of Urban History* 26, no. 2 (January 2000): 183.
[103] Massey & Denton, 190.
[104] Ibid., 58.
[105] Ibid.
[106] Ibid., 191.

[107] Ibid., 192.
[108] Ibid., 192.
[109] John Charles Boger, "Race and the American City: The Kerner Commission Report in Retrospect," *Race, Poverty, and American Cities*, ed. John Charles Boger & Judith Welch Wegner (Chapel Hill: The University of North Carolina Press, 1996), 5.
[110] Boger, "Race and the American City," 11.
[111] Massey & Denton, 59. Quoted from the Kerner Report, 28.
[112] James E. Rosenbaum, Nancy Fishman, Alison Brett, & Patricia Meadan, "Can the Kerner Commission's Housing Strategy Improve Employment, Education, and Social Integration for Low-Income Blacks?" *Race, Poverty, and American Cities*, ed. John Charles Boger & Judith Welch Wegner (Chapel Hill: The University of North Carolina Press, 1996), 274.
[113] Massey & Denton, 59.
[114] Jill Quadagno, *The Color of Welfare* (New York: Oxford University Press, 1994), 105.
[115] Massey & Denton, 196.
[116] Gale Cincotta, David Rose, Liz Ryan. *The Devil's in the Details* (Chicago: National Training and Information Center, 1997), 3.
[117] Section 235 was not the only program FHA created after the 1968 Housing Act. After the Housing Act, HUD also created: Section 203(k) which provided loan insurance for rehabilitative work; Section 236, a subsidized, multi-family interest program; Section 223(e) which "made FHA mortgage guarantees available to inner-city areas that did not meet the usual requirements." Massey & Denton, 205.
[118] Brian Boyer, *Cities Destroyed for Cash: The FHA Scandal at HUD* (Chicago, Follett Publishing Company, 1973), 22. Section 235 generally went to those with incomes below 135 percent of the local public housing limits. Under Section 235, the government pays up to all but one percent of the interest due on the mortgage. "The homeowner must pay at least 20 percent of his adjusted monthly income on the mortgage. Family income and mortgage limits are established for each section of the country. The program can go either for new or used housing. Mortgages are thirty years long."
[119] Lew Sichelman, "Higher FHA Loan Limits Aid Buyers," *LA Times*, December 31, 2000, Home Edition: 3. Kenneth Harney, "FHA Polishes Tarnished Image as Watchdog for Borrowers," *The Baltimore Sun*, September 24, 2000, Real Estate, 1L.
[120] Cincotta, 5.
[121] Hays, 113.
[122] Kevin Fox Gotham, "Separate and Unequal: The Housing Act of 1968 and HUD's Section 235 Program." *Sociological Forum* 15, no. 1 (March 2000): 22.
[123] Ibid., 23.
[124] Ibid., 24.
[125] Ibid., 24.
[126] Ibid., 24.
[127] Quadagno, 106.
[128] Gotham, "Separate and Unequal," 28.
[129] Ibid., 26.
[130] Hillel Levine & Lawerence Harmon, *The Death of an American Jewish Community* (New York: The Free Press, 1992), 7.
[131] Ibid., 5.
[132] Ibid., 6.
[133] Ibid., 3.
[134] Peter Dreier, "Seeds of a bitter Harvey sown by private greed," *The Boston Globe*, December 29, 1991: A:12 & A:14.
[135] Levine, 3-4.
[136] Ibid., 4.
[137] Hays, 113.
[138] Boyer, 20-23. According to Boyer, "the real woes have come about under Sections 203, 221-d-2, and 235 and 236 subsidized mortgages, and that's what we'll be dealing with." However, the FHA had a variety of programs that aided homeownership in different ways. **Section 203** was enacted in 1934 and it is considered the most basic FHA mortgage insurance program. **Section 221-d-2** was established under the Housing Act of 1954's urban renewal program. Section 221-d-2 was designed "to assist private industry in

providing housing for low and moderate-income families and families displaced from urban renewal areas or as a result of governmental actions." **Section 235** was created under the National Housing Act of 1968. Section 235 was different than Section 203 in that it provided mortgage interest *subsidies* to promote homeownership for low and moderate-income families. **Section 236** was a subsidized, multifamily interest program. **Section 223-e**, created under the 1968 National Housing Act, provided FHA mortgage insurance for older, "declining" urban areas that someone determined were still "viable" and that the property posed an "acceptable risk." **Section 237** and **Section 203-1** were less widely used FHA programs.
[139] Ada Focer. "Flip, flip, flip, flop," *Shelterforce Online*, September/October 2000 <www.nhi.org/online/issues/113/focer.html> accessed 11-4-01.
[140] Boyer, 4.
[141] Ibid.
[142] Ibid., 7.
[143] Ibdi., 8.
[144] Ibid.
[145] Gotham, "Separate and Unequal," 31.
[146] Quadagno, 113.
[147] Cincotta, 6.
[148] Ibid., 7.
[149] Lauria Maggiano, asset management and disposition at HUD, email correspondence December 14, 2001.
[150] U.S. Housing Market Conditions National Data <www.huduser.org/periodicals/ushmc/winter2001/nd_hf.html>.
[151] Kemba Johnson. "Loan Injustice," *City Limits*, February 2001, 2.
[152] Florence Roisman, "Redressing Racial Discrimination and Segregation in the FHA and VA Homeownership Program," Prepared for the Conference on *Housing Opportunity, Civil Rights, and the Regional Agenda*, November 16, 2001, Washington D.C.
[153] GAO, "Homeownership: FHA's role in helping people obtain loans," GAO/RCED-96-123 (August 1996).
[154] Homeownership, 17.
[155] Homeownership, 4.
[156] "Low income" refers to a borrower with an income no greater than 80 percent of the median income in the Metropolitan Statistical Area where the borrower is located.
[157] Ilyce R. Glink. "FHA fails to police lenders, says one consumer group," *Real Estate Matters Syndicate*, <www.thinkglink.com/cfc254.htm> accessed 11-12-01.
[158] Cincotta, 4.
[159] Cincotta. The range of MSA default rates minus Los Angeles and Newark is .90%-3.95%. Newark's MSA default rate is 5.26% and Los Angeles' is 8.36%.
[160] Johnson. "Loan Injustice," 2.
[161] Office of Policy Development and Research, HUD, *Assessing Problems of Default in Local Mortgage Markets*, ACCN-HUD11159, September/October 2001, iv.
[162] Ibid., v.
[163] Ibid.
[164] Ibid.
[165] Ibid.
[166] Ibid.
[167] Calvin Bradford, "Is FHA Limiting Choices for Home Finance?: An Examination of Fair Housing Compliance," Subcommittee on Housing and Community Opportunity of the House Banking and Financial Services Committee, May 13, 1998, 2.
[168] Ibid., 10.
[169] Bradford cites "Albany, Atlanta, Baltimore, Buffalo, Cleveland, Dallas, Denver, Detroit, Los Angeles, Minneapolis, Newark, Philadelphia, Richmond, Rochester, San Antonio, San Bernadino, St. Louis, St. Petersburg, Syracuse, Tampa, and Washington D.C. and several surrounding counties" (3).
[170] Calvin Bradford, *The Two Faces of FHA: A Case of Government Supported Discrimination Against Minority and Racially Changing Communities*, The Chicago Fair Housing Alliance, March 1998, 3. "In our study area in 1993 FHA loans comprised 58% of the home purchase loans to African-Americans and 48%

of the home purchase loans to Hispanics. This same year, FHA loans represented just 14% of the home purchase loans to whites."

[171] Bradford, "Is FHA Limiting Choices for Home Finance?" 3.

[172] Bradford, "The Two Faces of FHA," 4.

[173] Bradford, ""Is FHA Limiting Choices for Home Finance?" 7.

[174] Gail Cincotta, Statement before the Subcommittee on Housing and Community Opportunity, April 1, 1998, 2.

[175] Susan Gaffney, *The Office of Inspector General's Perspective on Challenges Confronting HUD, Before the Senate Subcommittee on Housing and Transportation*, April 25, 2001, 9. Susan Gaffney, *Before the House Subcommittee on Housing and Community Opportunity*, March 20, 2001, 2. Susan Gaffney, *Before the United States Senate Permanent Committee on Governmental Affairs*, June 30, 2000, 1.

[176] Susan Gaffney, Inspector General Department of Housing and Urban Development*, Before the House Subcommittee on Housing and Community Opportunity*, March 20, 2001.

[177] Focer, 2.

[178] Ibid., 1. In response to O'Donnell's first story, former Baltimore Mayor Kurt L. Schmoke "said he didn't know anything about flipping in the city and that if it were a crisis, "It's been a quiet crisis."

[179] Ibid., 6.

[180] "Mayor O'Malley Testified Against Predatory Lending; City Get $5 Million to Flight Flipping," Office of the Mayor, Baltimore, May 11, 2001.

[181] "Housing Fraud Initiative," HUD Office of Inspector General Semi-annual Report to Congress, September 30, 2001 <www.hud.gov/oig/oigindex.html>.

[182] Kemba Johnson, "Empty Promises," *City Limits*, January 2001, 2.

[183] Johnson, "Loan Injustice," 1. The 203(k) program is "intended to promote the purchase and renovation of decrepit buildings in low-income neighborhoods."

[184] John C. Weicher, *The 203(k) Program*, Statement before the House Committee on Financial Services Subcommittee on Oversight and Investigations, New York, September 10, 2001, 2.

[185] Ibid. "FHA has a 14 percent serious default rate on 203(k) loans, compared to a 2 percent on the basic 203(b) home mortgage insurance. (Serious defaults are defined as 90-day delinquencies.) The insurance claim rate is about 4.2 percent on 203(k), compared to 0.6 percent on 203(b). The claim rate on 203(k) loans held by non-profits is significantly higher—10.2 percent."

[186] Mimi Y. Lee, District Inspector General for Audit, "Nonprofit Participation in HUD Single Family Programs," Audit Report 2002-SF-0001, November 5, 2001.

[187] Lee, iii.

[188] Ibid.

[189] Jocelyn Stewart, "Federal Housing Program on Hold," *Los Angeles Times*, April 6, 2002, B:1.

[190] GAO, Single Family Housing: Better Strategic Human Capital Management Needed at HUD's Homeownership Centers, July 2001, 1.

[191] Statement of Susan Gaffney, Inspector General Before the Subcommittee on Housing and Community Opportunity, House of Representatives, Concerning Single Family Housing and the Federal Housing Administration, Wednesday, April 1, 1998.

[192]HUD's contracts are with: InTown Management Group, Golden Feather Realty Services, First Preston Management, Southeast Alliance of Foreclosure Specialists, Citiwest, New England, PEMCO, Michaelson, Connor & Boul.

[193] *Single-Family Property Disposition Program*, Audit Report, September 28, 2000, iii.

[194] Ibid.

[195] Ibid.

[196] Ibid.

[197] Ibid.

[198] Ibid.

[199] Ibid., iv.

[200] Ibid., iii.

[201] GAO, *Single-Family Housing: Better Strategic Human Capital Management Needed at HUD's Homeownership Centers*, July 2001, 25.

[202] Ibid., 28.

[203] *Single-family housing: Stronger Oversight of FHA Lenders Could Reduce HUD's Insurance Risk*, GAO, June 29, 2000, 3.
[204] Ibid., 3-4.
[205] Ibid., 4-5.
[206] Ibid., 7.
[207] Ibid..
[208] Ibid., 8.
[209] Ibid.
[210] Edward Soja*,* *Postmodern Geographies* (London: Verso, 1989), 193.
[211] Calvin Bradford, "Is FHA Limiting Choices for Home Finance?"
[212] Weiss, 155.
[213] Boyer, 12.
[214] Neighborhood Early Warning Watch <https://entp.hud.gov/sfnw/pulic/>. Between March 1, 2000 and February 28, 2002 HUD had reported only 322 current defaults. In Los Angeles County there were 175,855 FHA-insured loan as of 4/24/02. Of those FHA-insured loans, 7,968 were in default, this is equivalent to a default rate of 4.531 percent (Handbook HUD-4330.4).
[215] "Hundred of Cases Under Investigation, Property Flips Main Focus," *Mortgage Fraud Alert* (Washington D.C.: Mortgage Bankers Association of America, August 11, 2000) <www.mbaa.org/alerts/2000/mf_0811.html>.
[216] Thom Mrozek, Public Affairs Officer, "Dozens Charged in Numerous Mortgage Scams Involving $110 Million in Fraudulent Loans," December 15, 1999 <www.usdoj.gov/usao/cac/pr/259.htm>.
[217] For a complete list of cases see the HUD Office of Inspector General's Semiannual Report to Congress as of September 30, 2001.
[218] Ibid.
[219] Cathy Klump, national lead organizer at NTIC, interview, April 26, 2002.
[220] Carolyn Aldana & Gary Dymski, "Urban Sprawl, Racial Separation, and Federal Housing Policy in Southern California," Up Against the Sprawl, ed. Jennifer Wolch, Manuel Pastor, Enrico Pacelli, & Peter Dreier (University of Minnesota Press, 2003), 18.
[221] Ibid.
[222] Johnson, "Loan Injustice," 8. Cited from Former Inspector General Gaffney's written statement in the Office's March 2000 Semiannual Report to Congress.
[223] Roger E. Niesen, Acting District Inspector General for Audit, Internal Audit-Single Family Housing: Los Angeles Area Office and Santa Ana Homeownership Center, Department of Housing and Urban Development, Office of the Inspector General, April 6, 2000, 2.
[224] Glenn S. Warner, District Inspector General for Audit, Limited Review—REO Division Operations, Febrary 10, 2000, 1.
[225] Sun Real Estate Editor, "Ga. Firm gains HUD contract," *The Baltimore Sun*, February 7, 1999, 1M.
[226] Ibid.
[227] Robin Urevich, "HUD Evictions," KPCC Los Angeles, November 21, 2001.
[228] Tai Glenn, lawyer at LAFLA, interview, April 3, 2002.
[229] Urevich.
[230] Tai Glenn, lawyer at LAFLA, interview, April 29, 2002.
[231] Ibid.
[232] David Rusk, *Inside Game/Outside Game* (Washington D.C.: Brookings Institution Press, 1999), 326.
[233] Ibid.
[234] Boyer, 15.
[235] Cincotta et al., *The Devil's*.
[236] Ibid.
[237] Kathryn Wallace, "Home Cheat Home," *Mother Jones Magazine*, July/August 2000, 3.
[238] Ibid.
[239] Ibid., 4.
[240] Cincotta et al., *The Devil's*.

Works Cited

Aldana, Carolyn & Gary Dymski. "Urban Sprawl, Racial Separation, and Federal Housing Policy in Southern California," *Up Against the Sprawl*, ed. Jennifer Wolch, Manuel Pastor, Enrico Pacelli, & Peter Dreier. University of Minnesota Press, 2003.

Boger, John Charles. "Race and the American City: The Kerner Commission Report in Retrospect," *Race, Poverty, and American Cities*, ed. John Charles Boger & Judith Welch Wegner. Chapel Hill: The University of North Carolina Press, 1996.

Boyer, Brian. *Cities Destroyed for Cash: The FHA Scandal at HUD*. Chicago: Follett Publishing Company, 1973.

Bradford, Calvin. "Financing Homeownerhsip," *Urban Affairs Quarterly* 14(3).

---. "Is FHA Limiting Choices for Home Finance?: An Examination of Fair Housing Compliance." Subcommittee on Housing and Community Opportunity of the House Banking and Financial Services Committee, May 13, 1998.

---. *The Two Faces of FHA: A Case of Government Supported Discrimination Against Minority and Racially Changing Communities*. TheChicago Fair Housing Alliance, March 1998.

Caine, Paul. "Losing out on FHA." *Chicago Reporter*, May 1993, B-2.

Cincotta, Gail. Statement before the Subcommittee on Housing and Community Opportunity, April 1, 1998.

Cincotta, Gale, David Rose, and Liz Ryan. *The Devil's in the Details*. Chicago: National Training and Information Center, October 1997.

Dreier, Peter. "Labor's Love Lost? Rebuilding Unions' Involvement in Federal Housing Policy, *Housing Policy Debate* 11(2).

---. "Seeds of a bitter Harvey sown by private greed." *The Boston Globe*, December 29, 1991: A:12 & A:14.

Dreier, Peter, John Mollenkopf, & Todd Swanstrom. *Place Matter.* Kansas: University Press of Kansas, 2001.

Duany, Andres, Elizabeth Plater-Zyberk, & Jeff Speck. *Suburban Nation*. New York: North Point Press, 2000.

Esperdy, Gabrielle. *Modernizing Main Street: Everyday Architecture and the New Deal*. Ph.D. Dissertation. City University of New York, 1999.

Fishman, Robert. “The American Metropolis at Century’s End: Past and Future Influences,” *Housing Policy Debate*, 11(1).

Focer, Ada. “Flip, Flip, Flip, Flop: Mortgage Fraud and Property ‘Flipping’ Skew Low Income Housing Markets,” *Shelterforce Online*, September/October 2000 <www.nhi.org/online/issues/113/focer.html>.

Gaffney, Susan. *Concerning Single Family Housing and the Federal Housing Administration,* Subcommittee on Housing and Community Opportunity, House of Representatives, Wednesday, April 1, 1998.

---. Before the United States Senate Permanent Committee on Governmental Affairs, June 30, 2000.

---. Before the House Subcommittee on Housing and Community Opportunity, March 20, 2001.

---. *The Office of Inspector General’s Perspective on Challenges Confronting HUD,* Before the Senate Subcommittee on Housing and Transportation, April 25, 2001.

GAO. “Homeownership: FHA’s role in helping people obtain loans,” GAO/RCED-96 123 (August 1996).

---. *Single-Family Housing: Better Strategic Human Capital Management Needed at HUD’s Homeownership Centers*, July 2001.

---. *Single-family housing: Stronger Oversight of FHA Lenders Could Reduce HUD’s Insurance Risk*, June 29, 2000.

Glenn, Tai, lawyer at Legal Aid Foundation of Los Angeles, interview, April 3, 2002.

---. interview, April 29, 2002.

Glink, Ilyce R.“FHA fails to police lenders, says one consumer group,” *Real Estate Matters Syndicate*, <www.thinkglink.com/cfc254.htm>.

Gotham, Kevin Fox. “Racialization and the State: Housing Act of 1934 and the Creation of the Federal Housing Administration.” *Sociological Perspectives* 43(2).

---. “Separate and Unequal: The Housing Act of 1968 and HUD’s Section 235 Program.” *Sociological Forum* 15, no. 1 (March 2000).

---. "Urban Space, Restrictive Covenants and the Origins of Racial Residential Segregation in a US City, 1900-50," *International Journal of Urban and Regional Research* 24, no. 3 (September 2000).

Hanchett. Thomas. "The Other 'Subsidized Housing'," *Journal of Housing and Community Development* 58(1).

Harney, Kenneth. "FHA Polishes Tarnished Image as Watchdog for Borrowers," *The Baltimore Sun*, September 24, 2000, Real Estate, 1L.

Hays, R. Allen. *The Federal Government and Urban Housing*. New York: State University of New York Press, 1985.

Hirsch, Arnold R. "Choosing Segregation," *From Tenements to the Taylor Homes*, ed. John Bauman, Roger Biles, and Kristin M. Szylvian. Pennsylvania: Pennsylvania State University Press, 2000.

---. "Containment on the Home Front: Race and Federal Housing Policy from the New Deal to the Cold War." *Journal of Urban History* 26, no. 2 (January 2000).

"Housing Fraud Initiative," HUD Office of Inspector General Semi-annual Report to Congress, September 30, 2001 <www.hud.gov/oig/oigindex.html>.

"Hundred of Cases Under Investigation, Property Flips Main Focus," *Mortgage Fraud Alert*. Washington D.C.: Mortgage Bankers Association of America, August 11, 2000 <www.mbaa.org/alerts/2000/mf_0811.html>.

Jackson, Kenneth. *Crabgrass Frontier: The Suburbanization of the United States*. New York: Oxford University Press, 1985.

Johnson, Kemba. "Empty Promises," *City Limits*, January 2001.

---. "Loan Injustice," *City Limits*, February 2001.

Kandell, Marshal Jay. "Local Autonomy: Can LHA's Handle It?" *Journal of Housing and Community Development* 52, November/December 1995: 10-15.

Kelly, Barbara. *Expanding the American Dream: Building and Rebuilding Levittown*. New York: State University of New York, 1993.

Kershaw, Sarah. "Failing Mortgages Soar in New York." *New York Times*, March 27, 2002, A:1.

Klump, Cathy. National Lead Organizer at NTIC, interview, April 26, 2002.

Lauria, Mickey. “A New Model of Neighborhoods Change: Reconsidering the Role of White Flight.” *Housing Policy Debate* 9, no. 2 (1998).

Lee, Mimi Y. *Nonprofit Participation in HUD Single Family Programs.* Audit Report 2002-SF-0001, November 5, 2001.

Levine, Hillel & Lawerence Harmon. *The Death of an American Jewish Community*. New York: The Free Press, 1992.

Maggiano, Laurie, asset management and disposition at HUD, email correspondence December 14, 2001.

Massey, Douglas S. & Nancy A. Denton. *American Apartheid: Segregation and the Making of the Underclass*. Massachusetts: Harvard University Press, 1993.

“Mayor O’Malley Testified Against Predatory Lending; City Get $5 Million to Flight Flipping,” Office of the Mayor, Baltimore, May 11, 2001.

Mrozek, Thom. Public Affairs Officer, “Dozens Charged in Numerous Mortgage Scams Involving $110 Million in Fraudulent Loans,” December 15, 1999 <www.usdoj.gov/usao/cac/pr/259.htm>.

Neighborhood Early Warning Watch System <https://entp.hud.gov/sfnw/pulic/>.

Niesen, Roger E. Internal Audit-Single Family Housing: Los Angeles Area Office and Santa Ana Homeownership Center, Department of Housing and Urban Development, Office of the Inspector General, April 6, 2000.

O’Connor, Alice. “Swimming Against the Tide,” *Urban Problems and Community Development*. Washington D.C.: Brookings Institution Press, 1999.

Office of Policy Development and Research, HUD, *Assessing Problems of Default in Local Mortgage Markets*, ACCN-HUD11159, September/October 2001.

Palen, John J. *The Suburbs*. New York: McGraw-Hill, Inc, 1995.

Polikoff, Alexander. *Housing the Poor: The Case for Heroism*. Massachusetts: Ballinger Publishing Company, 1978.

powell, john a. “Fair Housing & Affordable Housing Crisis: Recommendations to the Millennial Housing Commission.”

Quadagno, Jill. *The Color of Welfare*. New York: Oxford University Press, 1994.

Roisman, Florence. “Redressing Racial Discrimination and Segregation in the FHA and VA Homeownership Program.” Prepared for the Conference on *Housing Opportunity, Civil Rights, and the Regional Agenda*, Washington D.C., November 16, 2001.

Rosenbaum, James E., Nancy Fishman, Alison Brett, & Patricia Meadan. “Can the Kerner Commission’s Housing Strategy Improve Employment, Education, and Social Integration for Low-Income Blacks?” *Race, Poverty, and American Cities*, ed. John Charles Boger & Judith Welch Wegner. Chapel Hill: The University of North Carolina Press, 1996.

Rusk, David. *Inside Game/Outside Game*. Washington D.C.: Brookings Institution Press, 1999.

Sichelman, Lew. “Higher FHA Loan Limits Aid Buyers,” *LA Times*, December 31, 2000, Home Edition: 3.

Single-Family Property Disposition Program, Audit Report, September 28, 2000.

Soja, Edward. *Postmodern Geographies*. London: Verso, 1989.

Stewart, Jocelyn. “Federal Housing Program on Hold.” *Los Angeles Times*, April 6, 2002, B:1.

Sugrue, Thomas J. *The Origins of the Urban Crisis: race and inequality in postwar Detroit.* New Jersey: Princeton University Press, 1996.

Sun Real Estate Editor, “Ga. Firm gains HUD contract.” *The Baltimore Sun*, February 7, 1999, 1M.

Urevich, Robin. “HUD Evictions.” KPCC Los Angeles, November 12, 2001.

U.S. Housing Market Conditions National Data <www.huduser.org/periodicals/ushmc/winter2001/nd_hf.html>.

Wallace, Kathryn. “Home Cheat Home.” *Mother Jones Magazine*, July/August 2000.

Waldie, D.J. *Holy Land*. New York: St. Martin’s Press, 1996.

Warner, Glenn S. District Inspector General for Audit, Limited Review—REO Division Operations, Febrary 10, 2000.

Weicher, John C. *The 203(k) Program*, Statement before the House Committee on Financial Services Subcommittee on Oversight and Investigations, New York, September 10, 2001.

Weiss, Marc A. *The Rise of the Community Builders*. New York: Columbia University Press, 1987.