Insuring Inequality: The Role of the Federal Housing Administration in the Urban Ghettoization of African Americans

John Kimble

A reexamination of Federal Housing Administration (FHA) documents reveals that the agency played a more direct role in the ghettoization of African Americans than previous scholarship has established. The FHA went far beyond merely approving of racial discrimination, and exploring the extent to which it did so is crucial to understanding the origins of urban racial inequality in America. Agency publications, many of them largely passed over by historians, called unequivocally for the containment of African Americans in the older residential neighborhoods where they were most likely to settle after migrating to the city. The agency then disguised its leadership in advancing a national segregationist agenda by deflecting blame onto the private market for policies that it had standardized and mandated. For nearly a decade after the Supreme Court invalidated one of its core racial programs, the FHA resisted providing greater opportunities for African Americans in the housing market.

INTRODUCTION

“No agency of the United States Government has had a more pervasive and powerful impact on the American people over the past half-century...”

John Kimble is the New Orleans Public Policy Director for the Louisiana Association of Nonprofit Organizations. This article was originally written as his undergraduate thesis in Princeton University’s History Department, where it was awarded the C. O. Joline Prize for Best American History Thesis in 2003 and the Law and Society Association’s Best Undergraduate Paper Prize in 2004. The author benefited greatly from the Lawrence Stone Research Fellowship, which supported his research. He would like to offer his deepest thanks to Professor Dirk Hartog at Princeton for his academic as well as personal support and mentoring. The author would also like to dedicate this piece to his family and to all New Orleanians far and wide—may we learn these painful lessons from the past that we may build a better future. To contact the author, please e-mail him at jgkimble@gmail.com.
than the Federal Housing Administration" (Jackson 1985, 203). At the core of this bold assertion, made by historian Kenneth Jackson, lies the story of how the federal government encouraged the rapid suburbanization and segregation of metropolitan America through intense involvement in the national mortgage market. Though largely omitted from popular narratives of civil rights history, this story has been well documented by a number of urban historians. Jackson’s *Crabgrass Frontier*, along with the works of Arnold Hirsch, Thomas Sugrue, and others have shed light on the FHA’s role in institutionalizing racial inequality in the United States.

Yet crucial elements of the story remain untold. Scholarship, to date, has focused on a limited set of FHA policies that discouraged mortgage lenders from providing home loans to African Americans or anyone living in racially integrated neighborhoods during the 1930s and 1940s. Limitations on primary source evidence have restricted our understanding of the agency’s motivations for doing so and its understanding of the government’s role in social engineering. The dearth of direct evidence has constrained scholars’ ability to declare with certainty whether the FHA merely condoned existing racist practices in the market or in fact sought to expand such biases as a primary goal of its operation.

I will demonstrate that the FHA went far beyond merely acquiescing to racial discrimination, and that it in fact explicitly intended to isolate black urban neighborhoods to a greater degree than has been previously established in FHA scholarship. Passages in FHA underwriting manuals and publications that have been largely overlooked by historians called unequivocally for the containment of African Americans in designated residential neighborhoods as part of a broader effort to establish stable, homogenous communities of white homeowners. Control over billions of dollars of mortgage insurance funds, desperately needed by ailing lending institutions during the 1930s and 1940s, enabled the agency to dictate national lending and planning practices to an unprecedented degree in the housing market’s history, with a power and scope that private institutions could have never achieved alone or even in concert.

I will also examine how the agency actively disguised its leadership in advancing a nationwide segregationist agenda by deflecting blame onto the private market for policies that it had standardized and mandated. Demonstrating the centrality of race to the FHA’s vision of the market illuminates a critical and often overlooked period of its history in which the agency resisted reforms thrust upon it by the civil rights movement in the late 1940s and 1950s. As the Supreme Court eroded its legal power to discriminate, the FHA disavowed any responsibility for discriminatory decisions made in the private market while persisting in supporting segregationist activity. The FHA’s ambiguous position in the real estate economy provided cover from the ideological conflict that overwhelmed other areas of federal
housing policy while simultaneously affording the agency vast influence over American society.¹

THE STATE OF THE FIELD

While a handful of scholars have highlighted the FHA's complicity in racial segregation in American cities, most have overlooked a substantial body of evidence illuminating the FHA's agenda and the evolution of its policies. Thomas Sugrue's *The Origin's of the Urban Crisis* offers an exceptional illustration of how various bodies of government, including the FHA, eroded the economic position of African Americans in Detroit. Yet while Sugrue identifies ways in which the FHA buttressed racist activity in the housing market, he neglects the important role the agency played in undermining civil rights reforms, focusing instead on how private agents in the market resisted those efforts (Sugrue 1996). Nathaniel Keith, in *Politics and the Housing Crisis since 1930*, provides a remarkable insider's analysis of the real estate lobby's influence on federal housing policy and politics. However, Keith largely ignores the racial policies of the FHA, focusing instead on conflict over race in public housing policy. His chronology of congressional housing debates does offer interested readers useful background on the broader context of the changing national political climate (Keith 1973).

In “Choosing Segregation,” Arnold Hirsch tackles the issue of FHA resistance to racial integration. He correctly concludes that “a conscious, deliberate choice for segregation lay at the heart of national policy” (Hirsch 2000a, 207) and that “political resistance, bureaucratic foot-dragging, and institutional inertia” subverted attempts to reform that agenda (211). This article seeks to expand the direct evidence of internal bureaucratic resistance to ground Hirsch’s insightful analysis on firmer documentary footing.

Finally, Kenneth Jackson’s groundbreaking *Crabgrass Frontier*, whose research provides the basis for most of the field's analysis, constructs a “ground-up” narrative of the ghettoization process in which the FHA acquiesced to forms of racial bias already practiced within the housing market. He concludes that the FHA “put its seal of approval on ethnic and racial discrimination and developed policies which had the result of practical abandonment of large sections of older, industrial cities” (Jackson 1985, 217). Jackson’s analysis of the FHA, however pioneering, remains incomplete, primarily because he neglects crucial evidence that suggests a significantly more top-down interpretation of how segregation evolved in America. In reconstructing FHA policy, he claims that neither “the 1938 nor the 1947 FHA Underwriting Manual specifically endorsed ‘racial’ covenants [private, ¹ For an analysis of racial policies in other federal agencies, which goes beyond the scope of this article, interested readers should read Irons (1982) and Sitkoff (1978).
contractual agreements requiring homes to be sold only to white buyers], but in the context of other directives and comments, there can be little doubt that racial covenants were deemed desirable by FHA appraisers" (365). Not only did the FHA officially endorse such covenants (as others scholars have demonstrated), the agency's *Underwriting Manual* essentially mandated these covenants as a prerequisite for properties receiving FHA mortgage insurance (Danielson 1976, 204). The *Manual* went so far as to include an example of a restrictive covenant that would conform to FHA standards, primary among which was a prohibition against selling to a buyer of a different race than the seller. Numerous other agency publications characterized restrictive covenants as vital tools of property protection that should be used to safeguard all new suburban developments from black encroachment (FHA 1938a, 934, 980(1), (3), and (4); Mott 1939, 14–16, 22–23). The intent of this article is to move behind the technocratic facade the agency presented to the world to examine how it articulated its position in the economy and its racial vision in its own words.

**ORIGINS OF THE FHA**

The 1934 National Housing Act, which chartered the FHA, emerged as a collaborative effort between the federal government and private financial and housing industry leaders seeking to stymie the economic hemorrhaging initiated by the stock market crash of 1929. The housing industry occupied a central position among the country's economic woes. The government convened a National Emergency Council in 1934 to study the extent of the housing market's decline; the results were grim. New housing construction was occurring at 10 percent of pre-Depression levels (U.S. National Committee on Urban Problems 1968, 84). The ranks of the unemployed in the home-building industry and affiliated industries swelled into the millions, while foreclosures on homes reached epidemic proportions. By 1933, 50 percent of the nation's mortgages were in default (FHA 1954a, pt. I, sec. A, 1).

The passage of the National Housing Act in 1934 inaugurated a vigorously interventionist approach to the crisis in which the federal government could orchestrate private market activity without acting as a mortgage lender. The act created the Federal Housing Administration and empowered it to coordinate several mortgage market reforms, chief among which was to insure lenders against any loss on loans made for purchasing homes. As the insurer,

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2. Danielson's work centers on the 1936 *Underwriting Manual*. The 1938 edition, which he does not discuss, however, contains significant revisions that demonstrate more explicitly segregationist intent.

3. See Keith (1973) for an analysis of the influence of the real estate lobby on federal housing policy during this time period.
the FHA could dictate the range of acceptable, insurable terms and conditions of home lending. The mortgage lending industry, paralyzed by the Depression economy, eagerly embraced federal guarantees of home loans and allowed the FHA to transform the way the industry did business.

Unresolved debates over the FHA’s exact economic and social role during the passage of the National Housing Act left the agency with tremendous administrative leeway in developing its policy agenda. During the first three decades of its existence, the agency strategically exploited this position to the benefit of white homeowners at the expense of African Americans. The FHA, however, repeatedly characterized itself as merely “an aid and a stimulant to private industry,” highlighting the fact that participation in its insurance program was entirely voluntary (Ibid., 3, 4; FHA 1936a, 3; FHA 1936b, 2, 3; FHA 1934d, 3). Nevertheless, by pointing to its legislative mandate, the FHA frequently legitimated intrusive intervention in the work of private lenders, builders, and even city government officials.

**RACE AND RISK IN THE FHA**

The FHA viewed metropolitan growth with “black and white” vision in which race trumped all other factors in predicting the trajectory of a city and its neighborhoods. The passage of the National Housing Act in 1934 coincided with a period of significant African American migration into urban areas. The FHA’s racialized vision played a crucial role in shaping changes in the supply for urban housing engendered by this demographic shift. As the government body responsible for both insuring the market’s operation and ensuring its growth, the FHA sought to eliminate all elements of risk that could potentially destabilize real estate development. By equating African Americans with risk, the FHA produced a lending drought in neighborhoods of mixed racial composition and directed the rain of capital to fall exclusively over homogenous, white suburbs.

Before exploring the specific dimensions of the FHA’s risk-assessment program, it is crucial to have some understanding of its guiding ideology. Homer Hoyt, the FHA’s principal housing economist and a preeminent scholar of urban sociology at the University of Chicago, led the agency’s movement to construct a “scientific” understanding of how metropolitan real estate markets developed amid the interplay of economic, geographic, and social forces. In 1936, Hoyt observed, “While the sprawling breadths of many of our cities give the casual observer the impression that, like Topsy [of *Uncle Tom’s Cabin*], they ‘just grewed,’ students of city development have come to believe that urban growth proceeds, as a rule, according to certain general

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4. For a Marxist analysis of the University of Chicago School of Sociology leading up to this time, see Schwendinger and Schwendinger (1974).
principles” (Hoyt 1936, 8). These principles included “the absence of inharmonious racial groups" as a central component of “preferred mortgage risk” (10).

In 1939, Hoyt, on behalf of the FHA, compiled extensive data collected by the agency and its predecessors into a comprehensive monograph outlining the FHA’s core principles titled, “The Structure and Growth of Residential Neighborhoods in American Cities.” It presented a new methodology for real estate valuation with the express intention of addressing the “significant problem facing American cities,” namely, “the segregation of sectors populated by different races” (FHA 1939a, 62). While looking favorably on the eventual integration of white immigrants into “the common mass of the urban organism” (ibid.), the report emphasized the importance of maintaining racial segregation. “In a country settled largely by the white race, such members of other races, of course, have not been absorbed. Intermarriage between members of different races exists but is frowned upon by almost all peoples of any color” (ibid.). With this official proclamation, the FHA constructed “blackness” into a unique financial class, erecting race as an insurmountable barrier for African Americans on the road to integration into the financial mainstream. For if African Americans could not join “the common mass of the urban organism," where were they to go?

Applying this perspective on miscegenation to real estate, the property values in neighborhoods of entirely homogenous racial composition behaved in ways the FHA believed it could understand and predict. “It is in the twilight zone, where members of different races live together that racial mixtures tend to have a depressing effect upon land values” (ibid.). Significantly, Hoyt characterized this assertion as “a mere truism” (ibid.) that required no statistical evidence.

Ironically, a study (the first of its kind to be reviewed by the FHA), performed by an economist in San Francisco and submitted to the FHA in the early 1950s, concluded that the introduction of black residents into predominantly white neighborhoods in the San Francisco Bay Area had no statistically significant impact on the values of the neighborhood’s properties. In some neighborhoods no change occurred, others experienced a small decline in property values, and others experienced an inflation of value as white homeowners charged black homebuyers higher prices as a premium for being allowed to live in white neighborhoods (Laurenti 1952).

For the first two decades of its operation, however, the FHA made no effort to verify that racial integration uniformly depressed property values or to find evidence for their conclusion that African Americans could never assimilate into white areas of the metropolis in the way that second and third generation white immigrants did. Acting on this preconception, the FHA mounted an expansive project to determine “the exact extent of the concentration or dispersion of nonwhite peoples in American cities” (FHA 1939a, 62) to monitor the perceived threat of what agency officials frequently
referred to as an "invasion" of African Americans into white neighborhoods (ibid.).

To do this, the FHA gathered extensive data on the racial composition of neighborhoods and instructed financial institutions not to lend to households in integrated or predominantly African American areas. The agency then mobilized a series of legal and other blockades to contain those neighborhoods to prevent them from affecting FHA-insured, white, primarily suburban, residential areas. The FHA Underwriting Manual issued the following edict to lenders.

Areas surrounding a location are investigated to determine whether incompatible racial and social groups are present, for the purpose of making a prediction regarding the probability of the location being invaded by such groups. If a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes. A change in social or racial occupancy generally contributes to instability and a decline in values (FHA 1938a, sec. 937).

This investigation involved the creation of "City Survey Files," which contained real estate maps prepared by the FHA's predecessor, the Home Owners Loan Corporation. The agency's Underwriting Manual required lenders to keep on file copies of the two most important types of maps, the Residential Security Maps and the Real Property Inventories, in addition to the corresponding files for population statistics and other data (ibid., Secs. 1847–50, 1864–65). Residential Security Maps color-coded neighborhoods using racial composition as a primary indicator of their acceptability as candidates for mortgage investment. The maps graded the neighborhoods on a scale from "A" to "D," with "A" being most desirable and a "D" grade ensuring rejection.

The standardized "Area Description" forms accompanying these maps required appraisers to record the percentages of "Negro" and "foreign born" residents in a section titled "Inhabitants" and further required an assessment of the threat of "Infiltration of" these two groups (HOLC 1937). As an example, the "Area Description" form for Trenton, New Jersey's "A" neighborhoods touted them as "Trenton's finest residential section," and the "Inhabitants" section of the form identified its residents as almost exclusively "executives and businessmen," with no Negro or foreign-born residents and no threat of "infiltration" by either group (ibid., A-1 Area Description). Outside of the city, a suburban residential development in Hamilton Township received a "B" grade. The area description recorded that the neighborhood had no Negro or foreign-born inhabitants; was composed predominantly of middle-class, skilled workers; and was experiencing only the "infiltration of [a] better class of foreign born" (ibid., B-9 Area Description). A nearby neighborhood within the city's boundaries, whose inhabitants were 10 percent Negro, 65 percent foreign-born, and that was being "infiltrated" by a "mixed foreign"
population, received a “C” rating (ibid., C-19 Area Description). In close proximity, stretching along the Delaware, South Trenton, one of the city’s oldest residential communities received a “D” grade. In addition to being home to “factory hands and laborers,” the neighborhood’s composition was listed as 15 percent Negro and 60 percent foreign-born and “mixed,” percentages that were increasing due to the “infiltration” of both groups (ibid., D-4 Area Description).

Real Property Inventories, performed by the Civil Works Administration for the FHA, collected substantially more information than Residential Security Maps, including housing amenities, condition, density, use, ownership rates, and racial composition, down to the individual block level for two hundred and fifty cities across America (Taylor 1937, 8). An instruction manual for real estate inventory enumerators described these data as “essential to the Federal Housing Administration in the development of its program” (FHA 1934c, 1). It proclaimed, “Everyone who participates in this [data collection] project should feel that his work is part of a great and coordinated drive designed to remove serious evils that have crept into our national life” (1). Racial demographic information comprised over 50 percent of the data collected by the FHA’s Division of Economics and Statistics, dwarfing all other factors that the division researched.5 The preponderance of this data, especially in light of the agency’s warning against miscegenation, demonstrates that the FHA viewed racial integration as chief among those “serious evils” afflicting the nation.

Careful comparison of the Residential Security Maps to the Real Property Inventories demonstrates the centrality of race in the assignment of security grades. An analysis of the data presented by the maps of Trenton demonstrates that racial composition was the only factor that ensured a “D” rating and that could override a neighborhood’s positive attributes relative to other areas of the city. Trenton’s Real Property Inventory reveals that African Americans often did not live on the blocks with the fewest amenities and in the worst condition, but rather those blocks with slightly better housing conditions whose prices would have been kept low by their proximity to more dilapidated areas (FHA 1937). Moreover, Chambersburg, Trenton’s all white, predominantly Italian and Polish immigrant neighborhood adjacent to the “D”-graded South Trenton neighborhood, received “C” and “B” ratings, even though Chambersburg contained a substantial number of blocks with some of the highest rates of overcrowding, the lowest rates of owner-occupancy, and housing in the poorest condition. The FHA gave “D” grades to all of Trenton’s other neighborhoods with higher percentages of African

5. This data, housed in dozens of graphs and charts, can be found in the FHA Division of Economics and Statistics Graphs Summarizing Characteristics of Selected Urban Areas. RG 31, Cartographies Division.
American residents, even though these neighborhoods, which bordered the city’s central business district, frequently commanded higher rental values than many areas of predominantly white Chambersburg (FHA 1937).

For a mortgage to be approved for insurance, the FHA required banks to submit reports from the lender on the borrower’s character and financial position, as well as from an architectural inspector, a risk examiner, and a valuator. The “Report of Valuator” form focused on the location of the property under consideration and was required for every insurance application nationwide. The form asked the valuator, “Are inharmonious racial or social groups present in the neighborhood? If not, is there any danger of infiltration of such groups? When?” (FHA 1934e, 2). To answer these questions, a valuator would refer to an “Area Description” form’s record of the percentages of “Negro” and “foreign born” residents and the surveyor’s assessment of the threat of infiltration of either group. This practice allowed the FHA to steer the current of credit, vital for the health and growth of any community, exclusively into middle- and upper-class white neighborhoods. It also ensured that integrated neighborhoods and neighborhoods of color would have virtually no access to mainstream sources of financial capital and the attendant benefits such resources would produce.

In 1938, L. Elden Smith, director of a Los Angeles bank’s research department, wrote in the FHA’s monthly journal, Insured Mortgage Portfolio, “The Federal Housing Administration has been a pioneer in placing emphasis on the neighborhood influence, as is amply demonstrated by the weight given this factor in the FHA risk-rating system” (Smith 1938, 22). He noted that “until recently, few loan men had learned to think in terms of the future of neighborhoods” (22). An area’s future stability assumed great importance in the FHA system, because the changes made by the agency extending the life of a loan “from an average of 3 to as long as 20 years, and the marked increase in loan-to-value ratios . . . greatly added to the importance of such long-term elements of risk as neighborhood deterioration” (ibid.). Smith underscored that the “incursion of racial elements” most definitively evidenced such deterioration (ibid.). “Hence, it is desirable for large lenders to follow racial movements with considerable care” (ibid.). As demonstrated above, the FHA, in fact mandated such care.

The User’s Guide to Ghettoization

Beyond simply denying African American neighborhoods access to home purchase and improvement finance, the FHA, as articulated in the

6. For an in-depth discussion of the subjectivity inherent in the evaluation of individual borrowers, see Freund (1999).
Underwriting Manual and other key technical bulletins, sought actively to contain those neighborhoods. The agency did this to prevent them from encroaching on and destabilizing emerging, FHA-insured, white suburban developments. In 1938, the year of the Underwriting Manual's publication, a black newspaper in Los Angeles, wrote that Americans

who have been protesting Hitler's despicable plan to herd German Jews into ghettos will be surprised to learn that their own government has been busily planning ghettos for American Negroes through the Federal Housing Agency [sic]. . . . The American plan lacks the forthright and brutal frankness of Hitler's plan, but in the long run it is calculated to be as effective. (Hirsch 2000b, 158)

While ghettoization was not foreign to American public policy, it was easy to dismiss such dramatic statements as apocryphal. However, statements in the FHA's Underwriting Manual, its monthly journal, and policy circulars of the Division of Land Planning, offered substantial evidence that this project was central to the FHA Weltanschaung. In 1937, the FHA's Insured Mortgage Portfolio ran an article written by an FHA state director titled “City Growth and Population Patterns,” which detailed the threat of an “invasion” of desirable neighborhoods by lower-status residents (Magee 1937). Using Harlem as an example of what can go wrong in urban development, the author observed, “When the first Negroes made their appearance in the area, it was inhabited by whites, predominantly of Germanic stock. When the Negroes began to invade the area, the whites withdrew until the Negroes were in complete control” (6). The use here, and throughout FHA literature, of the militarized language of “invasion,” “infiltration,” and “control” cast African Americans in the role of enemy combatants, which helped justify the federal government's draconian response to African Americans' employment-driven migration into urban areas.

Generalizing this story into a real estate “science” and making heavy use of ecological terminology, the FHA official asserted,

From the point of view of a mortgage lender and the valuator, if the ecological divisions [in a city] remained stable, the problem [of mortgage risk] would be minimized. Because the city population is to a greater or lesser degree mobile, however, there is a tendency toward a friction between areas, with the frequent result that one group becomes absorbed by a dominant group or is displaced by an invading group. (Ibid.)

This negative perspective on geographic mobility laid the groundwork for policies enforcing stability in residential patterns as much as possible.

Appropriating Darwinist vocabulary, the FHA official termed urban communities “ecological units whose inhabitants are drawn to the areas
by social forces of competition and selection” (ibid.). He went on to declare:

This tendency of the population of a city to divide itself into a number of subordinate communities has been termed “segregation.” Because the areas in which the group settles are the outgrowth of a natural tendency, rather than any plan or design, the areas are termed “natural areas.” . . . Such areas have marked characteristics based upon racial interest, economic status, culture, or other like features. . . . From a sociological standpoint, this type of segregation is considered neither undesirable nor unwholesome. As a matter of fact, the tendency to form groups enables a great multitude of people, with different ideas and cultures, harmoniously to make up a single city community. (Ibid.)

With statements such as these, the FHA sought to establish residential segregation as a social good that occurred naturally, even while the agency designed a plan to ensure such racial division.

The Underwriting Manual prescribed a set of methods to reduce the possibility of “invasion” by reducing the mobility of undesirable uses and racial groups. In a section innocuously titled “natural Physical Protection,” the manual recommended a variety of ways that “natural or artificial barriers” could protect desirable neighborhoods from “the infiltration of business and industrial uses, lower class occupancy, and inharmonious racial groups” (FHA 1938a, sec. 935). If the area did not afford natural geographic protection, such as “hills, ravines, and other peculiarities of topography,” the FHA recommended that a “high speed traffic artery or a wide street parkway may prevent the expansion” of undesirable entities into adjacent areas (ibid.). The FHA thus gave federal sponsorship to the notion of living “on the wrong side of the tracks.”

Mere physical barriers limiting the expansion of African American neighborhoods did not offer sufficient protection required by FHA underwriters to ensure stability in the racial composition of adjacent areas. To ensure this stability, the agency mobilized powerful legal blockades that would exclude African Americans from white neighborhoods. The agency did this both directly by requiring racial deed restrictions, and indirectly by promoting zoning laws that would limit the access of lower income groups to insured neighborhoods.

The FHA created the Division of Land Planning to spearhead this aspect of its program. A report titled “Progress in Subdivision Planning,” written in 1938, observed that this division of the agency served “to aid land owners and developers in producing subdivisions which would provide eligible locations for homes financed under the [FHA’s] Insured Mortgage System”

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7. This idea was pioneered by the FHA’s principal housing economist Homer Hoyt, along with Roger Parks and others at the University of Chicago’s sociology department.
To become eligible, a neighborhood required substantial planning, which the FHA defined as “the process of adapting a specific area of land to the economic, social, and physical factors which determine its ultimate value for residential and allied purposes . . . [and thus] creating and maintaining the quality of a neighborhood” (FHA 1938c, 1). The Division of Land Planning involved itself intensively in the process of creating value in private real estate, actively orchestrating the development and characteristics of new, almost exclusively suburban neighborhoods. The FHA assured developers that following the agency’s planning guidelines would provide security to new neighborhoods. It emphasized that “with investment secure, mortgage money will flow at attractive rates” (2). This control over affordable financing allowed the FHA to direct the physical and social planning of suburban neighborhoods in America during their formative stages of growth.

Zoning offered the first level of protection by providing a means for controlling land use in a given location while coordinating land uses throughout a municipality. The FHA believed that this form of control would diminish the possibility of undesired encroachment of “inharmonious uses,” which could hasten changes in neighborhood composition. Seward H. Mott, the director of the FHA’s Division of Land Planning, justified this circumscription of private property rights by pointing to the National Housing Act’s demand for economically sound mortgage investments. Since the neighborhood “has been accorded considerably greater attention under the [FHAs] Insured Mortgage System than traditional mortgage lending practice gave it,” Mott argued that protective measures guarding against neighborhood destabilization “must be deliberately planned, for stable and attractive neighborhoods do not just happen” (Mott 1939, 14). Such commentary reflected the FHA’s conception of its role as a creator, not just an insurer, of neighborhood value. However, it also contradicted claims made elsewhere by the FHA that neighborhood segregation occurred entirely without “plan or design” (Magee 1937, 6).

While zoning afforded neighborhoods substantial protection from change, due to an earlier Supreme Court decision striking down racial zoning, such barriers could prove porous in barring African American residents. To shore up this risk, the FHA promoted stronger, more direct measures to prevent integration. The Underwriting Manual asserted that restrictive covenants attached to deeds on individual homes would “prove more effective than a zoning ordinance in providing protection from adverse influences” (FHA 1938a, sec. 934) because zoning regulations “are seldom complete

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8. FHA 1938c is an excellent source of information for anyone interested in American suburbanization. It recommends all of the elements of zoning that characterize suburbia today that are excoriated by the New Urbanists—exclusionary zoning, cul-de-sacs, a system-wide streets without curbs or sidewalks for easier automotive movement that feeds into a larger collector artery, and single-use zoning.

enough in and of themselves to assure a homogeneous and harmonious neighborhood” (ibid., sec. 980[2]). This language alluded directly to “inharmonious racial groups” and to the importance of maintaining racial homogeneity discussed frequently in other FHA publications. But the agency went beyond merely alluding to its support of segregation using coded language. The Manual concluded its discussion of the importance of restrictive covenants with a model covenant that mandated a “prohibition of the occupancy of properties except by the race for which they are intended” (ibid., sec. 980[3]g). In a striking demonstration of the psychology of white supremacy guiding this provision, the Manual linked this restriction of the home’s racial occupancy with a prohibition against renovating the property to add animal stables and pigpens (ibid., sec. 980[3]f).

The Manual and a number of other publications emphasized that racially restrictive covenants should cover “a period of at least twenty-five to thirty years” (ibid., sec. 980[3]; FHA 1938c 1, 33) and required deed restrictions to be “imposed as a blanket encumbrance against all lots in the subdivision” (FHA 1938a, sec. 934). The FHA believed that restrictions are “most effective . . . [when they] apply over a broad area” (ibid., sec. 980[1], [3]).10 The agency further mandated lenders and underwriters to review and record all restrictive covenants to ensure the efficacy and enforceability of their terms, because such “regulations are sometimes evaded through the sale of the property by metes and bounds” (ibid., sec. 980[6]). Unaware that in a decade the Supreme Court would cast these words in a new light, the Underwriting Manual pronounced, “It must be realized that deed restrictions, to be effective, must be enforced. In this respect they are like zoning ordinances. If there is a probability of voiding the deed restrictions through inadequate enforcement of their provisions, the restrictions themselves offer little or no protection” (FHA ibid., sec. 934).11

Publications distributed publicly typically assumed a deferential role towards industry practitioners and rarely mentioned the racial component of these restrictions. Virtually all such publications, however, referred those practitioners to the Underwriting Manual, which the FHA distributed primarily to the housing and lending industries. The Manual articulated quite clearly that city and county plans, zoning regulations, and racial restrictive covenants must be in place for a development to “be favorably considered for mortgage insurance” (ibid., sec. 980[6]). In this way, the federal government erected a system of apartheid administratively, ghettoizing African Americans over time and requiring all FHA-insured homes to remain in the hands “of the race for which they are intended” while evading the attention of most American citizens, then and now.

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10. All three sections repeat the same requirement.
11. In Shelley v. Kraemer (1948), the Supreme Court would prohibit court enforcement of racial restrictive covenants on the grounds that they violated equal protection under the law.
“Who Won the War?”

The FHA expressly intended to diffuse the public’s perception of the agency’s transformative role in the market and to make the changes in the housing industry appear to be a ground-up phenomenon. Ward Canaday, the FHA’s public relations guru, announced to the 1934 American Bankers Association’s national conference, “Rather than make a so-called ‘Government Drive,’ in which everybody sits back and suggests that something happen, we [the FHA] hope to turn it around so that when we get through and when we get finished, it will be like the questions asked after the World War—‘Who won the War?’” (Canaday 1934, 12).

But what a “Government Drive” it was. The FHA launched a massive campaign to convince consumers, lenders, and builders that they could all reap tremendous benefit from the passage of the 1934 National Housing Act. The agency organized over three thousand “better housing committees” throughout the country to serve as the foot soldiers of its war for the hearts and minds of potential American homebuyers (FHA 1936a, 3). The goal was a massive advertising campaign to “place the public in a sort of ‘bath’ of suggestions about better housing, through constantly reiterated comment” on the value of owning a modern home (Canaday 1934, 11).

The FHA’s goal of making this top-down initiative appear to be a ground-up phenomenon did not deter the agency from vocalizing its intentions to transform the operation of the housing market, nor did it hinder the agency from occasionally boasting about its power over the market. A 1938 FHA report on suburban planning, expressing sentiments representative of many others made by the agency, extolled the virtues of restrictive covenants and outlined the need to shift public consciousness about property rights. “The term ‘restrictions’ is too often associated in the public mind with unwarranted interference in the use a property owner may make of his land. Every effort should be made by developers to show the home buyer that reasonable and effective deed restrictions protect his investment and assure him a better community in which to live and in which real estate values will be more stable” (FHA 1938c, 8). A year later, the Land Planning Division Director Seward Mott beamed, “We find in many communities today that groups which in the past were strongly opposed to planning and zoning ordinances and restrictive covenants controlling land use are now the strongest advocates for such measures. The Federal Housing Administration takes satisfaction from the realization that this desirable change of attitude is due in some measure to its efforts” (Mott 1939, 23). The FHA would later abandon this posturing, claiming that it had no power or authority to influence private social decisions in the market and resisting demands that it refuse to insure homes with racial restrictive covenants.

The scope and scale of the FHA’s efforts reveals that Mott’s modesty greatly understated the degree to which the agency effected such changes.
The agency’s annual report in 1940 announced that “marked progress was apparent in the Administration’s efforts to encourage the proper planning and development of residential neighborhoods” (FHA 1940, 22). The report continued, “The steadily increasing reliance of the home building industry upon the neighborhood-planning principles fostered by the Administration since the start of the FHA program was reflected during 1940 by the fact that in some cities approximately 70% of the new homes financed under the FHA plan were located in new subdivisions planned and developed from the beginning in cooperation with the FHA” (ibid.). In the preceding year, residential subdivisions developed under the guidance of the FHA’s Land Planning Division contained homes for 1,132,000 people, covering an aggregate area of 132 square miles. This total population and area, if amalgamated into one city, would rank at that time as America’s sixth largest, behind only New York, Chicago, Philadelphia, Detroit, and Los Angeles in population, and Los Angeles, New York, Atlanta, New Orleans, and Detroit in territorial size. In a utopian depiction of this “hypothetical city of FHA-planned subdivisions,” Mott mused:

Every home would be a livable and soundly constructed house, harmonizing in design and price range with neighborhood homes. Every home would be situated in a congenial neighborhood with paved streets and the essential utilities; would be readily accessible to schools, churches, shops, and amusement centers; would be free from the special hazards and nuisances; and would be protected through adequate restrictions against future encroachment of undesirable influences. (Federal Loan Agency News 1940, 1)

Not mentioned in this musing, of course, was the very real impact of FHA planning on African American and mixed-race neighborhoods across the country.

SHELLEY V. KRAEMER

On May 3, 1948, the U.S. Supreme Court prohibited state enforcement of racial restrictive covenants in its unanimous landmark decision of Shelley v. Kraemer (1948). The Court argued that judicial enforcement of such agreements denied nonwhite homebuyers equal protection under the law, a

12. Shelley v. Kraemer, 334 U.S. 1 (1948). Though it marked a powerful change in the judiciary’s position on discrimination in housing, Shelley v. Kraemer never served as a precedent for defining the boundary where the enforcement of a private contract becomes state action in pursuit of the interests contained in the agreement. The civil rights legislation of the 1960s superseded Shelley as a legal tool in litigation by establishing a statutory foundation for federal policy on housing discrimination.
violation of the Fourteenth Amendment. Since its inception, the FHA had required new residential developments to adopt such restrictions and had withheld insurance from mortgages on homes in racially mixed neighborhoods. But the civil rights movement initiated tectonic changes in American law, forcing the FHA to reevaluate its policy agenda, address the rapid ghettoization of nonwhite citizens that had occurred during the pre-Shelley years, and finally alter its own operations in an attempt to negotiate between its previous policies and the changing racial reality.

U.S. Attorney General Tom Clark and Solicitor General Philip Perlman submitted an *amicus curiae* brief on behalf of the United States to the Supreme Court in December of 1947 excoriating the widespread use of racial restrictive covenants in America. The brief directly implicated the FHA in the formation of black urban ghettos that had recently emerged in American metropolises. They noted, “The fact that racial restrictive covenants are being enforced by instrumentalities of government has become a source of serious embarrassment to agencies of the Federal Government in the performance of many essential functions, including the programs relating to housing and home finance” (Clark and Perlman 1975, 236).

The same deed restrictions hailed earlier by the FHA for their ability to “protect [the homebuyer’s] investment and assure him a better community in which to live” contributed powerfully to the ghettoization of African Americans in neighborhoods doomed by a dearth of available capital (FHA 1938c, 8). “[Racial restrictive covenants] are responsible for the creation of isolated areas in which over-crowded racial minorities are confined, and in which living conditions are steadily worsened” (Clark and Perlman 1975, 236). “Inadequate shelter, disease, [and] juvenile delinquency,” the attorney and solicitor general went on to declare, “are some of the major evils directly attributable to racial restrictive covenants” (354). This forceful indictment of FHA policy revealed the ugly underbelly of the FHA’s earlier proclamations of the benefits to public health and municipal services a community would garner through participation in the FHA program. The same program that generated these benefits produced the opposite effects in the African American communities it excluded.

The brief argued that in addition to crowding African Americans into deteriorating cantons, racial covenants distorted the real estate economy. The “semi-monopoly [on land available to minority groups] which segregation fosters” (310) often forced African Americans to pay higher housing costs to live in relatively squalid conditions, affording their dollar drastically less purchasing power than their white counterparts. The attorney and solicitor generals denounced not only the discriminatory outcome of this distortion

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13. In promoting a program to expand access to home improvement loans, the FHA observed that physical improvement of neighborhoods would “aid in reducing crime and fire hazard, and in lessening the burden upon the health and police establishments. The restoration of the value and earning power of neighborhoods means also the restored ability to pay taxes” (FHA 1934b, 4).
but also its scope. “If limited in number, and confined to insignificant areas, [deed restrictions] would not have been of such public importance. But they have already expanded in large cities from coast to coast” (236). Moreover, because the FHA required racial restrictive covenants nationally, their resulting widespread use achieved “a scope and effect at least as broad as racially restrictive housing legislation” (310).

Most deplorably, the brief concluded, racial restrictive covenants threatened the very foundation of American democracy. For citizens trapped in urban ghettos, “there is no life in the accepted sense of the word; liberty is a mockery, and the right to pursue happiness a phrase without meaning, empty of hope and reality. This situation cannot be reconciled with the spirit of mutual tolerance and respect for the dignity and rights of the individual which gives vitality to our democratic way of life. The time has come to destroy these evils which threaten the safety of our free institutions” (ibid.). This rhetoric diametrically opposed the FHA’s own worldview in which racial covenants served as a vehicle for combating the social evil of racial integration.

The *Shelley* decision did not eliminate racial restrictive covenants as thoroughly as the solicitor and attorney generals might have hoped. While it prohibited state enforcement of deed restrictions, the Court’s decision allowed such contracts to continue as private, albeit unenforceable, agreements. Major housing industry interest groups allied with the FHA mobilized during the process of litigation to defend the position of these covenants in the real estate market. The National Association of Real Estate Boards (NAREB), one the FHA’s principal allies and a driving force in the agency’s creation, submitted an *amicus* brief strongly in favor of continued judicial enforcement of restrictive covenants.14 NAREB’s official code of ethics prohibited realtors from introducing into a neighborhood “members of any race . . . whose presence would clearly be detrimental to property values” (Pritchell 2002, 4).

In defending such discriminatory practices, NAREB made use of the often murky intersection of a federalist political system and a free market economy. When lobbying for the creation of the FHA in the mid-1930s, NAREB had supported centralized, federal direction of the mortgage market’s reform through the preemption of state regulatory laws. As justification for this intervention, the association had cited social policy issues, such as the widespread hardship and unemployment produced by the collapse of the housing market (Freund 1999). When defending racial restrictive covenants during the *Shelley* v. *Kraemer* case, however, the same organization argued that the federal government had no right to interfere in the workings of the private market “to support vaguely stated economic and social ends . . . especially when the government has enacted no legislation purporting to change the real property law of the several states” (NAREB 1975, 548).

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14. For a more in-depth assessment of NAREB’s and other industry groups’ role in the formation of the FHA, see Freund (1999, 250–56).
1949: National Housing Act, Take Two

In 1949, the federal government did, in fact, attempt to amend national housing law to expand the powers of the FHA to extend credit into minority communities and to increase the scope of the Public Housing Administration. Despite the fact that the new law intended to do exactly what its predecessor did (and for the same reason—namely, to address a housing crisis and provide relief to a population in economic distress), NAREB, other housing industry associations, and their congressional allies came out strongly in opposition to the new law, denouncing it as socialist (National Negro Insurance Association, 1948). Rep. George A. Dondero (R-MI) declared on the first day of the bill’s debate, “If this colossal program is adopted, the first fatal step toward national socialism will have been taken and the first real imitation of the Russian ideology of government will have gained a foothold on the shores of freedom” (Keith 1973, 98).

This political coalition repeatedly intervened in legislative debates during the 1940s, working through allies, such as Senator Joseph McCarthy, to curtail federal support of public housing but to expand the resources of the FHA and increase its independence from congressional oversight (69–70). Ironically, Leonard Silk, a prominent economist, had published a book earlier that year in which he concluded that in Sweden, a country with a closer approximation to a socialist economy, the “system of housing finance smacks less of direct [government] action at the taxpayer’s expense than ours” (Silk 1949, BR30). He argued that the Swedish system, which ceded significant control over underwriting decisions to municipalities, was actually less socialist than the FHA, where “responsibility tends to be more centralized than under the Swedish formula” (ibid.).

The 1949 Housing Act nearly died in the Senate when its author, Allen Ellender (D-LA) announced that he would oppose his own legislation if the Senate approved an amendment proposed by John Bricker (R-OH) and Harry Cain (R-WA) to require racial integration in public housing. Bricker and Cain, vocal enemies of the government’s public housing program, had anticipated Ellender’s reaction and introduced the amendment as a calculated attempt to kill the legislation, forcing the Senate’s Democratic leadership to rescue the bill by blocking the Bricker-Cain amendment and thus allowing segregation to persist in public housing policy (Hirsch 2000b, 165–66). President Truman, a strong supporter of the act, denounced these aggressive tactics in a letter to House Speaker Sam Rayburn. He wrote, “I have been shocked in recent days at the extraordinary propaganda campaign that has been unleashed against this bill by the real estate lobby. I do not recall ever having witnessed a more deliberate campaign of misrepresentation and distortion against legislation of such crucial importance to the public welfare” (Keith 1973, 95–96).

The Shelley decision and the attorney general’s impassioned amicus brief heralded a shift in understanding of the inequality of racial groups before
the law and in the market. However, the tenacious opposition to these changes mobilized in the housing industry, along with the controversy surrounding the Housing Act of 1949, left national housing policy and the position of the FHA in a state of confusion. While some branches of the government argued strongly for the termination of all forms of discrimination in housing policy, powerful alliances in Congress and influential leaders in the lending, real estate, and building industries continued to voice full support for segregation. The FHA's inconsistent and often internally contradictory attempts to respond these changes would mirror the broader conflict over the nation's evolving position on equality.

Deflection and Denial: The FHA Responds to Shelley

With its pro-segregation policies no longer consistent with the Supreme Court's position on equal protection, the FHA quietly began to change its tune during the litigation of the Shelley case. In 1949, and continuing over the next several years, the agency began deleting all references to race, along with other objectionable passages, in the Underwriting Manual. The agency published revised, loose-leaf pages for the Manual, and informed holders of the old Manual that the “obsolete pages should be removed and destroyed” (FHA 1949, 1). The revised Manual declared, “Requirements and standards applying to real estate proposed for mortgage insurance pertain to property and neighborhood characteristics which are technical in character and not to user groups” (FHA 1954a, IB9, emphasis added). But the agency did not explain how this new position squared with the driving principles that had guided its work since its formation. As recently as 1947, the Manual had endorsed restrictive covenants, noting, “Protective covenants are essential to the sound development of proposed residential areas since they regulate the use of the land and provide a basis for the development of harmonious, attractive neighborhoods suitable and desirable to the user groups forming the potential market” (Abrams 1955, 123–24).

Following the Shelley decision, advocacy organizations, like the National Association for the Advancement of Colored People (NAACP) and the American Jewish Congress, called for the FHA to stop offering insurance to properties with racial deed restrictions. FHA Commissioner Franklin D. Richards, however, replied to the NAACP that the FHA would continue to insure such properties (124), prompting the NAACP's executive secretary to excoriate the FHA. He declared that the agency had ignored Shelley and “continued to lend its full support to the perpetuation of ghettos” (Associated Press 1949a, 8). The FHA responded to such criticism by shifting the guilt

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15. Hirsch and Freund have asserted that the FHA made these changes in 1947 before the Shelley decision, but I was unable to find supporting evidence for this.
to the private market. Warren Lockwood, assistant to the Commissioner, argued that critics should direct blame “at the doorsteps of the city itself and not in FHA, since everyone with a position of real responsibility in FHA recognizes clearly the need of housing for the Negro population” (Streator 1949a, 8). Berchmans T. Fitzpatrick, chief counsel for the Housing and Home Finance Agency (HHFA, the umbrella organization that oversaw all areas of housing policy including the FHA beginning in 1947), responded by pointing to minor changes in the FHA’s attitude toward African Americans. He claimed that “underwriters are no longer free to write-down an evaluation because non-white races are involved in the transaction . . . there must be some concrete, objective set of standards on which a writing-down because of race is permitted” (23). The NAACP, not surprisingly, was unimpressed.

On December 2, 1949, eighteen months after the Shelley decision, the agency officially abandoned its policy of endorsing racial restrictive covenants and of denying insurance to homes in integrated neighborhoods. Solicitor General Perlman announced these changes unexpectedly in New York on December 2, 1949, on behalf of President Truman. A government spokesman pronounced that the policy change would impact half a million housing units a year, and between four and five billion dollars of real estate (New York Times 1949a, 2).

FHA Commissioner Richards, who upon learning of the Shelley decision had announced to HHFA Administrator Foley that the decision would “in no way affect the programs of this agency” (Hirsch 2000b, 164), immediately reassured finance and housing industry leaders by announcing that “it should be made entirely clear that violation [of the new rules] would not invalidate insurance” (165). He downplayed its impact on their business, noting that it would “be an exceptional case where a property cannot receive Federal mortgage help” (Hinton 1949, 84). Addressing Administrator Foley, Richards argued defiantly that it was not “the policy of the Government to require private individuals to give up their right to dispose of their property as they [saw] fit, as a condition to receiving the benefits of the National Housing Act” (Hirsch 2000b, 164). In light of the FHA’s earlier policy of withholding insurance as a way to “show the home buyer that reasonable and effective deed restrictions” (FHA 1938c, 8) were what was best for him, the justification rang hollow.

Richards then issued a four-point memo to FHA staff that sharply curtailed the scope of the changes. The first restriction was that FHA would only refuse insurance to properties whose racial covenant was recorded after a set date, later announced to be February 15, 1950. The agency would continue to insure properties with deed restrictions recorded before that date. The second limitation undercut the policy change even more deeply. It restricted the changes to affect only sellers who codified the racial prohibition in writing, observing that after Shelley, “most landlords do not file such covenants, since they are unenforceable in Federal courts, but keep them
alive as ‘gentlemen’s agreements’" (Hinton 1949, 84). This meant that the FHA would officially turn a blind eye to these oral agreements. The third restriction was that the prohibition on racial covenants did not affect existing FHA insurance commitments, and the fourth declared emphatically that the FHA “will not attempt to control any owner in determining what tenants he shall have or to whom he shall sell his property” (ibid., original emphasis). Richards, however, did not acknowledge that the FHA had been restricting to whom homeowners could sell their property since it first began offering mortgage insurance in the 1930s.

On one side of this debate, real estate lobbyists and their congressional proponents labeled the prohibition against insuring properties with racial covenants as “communistic.” Representative John Rankin (D-MI) called the new FHA rule “one of the most dangerous communistic movements ever known. . . . it is about time that Congress exercised its power of impeachment in order to protect this nation from destruction at the hands of enemies within our own gates” (ibid.). On the other, Shad Polier of the American Jewish Congress countered that it was disingenuous to claim that the federal government was forcing a social agenda onto a housing program that was purely economic in nature. The FHA, he pointed out, had been mandating racial discrimination until the previous year, denying insurance to builders who wished to build racially integrated housing. “In other words,” he wrote, “FHA will impose a policy of discrimination which the builder opposes” (Polier 1949, 32). He went on to disparage the FHA for only taking such half-hearted steps toward racial parity:

Despite the broad language [of Solicitor General Perlman] so widely quoted in the press, it appears that little change is contemplated . . . Most important, the new restrictions will not prevent FHA from insuring mortgages for builders who openly announce their intention to exclude minority groups, so long as their intention is not written . . . Such belated action cannot be viewed as a great victory, particularly when persons charged with carrying out the new policy are busily engaged in assuring realtors that the new policy means nothing. (Ibid.)

The National Negro Council unsuccessfully pressed President Truman to issue an executive order clarifying the federal government’s policy on discrimination in housing, “in view of the widespread publication of conflicting comments which followed in the wake” of Solicitor General Perlman’s announcement of the ban (Associated Press 1949b, 15).

The FHA persisted in diluting the policy changes and muddying the waters of the public discourse to obscure its long-held racial agenda. Agency representatives refused to admit openly to any discriminatory intent in the
FHAs earlier operations, even as some members of the agency had joined the chorus condemning racial restrictive covenants while remaining silent on its erstwhile encouragement of those restrictions. Raymond Foley, former Michigan State Director for the FHA and then Administrator of the HHFA, acknowledged the degree to which these covenants had distorted the housing market, but he went on to deflect responsibility from the FHA. He observed, “By generally restricting [minority groups] to sharply defined neighborhoods which provided too few houses and too little living space,” restrictive covenants drove up land and rental values in African American communities while simultaneously enervating their housing stock (Clark and Perlman 1975, 237).17

He also noted that the two-tiered housing market produced by deed restrictions wasted substantial amounts of capital because of the inefficiency inherent in having to provide redundant services and separate sites for different racial groups (ibid.). Foley also noted that such distortion greatly impaired the functioning of the Public Housing Administration by forcing that agency to select project sites based on their freedom from restrictive covenants rather than their suitability or cost effectiveness. “Moreover,” he declared, “there is the danger of [further] increasing the density of other restricted and overcrowded areas which must absorb the racial minorities displaced from similar areas by public housing projects” (ibid.). Such statements cast a long shadow on the FHA’s claim that its discriminatory policies were vital to ensuring a stable market able to meet housing demand efficiently.

During his first year as HHFA Administrator, however, Foley repeatedly misrepresented restrictive covenants as being a privately orchestrated practice of the real estate industry. “Racial restrictive covenants,” he asserted, formed “the core of a system of traditional real estate practices controlling the access of Negroes and other racial minorities to sites and dwelling units” (ibid., emphasis added). Foley’s description of these practices as “traditional” obfuscated the reality that restrictive covenants had only very recently emerged in American real estate law.18 A later HHFA publication titled Housing of the Nonwhite Population: 1940–1950 echoed this characterization, arguing that ghettoization occurred because “traditional neighborhood restrictions served to limit housing available to nonwhites during that period largely to more intensive use of the crowded areas already occupied by this group” (HHFA 1952, 1, emphasis added). The report made no reference to the FHA’s role in institutionalizing these “traditional” forms of discrimination, but

18. See Clark and Perlman (1975, 236), “Racial restrictive covenants are of a comparatively recent origin.” See also Clark and Perlman (1975, 257), “Racial covenants . . . had only sporadic existence before the great twin migration of Negroes, in the second decade of this century, from the country to the cities in both North and South, and from the South to the Northern and Middle Western States.”
rather implied that ghettoization occurred entirely as a sociological phenomenon with no governmental involvement.

The HHFA went so far as to characterize the FHA as a passive agent in the market, constrained in its power to reach out to African American communities by a confluence of societal bigotry and immutable market forces. Hemmed in by these covenants, [black neighborhoods] have become highly congested, over-used, and largely substandard. As a result, the program of the FHA mortgage insurance can have limited application in such areas for purely economic reasons. The existence of such covenants outside these constricted areas makes it inordinately difficult and often impossible for prospective Negro buyers to qualify for FHA mortgage insurance. As a result, the middle income market among Negroes and similar racial minorities is largely excluded from the benefits of the mortgage insurance program. (Clark and Perlman 1975, 244, emphasis added)

This offered a revisionist history of the FHA mortgage system, reversing the causality of policy and reality. The ghettoization of African Americans caused by racial covenants and other exclusionary practices did not prevent the FHA mortgage system from operating in black communities. Rather, the system excluded those communities from its inception and actively sought to contain them to prevent them from destabilizing the white communities the system existed to serve. In attempting to depict African Americans as victims of market forces only and not of the FHA as well, the HHFA sought to mask the very real role the FHA had played in setting those market forces in motion.

A 1954 FHA report titled The FHA Program and Minority Groups, adopted the same strategy, employing technical language to depict the political and governmental forces driving segregation as purely involuntary consequences of impersonal market activity. Referring to the swelling population of African Americans in cities and their unmet housing demand, the report observed, “Various factors have tended to influence this growth and to focus the attention upon the limitations of the production and financing machinery within the private housing market in providing minority groups with an adequate supply of standard housing consistent with their increasing effective housing demand” (FHA 1954a, pt. I, sec. B, 1). The report blamed the black housing crisis on “a limited housing supply [that] has tended to create excessive overcrowding, doubling and over utilization of the available land areas and dwellings in the older and more deteriorated residential areas” (ibid.). The report neglected to explain why African Americans found it nearly impossible to move into “suburban areas which were characterized by an expanding volume of new construction” (ibid., 2). The root of the black urban housing crisis, according to the FHA of the 1950s, lay in the malfunction of the faceless macroeconomic machinery, not in the very human
decisions the agency had made in mandating the widespread use of measures to contain black neighborhoods.

Both the FHA and the HHFA did admit, however, that a black, urban housing crisis had emerged under their watch over the market. The growth of the urban minority population during this 1940s exceeded the growth of housing available to it by 50 percent. By contrast, the growth of housing available to the white population exceeded that population’s growth by nearly 65 percent (HHFA 1952, 1). Segregation increased significantly in all parts of the country in this time period as well. Indices of segregation, which had declined since 1910 in most American cities, rose sharply between 1930 and 1960 (Cutler, Gleasor, and Vigdor 1999).

This crisis occurred during a decade in which African Americans made dramatic gains in income relative to white Americans. During the 1940s, increases in nonfarm income for minorities substantially outpaced that of white wage earners across the nation (HHFA 1952, 11). According to U.S. News and World Report, “Incomes have shot up faster for the average Negro than for the average white person. Actually, incomes of Negro families average only half as much as incomes of white families. Yet the typical Negro family, living on a wage or salary, has three and a half times as much income as it had in 1940. The typical white family, on a wage or salary, has two and a half times as much income as it had in 1940” (ibid.). This increase in income resulted primarily from jobs secured by African Americans in wartime production industries, but these gains did not evaporate when the war ended. According to the Bureau of Labor Statistics’ Monthly Labor Review, in 1947, “reconversion of industry to peacetime activities brought no major downgrading in the occupational composition of Negro workers” (ibid.).

Despite these advancements in income, the gap between white and nonwhite homeownership rates actually widened slightly during this time. According to the U.S. censuses, in 1940, 42.7 percent of white and 23.9 percent of nonwhite nonfarm households lived in homes they owned, a difference of 18.8 percent. By 1950, those figures had increased to 54.9 percent and 35.2 percent, the gap increasing to 19.7 percent (ibid., 13.) African Americans suffered overcrowding at four and a half times the rate prevalent in white communities, and resorted to doubling (multiple households sharing one home) three times more than whites (FHA 1954a, pt. 1, sec. B, 2).

This dramatic disparity failed to square with the differential increases in income achieved by these two groups, making evident that other factors operated to skew the supply side of the market disproportionately in favor of white buyers. As noted above, most government agencies outside the FHA pointed to the critical role of racially exclusive practices in the development of black urban ghettos. In 1946, two years before the Shelley decision, the National Housing Agency (NHA—the war-time umbrella organization for federal housing operations that preceded the HHFA), released a report stating, “Because of racial restrictive covenants and other discriminatory
practices, heavy concentrations of Negroes are typical in communities where there are large proportions of Negro population” (Clark and Perlman 1975, 267). The report noted that these discriminatory practices prevented African Americans from decentralizing over time as other ethnic groups typically did and observed, “Large scale builders indicate that even where contractors appreciate the market for privately financed housing among Negroes and have adequate financing resources available, they are often stymied by lack of unrestricted or unopposed building sites” (ibid.). Such dysfunction between supply and demand pointed to the economic and social distortion produced in the American housing market by the racially discriminatory policies championed by the FHA.

A 90-DEGREE POLICY REVERSAL

Though the FHA appeared unwilling to admit to its advancement of segregationist practices, the statements made by the attorney and solicitor generals during the Shelley case indicated that other branches of the federal government now expected the agency to address the black urban housing crisis. From the beginning of this period of change, notes of discord accompanied the FHA’s grudging new interpretation of metropolitan harmony. Following Shelley, the FHA also employed a degree of vagueness in its language in order to allow its support for restrictive covenants and other segregationist measures to remain on the books. The 1949 Underwriting Manual continued to encourage their use without directly referring to their racial applications. In a tacit gesture supporting the continuation of redlining, the 1949 Manual still required lenders in mapping a city to outline neighborhoods “in such a manner that they will exhibit wherever possible a fairly high degree of homogeneity as to housing and population characteristics” (FHA 1949, sec. 1512[1]).

The revised edition of the Manual also continued to mandate lenders to use those maps when establishing a location’s rating, and further to assess the “protective covenants or deed restrictions covering the outlined neighborhood” (ibid., sec. 1513[1]). Noting that it might prove “difficult for the developer to secure . . . all of the protective covenants on their lands . . .” the Manual cautioned, “when it is impracticable to secure full protection, it is necessary to estimate the risks involved in the development under consideration and to make determinations accordingly” (ibid., sec. 1355[1]). Given the clarity with which the FHA had associated risk with race for the preceding fifteen years, developers did not need further reiteration to understand that the FHA meant them to make race central to these determinations. The agency also repackaged its previous land planning policies in inoffensive language, but its intentions remained clear. Beyond simply calculating risk, in situations when it would only be possible “to secure partial protection . . . the restriction of nearby lands as to land use and building types,
lot areas and widths, nuisances and temporary structures, is highly desirable" (ibid.).

These restrictions would later be the hallmark of exclusionary zoning practices used to thwart low-income African Americans seeking to move into predominately white areas. The practices would come under attack by civil rights advocates in the watershed Mt. Laurel, New Jersey Supreme Court cases of the 1970s. The FHA, perhaps anticipating that such legal conflicts might follow the precedent set by the *Shelley* decision, quietly removed itself from official involvement in local planning and zoning decisions. “It would be improper for the Administration to influence changes in, or exceptions or departures from effective local planning regulations . . . or to become involved in possible resulting local controversies” (ibid., sec. 1349[2]). Lest it lose all vestiges of its previous influence, the agency added that the FHA “does, however, support the principles of comprehensive planning and good planning regulations and upon request confers with and advises local planning authorities with respect to master plans . . . subdivision regulations and zoning ordinances as applied to communities or cities as a whole” (ibid., sec. 1349[2]).

**Tinkering with the Machinery**

While attempting to erase its fingerprints from segregated residential patterns across the country, the FHA initiated half-hearted efforts to address the state of metropolitan racial inequality. Downplaying the importance of its racial policy revisions, the FHA termed them “amendments” rather than highlighting them as the total reversal called for Solicitor General Perlman. The 1954 *FHA Program and Minority Groups* report asserted, “These changes in great measure reflect the result of FHA experience in attempting to stimulate private enterprise in producing for this market, and to a somewhat lesser degree an observable changing public policy and related implications” (FHA 1954a, pt. I, sec. B, 7–8).

The timing of its policy changes clearly indicated, however, that the FHA implemented them in response to the major shift in legal climate heralded by the *Shelley* decision. Instead of admitting this, however, the FHA explained the abandonment of its support of segregation by trumpeting “the discovery” of what it described as the newly emerging but unmet market demand of black city residents. The 1954 report announced, “Within recent years the FHA has been increasingly aware of an expanding but neglected market demand for standard housing found among minority groups with the Nation’s population” (FHA ibid., 1). Such a discovery proved disingenuous in light of the previous two decades in which the FHA had thoroughly researched the housing conditions of minority groups in cities and the changes in their geographic distribution.
The “discovery” of the minority market’s condition, the FHA argued, merited a new policy of direct intervention by the agency. The FHA argued that it simply needed to collect data on the scope of that emerging market and adopt a set of policies that would encourage the appropriate level of supply, much as it had done in other areas of housing need as they had arisen. Statements made by FHA officials, however, cast doubt on the sincerity of the agency’s concern for this segment of the American housing market and indicated that the FHA’s primary motivation for addressing this problem arose out of a fear that the urban housing crisis was “apt to increase the demand by Negroes for public housing” (FHA 1954b, 1).

The insincerity of the agency’s stated commitment to addressing the African American housing crisis became apparent as the FHA begrudgingly initiated structural changes in its operation to accommodate minority group needs. Accepting an invitation from the National Urban League to address that organization’s annual conference in 1952, FHA Administrator Walter Greene declared the minority housing program to be “second in importance only to our national defense program” (20). The history of that program reveals this to be a serious overstatement. In fact, what is most notable about the minority housing group program is its consistently low-status on the agency’s agenda. With the bravado of an overly ambitious New Year’s resolution, Commissioner Foley declared in January of 1947, to housing industry leaders, “Our purpose is to provide proper housing for all groups. It is a problem that must be attacked vigorously and by actively seeking the cooperation of realtors, builders, and lenders” (1).

Yet in the same year, the FHA established positions for only five Racial Relations Officers (RROs) to provide services to the entire national minority housing market, doubling their number to ten only after the impossibility of accomplishing anything with such limited personnel became clear. By contrast, the agency assigned hundreds of officers to focus exclusively on mainstream underwriting operations in specified locales, rather than forcing them to handle large regions of the country as they did the RROs. Using language that obscured the FHA’s role in the exclusion of minorities from the market, the agency charged RROs alone with the enormous task of “stimulating the interest of hitherto uninterested groups and individuals in this problem” (19, emphasis added).

Herein emerged the structural conflict within the FHA. A small, poorly funded, understaffed program attempted to address what in reality was not simply a “hitherto uninterested” market segment but rather a group that the FHA had instructed lenders to exclude as a top priority during fifteen formative years of market renaissance and reform. The FHA attempted to portray the creation of the Minority Group Housing Program as being in line with previous structural changes undertaken by the agency to accommodate other emergencies in the housing market. The agency claimed that it had, throughout its lifetime, expanded its operation to tackle “problem areas” in the housing
market, citing the promotional campaigns during the Depression to persuade the nation to accept the mortgage insurance plan and to coax it out of the hesitation that was crippling the market at the time (FHA 1954a, 3). The agency also likened the Minority Group Housing Program to other programs to stimulate wartime and defense housing production, to supply returning veterans with homes, and the more general, long-term endeavor to substantially increase the supply of middle-class housing. The FHA Program and Minority Groups report observed, “As these goals were achieved or in the process of being achieved as the emergencies disappeared, the special efforts adopted by the FHA were absorbed in the normal operation of the agency’s machinery” (ibid.).

But the reality of both the minority housing market and the FHA policy and operation proved to be much more problematic than this simple, mechanical procedure could accommodate. With respect to the agency’s policy, a fundamental conflict arose between the new mandate to address the dearth of minority housing and the FHA’s earlier, extensive support of segregation, central to all its policies prior to the Shelley decision. While the agency publicly framed its new Minority Group Housing Program as “in keeping with previous efforts of [the] FHA to broaden the base of usefulness of its insured mortgage credit system, in order to make them serve effectively in all areas of the housing market” (ibid., 4–5), the opposition to this program within the agency indicated otherwise.

A number of internal FHA documents revealed deep conflict within the agency about alterations made to its racial policies. In April 1954, the FHA circulated a draft of The FHA Program and Minority Groups for internal review. While the report purported to highlight how FHA policy had evolved to encourage the supply of housing for minority groups, the evolution of the document itself offered an insightful perspective of FHA policy. Changes in language and terminology made between the 1954 report and pre-Shelley FHA documents revealed an effort to hide the pointedly racialist tone of the agency’s earlier policies by retreating into a more neutral, technocratic form of expression. A prime example of this appeared in the report’s references to “the introduction of a different user group” (Ibid., pt. I, sec. B, 8) into certain neighborhoods, revised from the earlier manuals’ and policy circulars’ restrictions against “the infiltration of an inharmonious racial group.”

Changes made to the draft of the report demonstrated intentional efforts to avoid statements that explicitly established equality among racial groups in FHA programs. Scrawled marginalia penned by the draft’s reviewers revealed resistance within the FHA to incorporating minorities into the mortgage insurance program. In the “Recommendations” segment of the report, an initial draft concluded, “A close analysis makes evident certain gaps to be filled and additional steps to be taken if satisfactory progress is to be achieved in equalizing opportunities of minorities to acquire decent housing to this limit of their effective demand” (ibid., pt. IV, sec. A, 2).
An editor of this statement, however, struck out the phrase “equalizing opportunities” and replaced it first with “increasing opportunities” and then, deeming even that too radical, settled finally on “assuring opportunities.” Another subsection titled “To Achieve Equity in Participation Under [the] FHA Program,” stated in its first draft, “Each segment of the population should share equally in the utilization of the FHA program based on their relationship to the effective demand as determined by FHA market analysis” (Ibid., pt. IV, sec. B, 3). The word “equally” was emphatically crossed out until it was nearly illegible. Thus, the report moved from a position supporting equal opportunity to one offering a vague assurance that the agency would grant some opportunity to minority groups to participate in the FHA program.

Editors of the draft also diluted recommendations to expand the powers of the RROs, who came to personify the conflict within the FHA over whether or not to address its role in institutionalizing discriminatory lending practices. Limiting the RRO’s powers of project development and oversight and formulating their role as public relations officers proved to be the most contentious phase of position’s development. The “Public Relations” segment of the Racial Relations Handbook required the RRO to attend various conferences and deliver official statements, speeches, and press releases. In outlining the RRO’s role in these events, the handbook encouraged the officers to address controversial issues frankly and openly. It cited a statement made by HHFA Administrator Foley before the National Committee Against Discrimination in Housing that declared, “Rather than seeking to deaden discussion, to preclude debate, or even to avoid controversy, we have invited [an] honest exchange out of which comes solid progress” (FHA 1954b, 20).

The FHA Program and Minority Groups report, however, discouraged the Racial Relations Officers from openly participating in public debate, noting, “In all of these activities, the Racial Relations Officer works behind the scenes in order to facilitate sound and smooth operations and assure the most effective use of the FHA mortgage insuring program in serving all segments of the effective market” (FHA 1954a, pt. II, 7). An editor of a draft of the report underlined the phrase “behind the scenes” to give it special emphasis, suggesting discomfort with the idea of RROs assuming a position of public visibility, as well as a desire to limit the position to playing only a supporting role.

These two opposing positions on the visibility of the RROs collided in an illustrative and occasionally bristling exchange that took place between DeHart Hubbard, an African American RRO (and pioneer as the first African American to win an Olympic gold medal in an individual event,) and George Bremer, a white FHA Zone Commissioner.19 On March 23, 1949, Bremer wrote to Hubbard regarding critical statements made by the Pittsburgh

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19. A Zone Commissioner was the director of one of the five zones or regions of the FHA’s activity.
Courier and the Chicago Defender (black-owned newspapers) directed at the FHA, “which revealed gross misunderstanding on the part of the authors of the racial policy of this Administration. I requested an account of the discussions which took place and your views and advice as to how the misunderstanding could be corrected” (for all subsequent quotations related to this letter, see Hubbard 1949).

Hubbard responded that he found Bremer’s concern about the matter “highly pleasing because it confirms the sincerity of your desire to implement the agency’s racial relations program.” He went on to address “the basic causes of any unfavorable attitudes [toward the FHA] of the minority group community.” Until recently, he observed, “the FHA has failed to squarely face the problem of housing racial minority groups, and its racial policy, if any, has been cloaked in evasive and indefinite terms.” Furthermore, FHA “officials have refused to acknowledge inequalities in the administration of the program and have given the impression that they are inviolate in their operations . . . [tending] to dwell on the technical features of FHA operations rather than discuss the human and social factors involved.”

Hubbard challenged the agency to break through the technocratic facade and come to grips with the human reality that resulted from its housing policy. He recommended that the FHA aggressively promote opportunities for lenders and developers in the field of minority housing in the same way that the FHA had energized the industry during the Depression. Bremer responded with a note of displeasure, writing that with respect to the FHA’s racial policies and practices, Hubbard seemed to share “the erroneous views of the press representatives which [he was supposed to be] endeavoring to correct.”

This exchange illustrated the difficulty of the RRO’s position as he struggled against indifference and resistance to minority group housing within the FHA, and was then required to persuade skeptical black communities that the agency had their interests at heart. The internal resistance to changes made to the FHA’s racial policies combined with the low-status of the minority housing program suggested that it amounted to a public relations ploy, not substantive policy. Efforts to address proliferating ghettoization continued to run counter to the aims of the FHA’s central operations, even after Shelley v. Kraemer.

The View from the Field Office Window

The FHA’s virtual failure to address minority group housing supply at all evidenced this as well. Between 1940 and 1947, the FHA insured only nineteen new housing developments open to minority groups, averaging between one hundred and one hundred fifty units per project (FHA 1954a, pt. III, sec. A, 2). In 1947, following the creation of the Minority Group Housing Program, the agency did increase its acceptance of minority housing
projects, insuring 205 new developments for minority occupancy between 1947 and 1954 with an additional 146 small projects in the process of being completed. Yet in aggregate this amounted to a total of only 29,386 dwelling units, 15 percent of which were open to white occupants as well. To provide some perspective on the proportion of this effort relative to the FHA's broader operations, by 1953 the FHA had provided $33 billion of insurance on nearly 3,500,000 homes and 650,000 rental and cooperative units, the vast majority of which were new dwellings outside of central cities (ibid., pt. I, sec. A, 4). Assuming that only nonwhite residents occupied all of the units open to them, minority households amounted to less than 1 percent of those benefiting from the FHA's mortgage insurance program during the agency's first two decades of operation.  

Moments of daily operation in which FHA officials attempted to encourage housing production for minority groups also illustrated the internal conflict within the bureaucratic machinery. One report surveying the housing supply available to minority groups recorded terse and apathetic commentary on the minority housing situation made by field offices around the country. Most cities reported, “No minority housing problem” (FHA 1952, 1). The field office in Birmingham, Alabama, offered slightly more information noting, “Many mortgagees [i.e., lenders] not interested in buying mortgages on minority housing” (ibid.). The longest report came from Milwaukee, Wisconsin, whose field office asserted, “Individual ownership [is] not appreciated by minority groups who prefer to live in lower cost public housing—[it is] very difficult to sell good housing to minority groups” (ibid., 1).

In February 1954, three months before the historic Brown v. Board of Education Supreme Court decision, the Zone Commissioners sent nearly identical letters to all city level administrators tepidly urging them to meet the goals of the minority housing program. All letters consisted entirely of the following statements or their very near equivalent:

I am going to depend on you to increase the opportunities of minority groups to obtain good housing in your jurisdiction, and I shall be watching with interest therefore the progress that you are making in accomplishing the housing goal which has been established for your office as a minimum for attainment. The services of the Racial Relations Officers shall be enlisted in your planning to meet the goal as well as in your actions to achieve production of the housing. (FHA 1954c)

The energy and scope of this encouragement was scant in comparison to the massive campaign involving thousands of committees formed to create a “groundswell” of demand among white Americans for homes and dozens of developments, insuring 205 new developments for minority occupancy between 1947 and 1954 with an additional 146 small projects in the process of being completed. Yet in aggregate this amounted to a total of only 29,386 dwelling units, 15 percent of which were open to white occupants as well. To provide some perspective on the proportion of this effort relative to the FHA's broader operations, by 1953 the FHA had provided $33 billion of insurance on nearly 3,500,000 homes and 650,000 rental and cooperative units, the vast majority of which were new dwellings outside of central cities (ibid., pt. I, sec. A, 4). Assuming that only nonwhite residents occupied all of the units open to them, minority households amounted to less than 1 percent of those benefiting from the FHA's mortgage insurance program during the agency's first two decades of operation.

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of publications inciting the housing industry to supply them. The minority housing goals had been set under the supervision of George Snowden, the Minority Group Housing Adviser, since the creation of his position two years previously. After performing virtually no evaluation of the market, the program somewhat whimsically established numbers of housing units available to minority groups for field offices to insure (Thompson 1953).  

Nearly every page of the program’s documentation reveals very limited concern for its success on the part of most FHA officials. Rather than measure accomplishments of the housing goals by counting the number of units actually insured by the field office, Mr. Snowden and the Minority Group Housing Program simply tallied the number of applications for insurance received by the field offices. As this included the undocumented number of applications that the FHA offices rejected, these tallies inflated the number of units counted toward achieving minority housing production goals. These numbers also failed to account for a number of other problems faced by minority housing developments that the FHA actually did insure. For example, a letter from C. W. Star, Zone II Commissioner to FHA Commissioner Walter Greene observed, “I wish to point out that it is necessary to exercise extreme care in the production of minority group housing to see that it is properly located and at a price within the effective market. Failure in this respect has resulted in the past three or four years in the conversion of approximately 1,800 units from Negro to White occupancy in Zone II” (Star 1952, 1). This amounted to a significant percentage of the units that the FHA had insured for nonwhite occupancy nationally by this time.

CONCLUSION: THE GHOST OF RACE IN THE MACHINE

The minority housing program could not be assimilated into “the normal operation of the agency’s machinery,” because that very machinery operated to eliminate minority housing opportunities from white neighborhoods and limit them to existing and generally depressed urban enclaves. Erasing overt references to race in the agency’s policy statements and employing Racial Relations Officers in a public relations campaign to defend the agency’s image did virtually nothing to reduce the agency’s complicity in residential segregation. Failure to address this aspect of its role in the housing market also led the FHA to misrepresent the chief causes of the rapid ghettoization

21. Racial Relations Officer Albert Thompson’s letter chastised the frivolity of the housing goals and calling for “more realism [to] be exercised in the setting of goals for 1954.”
of blacks in central cities over the previous two decades. By directing the blame outward, the agency diverted attention away from the areas of its operation that would require substantial reform before encouraging growth in housing available to minorities could become part of its normal functioning and before the minority housing crisis itself could be effectively addressed.

The FHA intervened in the housing market at the most pivotal moment of the market's history. The Depression had left no corner of the country unscathed, and the vulnerability this created in the housing and lending industries made them uniquely dependent on and amenable to government intervention in their operations. By leaning on that weakness and using the vast resources the country was willing to mobilize when faced with a seemingly bottomless economic decline, the FHA sought to re-create the market entirely in its own image. As a result, the housing industry recovered from its disarray and began to move forward with its own momentum. But it moved along a trajectory of the FHA's design, one that intended to steer resources away from African Americans and into the country's burgeoning white suburbs.

The irony of this story is that the FHA program, conceived to help lift the country out of the Depression, played a central role in creating the African American urban economic depression that persists today. The agency declared a central aim of the National Housing Act to be the revival of economically depressed cities through the resuscitation of their building trades. “No group has been harder hit by the depression than workers in the building industry. . . . About one-third of the workers whose families now are on the relief rolls are normally employed in the building industry, and many others in factories, transportation and other fields are indirectly dependent on this industry for a livelihood. Until these workers are reemployed, no community can enjoy a full measure of prosperity” (FHA 1934a, 3, original emphasis).

Cities like Trenton, however, whose economies were almost entirely dependent on the building trades and affiliated industries, suffered most under the FHA program. Millions of African Americans had migrated to these industrial centers to take advantage of employment opportunities created by the economic boom of the 1920s. As African American neighborhoods in urban centers expanded, the FHA redlined increasing proportions of the cities’ real estate and colored most of the remaining territory yellow—signifying “definite decline.” At the same time, the federal mortgage insurance program enabled many of the cities' more affluent white residents to move into new suburban developments, precipitating further decline in the value of urban real estate and exacerbating the hemorrhaging of human and financial capital out of cities. The FHA accepted the ghettoization of African Americans as the cost of insuring the American dream for white citizens.
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