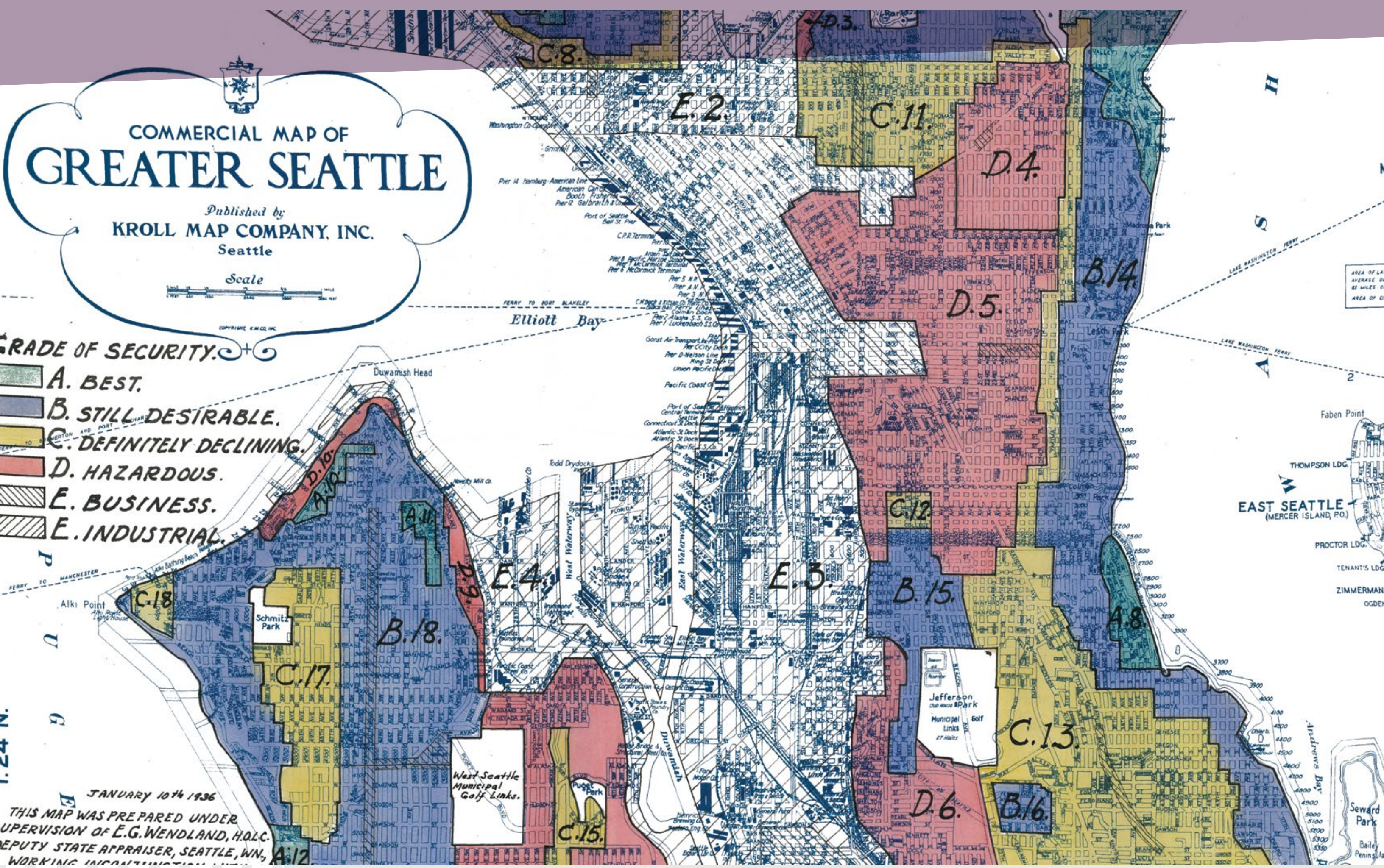
TEACHING UNVARNISHED

STUDENT ARTICLE 10

THE NEW DEAL:
GOVERNMENT-SPONSORED SEGREGATION



Courtesy of the National Archives and Mapping Inequality

WORDS TO KNOW

mortgage

down payment

Federal Housing Administration

redlining

Home Owners' Loan Corporation

New Deal

Great Depression

THINK BEFORE YOU READ

Have you ever wanted to buy something you didn't have enough money for? What did you do?

What are some ways people get enough money to buy a house?

Cover: Commercial Map of Greater Seattle Washington created for the Federal Housing Administration, 1936.
Courtesy of the National Archives and Mapping Inequality

THE HIGH COST OF HOUSING

In 1937, people line up to get food and clothing after a flood ruined their Louisville, Kentucky, neighborhood, while a billboard behind them celebrates America's high standard of living.
Courtesy of photo-fox/Alamy Stock Photo, photograph by Margaret Bourke-White, *The Louisville Flood*, 1937

Houses are expensive. Most people don't have enough money saved to pay the full price of a house in cash. Today, people can sometimes borrow the needed money from banks or other lenders. Banks give some buyers home **mortgage** loans (often just called "mortgages") that allow them to make a contract to buy a home and pay the bank back, one month at a time, over many years.

In the early 1900s, most Americans couldn't get a mortgage loan. The rules lenders set prevented a lot of people from getting a loan. Banks wanted borrowers to make a large **down payment** at the beginning of the loan, sometimes as much as 50% of the total cost. Also, they usually gave borrowers only 5 to 11 years to pay the loan back. Most people couldn't earn money that quickly.

In the 1930s, buying a home became even harder. From 1929 to World War II, America went through a period called the **Great Depression**. The stock market crashed in 1929. Banks and businesses failed. Many people lost their jobs and struggled to make ends meet. By 1933, more than half of all families with mortgages had lost their homes because they couldn't make their monthly payments.

That's what happened to a boy named Robert, who was about ten years old when the Great Depression struck. He and his family lived in a brick house with a big front porch, in a town that thrived on steel mills. Robert's father owned an insurance business. In the early 1930s, all the steel mills closed. The town plunged into poverty. Robert's father's business suffered. Things got worse when his father got sick and had to stop working. Robert's mother did not work outside of the home, and the family had no other source of income. They had to leave their home and go to the country to live on his grandfather's farm. Robert grew a garden and sold vegetables at a farmstand to earn money for the family.

THE GOVERNMENT STEPS IN

Millions of people were facing problems like the ones Robert and his family endured. To prevent more people from losing their homes, the United States government created the first government-sponsored lending agency, the **Home Owners' Loan Corporation (HOLC)**. The HOLC made emergency loans that helped people make their mortgage payments and gave them more time to pay back their loan.

Soon after, the **Federal Housing Administration (FHA)** was created to make it easier to get a home loan. The FHA guaranteed that if buyers found themselves unable to pay their loans, the government would make up the loss. This promise made banks more confident about lending. FHA loans required only a 10 to 20% down payment. That made home buying available to people with less cash on hand. Homeownership was becoming possible for more Americans than ever.

UNEQUAL TREATMENT

Not everyone could take advantage of the new loan programs. To reduce the risk of losing public money, the FHA made strict rules about where banks could make loans. Racist ideas were written into those rules. The FHA would not back loans in neighborhoods that they deemed high risk because of the people who lived there or nearby. This included Black, Asian, immigrant, and racially mixed neighborhoods.

Sometimes, banks demanded even more racial separation. In Detroit, homebuilders made a six-foot tall, half-mile-long concrete wall to separate a new White development from an existing Black one. That "segregation wall" still stands today.

The Birwood Wall (also called the Eight Mile Wall) in Detroit, Michigan, is a half-mile long, six-foot high, and one-foot thick wall built to separate a new Whites-only housing development from a Black neighborhood. 1941.
Courtesy of the Library of Congress

COLOR-CODED CITIES

Beginning in 1935, the HOLC drew color-coded maps to guide mortgage lending for over 200 cities. If the HOLC thought a neighborhood was a good place to lend money, it was colored green and given a grade of A. If the HOLC agents thought a neighborhood was too risky to invest in, it was rated D and shown in red. This process was nicknamed "**redlining**." The rules of redlining were based in part on race, ethnicity, or religion. Almost all neighborhoods with Black residents were automatically shown in red. HOLC agents also redlined neighborhoods with Jewish, Italian, or Polish immigrants or poor Whites. People in redlined neighborhoods were almost never able to get mortgages for single-family homes.

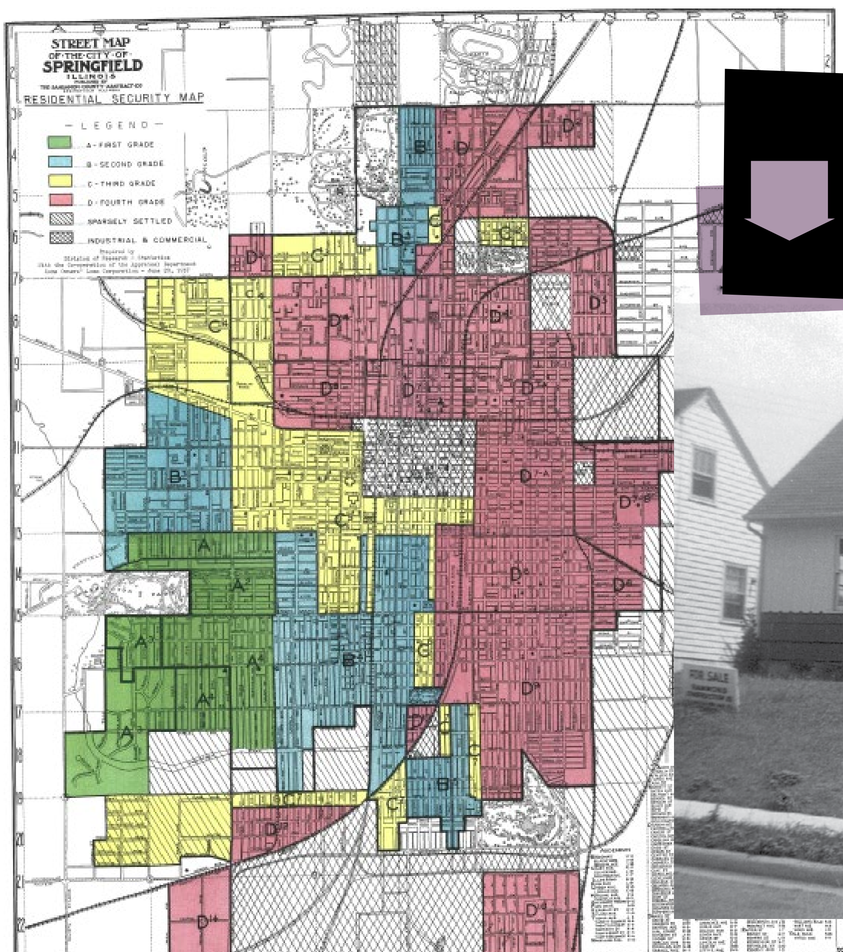
Civil rights activists saw the racial bias in these loan programs. Investigations by the National Association for the Advancement of Colored People (NAACP) and Black newspapers found that the loan programs were designed to segregate and discriminate. The NAACP and other organizations fought redlining in numerous court cases.

LONG-LASTING EFFECTS

These **New Deal** programs were meant to help the nation avoid a greater credit crisis and expand homeownership. But they ended up helping mostly White homeowners in middle- and upper-class neighborhoods. Without access to the new FHA-insured loans, people in redlined areas had to settle for renting their home and being exploited by landlords and developers.

White banks and landlords invested less in communities of color. Money to rebuild and repair was not made equally available. With few funds flowing in, redlined neighborhoods were left to decline. Redlining was made illegal in 1968, but neighborhoods are still suffering from its effects. In neighborhoods that were once redlined, housing values are lower. To this day, redlined neighborhoods have more poverty, more environmental dangers, more health problems, and shorter life expectancies.

FHA loan terms were part of the advertising for this newly built, 2-bedroom Ohio home. The listing read “completely decorated and ready for occupancy. Large FHA loan available. Take advantage of the new credit terms and investigate this A-1 home.” Courtesy of Midpointe Library System and Digital Public Library of America



Residential security map for Springfield, Illinois, 1937. Courtesy of the National Archives and Mapping Inequality

QUESTIONS TO CONSIDER

- What could the government have done in the 1930s to ensure that everyone had equal access to credit for home loans?
- Redlining was made illegal more than 50 years ago. Why do you think it still has effects?
- What happens when there is money available to invest in neighborhood housing? What happens when there isn't?
- Should the government get involved in lending people money to buy homes? Why or why not?