September 18, 2022

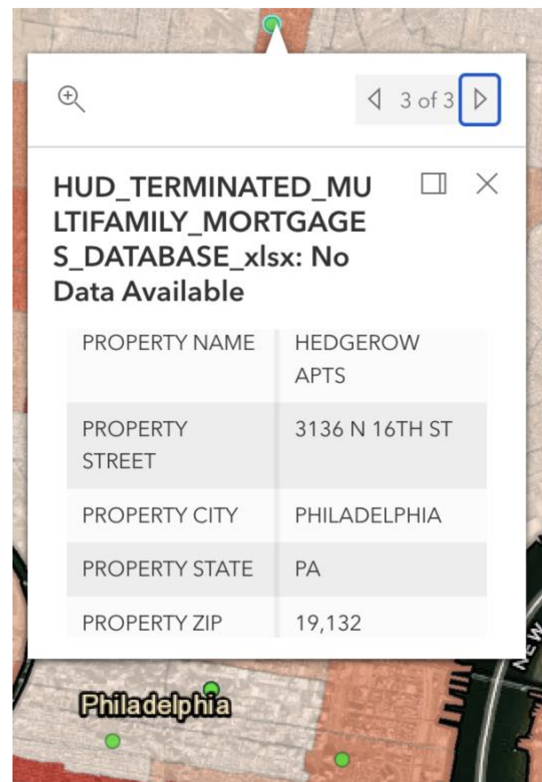
Dear Penn Economic History Forum participants,

Thank you so much for reading this article draft. This is our first complete draft, and our plan is to send it out for review later this fall or winter. We are also working on a companion digital mapping project that draws upon a database of more than 50,000 FHA-backed multifamily mortgages. That project is linked here: https://arcg.is/0nWPrT. As with the draft article, please do not cite or circulate the map— our findings are provisional, and we still have a considerable amount of work to do with the data. Specifically, we still need to determine the street addresses of many of the more than 7,000 FHA Section 608 WWII and veteran housing. The map depicts (1) the density of African American population based on 1950 census figures, rendered in red, and (2) the placement of Section 608 housing (green dots). You can click on the green dots to get more information on each project: it's name and address, number of units, and financial information. N.b., there are other data layers that come up when you click on a property, so click forward until you come to the panel titled "HUD Terminated Multifamily Mortgage Database" (see below for a screen shot). In the article, we highlight the placement of 608 projects in the Chicago area and Queens, NY, and, in future drafts, we plan to include Washington, D.C. (which was notable for its comparatively higher number of 608 projects in African American communities), metropolitan New York City, Detroit, Houston, and Los Angeles.

We also want to share our gratitude to Penn History Ph.D. candidate Laura Eckstein and D.J. Porter of Penn's Price Lab for Digital Humanities. Their assistance with the mapping and data analysis has been essential.

Any and all feedback is most welcome and appreciated. Thank you again for reading!

- Brent Cebul & Michael R. Glass



**Mortgaging Out:**
**FHA Credit Policy and the Remaking of Metropolitan America**

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On a boozy Saturday night in August 1950, Clyde L. Powell lost $5,000 playing craps at the Dunes Club casino in Virginia Beach. Since the creation of the Federal Housing Administration (FHA) in 1934, Powell had climbed its ranks to become Assistant Commissioner for Multi-Family Housing, managing its national rental operations. He was in Virginia to celebrate the completion of an apartment complex insured by the FHA's "War Housing Insurance" program. As his gambling losses piled up, Powell's hosts that night, a Norfolk real estate developer and a local FHA official, quietly covered the bill by writing it off as a "financing expense" for the apartments. For Powell, however, an embarrassing evening turned into a major scandal when the Federal Bureau of Investigation (FBI) launched an inquiry into his cozy relationships with developers. The probe revealed that for the past decade, Powell had been taking bribes in exchange for inflating appraisals on FHA-insured mortgages. He had cash in safe deposit boxes at multiple banks, and, with a pile of cashier's checks, he had recently bought a corner lot in Spring Valley, an exclusive neighborhood in Washington, DC.[1]

Although the FBI depicted Powell as a singularly corrupt official, his actions reflected broader patterns. Beginning in the New Deal, the federal government had used public insurance

[1] Senate Committee on Banking and Currency, *FHA Investigation* (Washington, DC: Government Printing Office, 1954), 18-20; C.P. Trussell, "Gambling Losses of $5,000 in Night Laid to F.H.A. Aide," *New York Times*, April 17, 1954, 1.

to incentivize private housing construction. At times this public-private arrangement shaded into blatant corruption, as some builders obtained higher mortgage valuations by showering FHA officials with bribes and gifts. But more often, builders secured higher valuations through discreet and fully legal methods. Following the Powell episode, subsequent investigations found that throughout the 1940s building boom, FHA officials routinely approved insurance for mortgages with marked up land values, excessive cost estimates, and exorbitant fees. Among builders, this process was known as "mortgaging out." After securing outsized loans, builders could pocket the difference between the inflated values and the actual construction costs, allowing them to make huge profits from tiny investments. For one FHA-insured apartment complex in New York, the builder invested just $20,000, yet through cost inflation managed to pocket $4.9 million in excess mortgage funds. For another in Ohio, the builder invested just $4,000, yet walked away with $1.1 million in leftover funds. Of the more than five hundred FHA-insured apartment complexes that a Senate committee investigated across the country, four out of five were found to have excessive profits. In their final report, the committee declared that real estate operatives had used the FHA "as a vehicle to enable a few to reap fortunes at the expense of the American people." Their outrage stemmed from the fact that residents ultimately footed the bill in the form of higher rents, mortgage payments, and insurance fees.[2]

For good reason, much of the scholarship on the FHA has focused on its policies of racial exclusion. Building on Kenneth Jackson's foundational work about mortgage redlining, scholars have documented how the agency staffed its offices with realtors who promoted segregation as a professional virtue, its appraisal guidelines relied on pseudo-scientific theories that conflated value with whiteness, and its employees dismissed civil rights protests by claiming they were

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[2] Senate Committee on Banking and Currency, *FHA Investigation*, 2-3, 23-25, 116-118, 1.

merely supporting a "free market" for housing. By insuring long-term, fully-amortized mortgages for white homebuyers and systematically excluding people of color, the FHA at once expanded the white middle class, established durable patterns of spatial inequality, and institutionalized redlining policies that slowed appreciation rates in nonwhite areas.[3]

Nonetheless, we still lack a full accounting of FHA credit policy, especially regarding how the evolving terms of federal insurance shaped the development, location, and affordability of rental housing. Beyond exposing how fraud and graft fueled FHA operations, the Senate investigation offered a window into the mechanics of the public-private housing system during and immediately after World War II. What emerged was not just a story of corruption but a comprehensive picture of how credit structures, profiteering, speculation, and structural racism together drove metropolitan development. Drawing upon a database of thousands of FHA-insured apartments nationwide, this article and an associated digital mapping project explore how the FHA, particularly its Section 603 and 608 wartime programs, encouraged builders to locate rental developments in outlying urban and suburban areas.[4] As a result of longstanding redlining policies, these places were often unavailable to nonwhite residents. In this way, the FHA expanded housing options in some places while constraining them in others.

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[3] Kenneth T. Jackson, *Crabgrass Frontier: The Suburbanization of the United States* (New York: Oxford University Press, 1985); Paige Glotzer, *How the Suburbs Were Segregated: Developers and the Business of Exclusionary Housing, 1890-1960* (New York: Columbia University Press, 2020); LaDale C. Winling and Todd M. Michney, "The Roots of Redlining: Academic, Governmental, and Professional Networks in the Making of the New Deal Lending Regime," *Journal of American History* 108, no. 1 (2021): 42-69; David M. P. Freund, *Colored Property: State Policy and White Racial Politics in Suburban America* (Chicago: University of Chicago Press, 2007); N. D. B. Connolly, *A World More Concrete: Real Estate and the Remaking of Jim Crow South Florida* (Chicago: University of Chicago Press, 2014); Keeanga-Yamahtta Taylor, *Race for Profit: How Banks and the Real Estate Industry Undermined Black Homeownership* (Chapel Hill: University of North Carolina Press, 2019).

[4] Despite its enormous impacts on metropolitan development, Section 608 has received very little attention from scholars. For instance, the leading housing policy textbook makes no mention of the program. See Alex F. Schwartz, *Housing Policy in the United States*, 3rd ed. (New York: Taylor and Francis, 2015).

But FHA credit policy had far-reaching consequences for metropolitan development beyond deepening spatial inequality. No less than racial exclusion, profiteering and speculation were signature features of the FHA. As the Powell episode and subsequent investigations attested, federal insurance did not even guarantee decent housing for everyone included in FHA programs. Instead, federal insurance often unleashed speculative development that enriched builders with windfall profits and saddled residents with higher rents, mortgages, and insurance fees. In a frenzied effort to stimulate more housing construction, lawmakers repeatedly chose to tolerate cost inflation. Over time, this toleration of higher costs made housing production an increasingly expensive proposition, and it cemented real estate speculation as a hallmark of federal housing policy. In what follows, we feature the exploits of prominent builders such as William J. Levitt and Fred C. Trump—who pocketed $5.8 million and $3.0 million, respectively, in funds skimmed from FHA-insured mortgages.[5] While Levitt and Trump were the most familiar names, they were part of a vast network of builders who leveraged federal insurance to ensure themselves publicly guaranteed profits. As we show, the real estate industry bent FHA programs to their advantage through lobbying, congressional testimony, and close relationships with government officials. In the process, builders dictated the terms for FHA insurance on single-family homes, multifamily apartments, urban renewal housing, and more.

FHA credit policy also stitched together metropolitan space in ways that scholars have yet to fully appreciate. The FHA shaped the built environment of postwar America not only by bankrolling the creation of new suburbs, but also by establishing financial incentives that favored apartment construction on cheaper land along urban and suburban fringes. By the 1950s, amid growing demands and criticism, Congress did finally task the FHA with remedying the urban

[5] Senate Committee on Banking and Currency, *FHA Investigation*, 115, 123.

housing crisis. But most builders declined to participate, since they preferred the surer profits of suburban houses over more costly urban apartments. Put differently, the overdevelopment of suburbs and the underdevelopment of cities can be understood, in part, as a product of how real estate operatives understood their ability to profit across a range of FHA programs.

The far-reaching impacts of these credit programs have also been overshadowed by historians' tendency to focus on iconic pieces of legislation. Accounts of postwar housing policy are usually framed around the Housing Act of 1949, which famously established the goal of "a decent home and suitable living environment for every American family." As many scholars have shown, the implementation of the law did not live up to its lofty ambitions, partly because of contradictory impulses between slum clearance and suburbanization, and partly because of intense opposition to public housing. Although the law authorized the construction of 810,000 units of low-income public housing, by 1956 just 203,919 units had been completed.[6] Meanwhile, over that same period the FHA insured the mortgages for 1.9 million single-family houses and 471,915 apartments. FHA Section 608 for "war housing" alone accounted for 465,674 of those apartments, more than double the amount of public housing.[7] Despite the outsized attention paid to slum clearance and public housing, mortgage insurance remained the most consequential, if underappreciated, aspect of federal housing policy.

The FHA credit policies that unleashed the explosion of construction did not result from a single piece of legislation. It was a gradual process that took place in fits and starts through ongoing power struggles over the terms of federal insurance. Indeed, the Housing Act of 1934,

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[6] Housing Act of 1949, Pub. L. No. 171, 63 Stat 388 (July 15, 1949), 413, 428; Housing and Home Finance Agency [HHFA], *Tenth Annual Report* (Washington, DC: Government Printing Office, 1957), 193. On the Housing Act of 1949, see Alexander Von Hoffman, "A Study in Contradictions: The Origins and Legacy of the Housing Act of 1949," *Housing Policy Debate* 11, no. 2 (2000): 299-326; Rosalyn Baxandall and Elizabeth Ewen, *Picture Windows: How the Suburbs Happened* (New York: Basic, 2000), 87-105; Schwartz, *Housing Policy in the United States,* [PAGE #s].
[7] HHFA, *Twelfth Annual Report* (1958), 52.

which first created the FHA, was amended *forty-seven* times during its first twenty years.[8] A flurry of amendments came with the onset of World War II, when lawmakers responded to the acute housing shortage with credit liberalization: increasing the level of FHA insurance, lengthening the terms of insurable loans, and enhancing other incentives for private builders and lenders. The crucial turning point came with the 603 and 608 programs for "war housing," which leveraged the FHA credit apparatus to build housing for war workers. Real estate operatives exploited these provisions to mortgage out, inflating their mortgages to reap immense profits from tiny investments. When the profiteering came to light during congressional hearings in 1954, lawmakers cracked down on the abuses with stringent cost restrictions at the very moment when policymakers were turning their attention to the urban housing crisis.

This article charts the turbulent history of FHA credit policy during the postwar era. We begin by tracing the FHA's turn toward credit liberalization during World War II and analyzing the incentives it established for metropolitan development. Next, we examine the spatial and racial disparities produced by these FHA programs: their role in driving all-white suburbanization, their influence on the built environment across metropolitan space, and the repercussions for Black residents confined to urban neighborhoods with expensive and low-quality housing. Through it all, builders exploited these FHA programs to mortgage out, enhancing their profits while undermining affordability for renters and owners alike. The Senate committee publicly censured builders like William Levitt and Fred Trump for reaping "windfall profits," but as we show, they deflected the criticism by emphasizing their contributions to housing construction. Our final section explores how Congress attempted to provide affordable rentals on urban renewal sites by relying on the same programs that created the urban housing

[8] Judge Glock, "How the Federal Housing Administration Tried to Save America's Cities, 1934-1960," *Journal of Policy History* 28, no. 2 (2016): 291.

crisis in the first place. In the end, the FHA proved incapable of enticing builders back to cities. Without the lure of quick profits, they kept pushing farther and farther into the suburbs.

**Wartime Liberalization**

Well before the Pearl Harbor attack, American cities faced an epochal housing shortage. As millions flooded into centers of defense production, it stretched the nation's housing stock to its breaking point. A 1941 survey by the Works Progress Administration (WPA) found that among 120 critical defense areas across the country, nine-tenths of them were experiencing a "housing shortage" with vacancy rates less than 5 percent; in two-fifths the shortages were already "critical" with vacancies below 2 percent. Low inventory forced in-migrants to either pay skyrocketing rents or accept rundown dwellings. Summarizing the survey results, a WPA administrator declared: "Thousands of defense industry workers and civilian employees of the Army and Navy…have found it difficult to find a suitable place to live."[9] To address the shortage, the Roosevelt administration initially utilized the Lanham Act (est. 1940), which provided direct appropriations to construct emergency accommodations for defense workers. But most of the housing built under the Lanham Act consisted of flimsy dormitories, portable trailers, and other "temporary" units intended for disposal after the war. In addition, every round of appropriations sparked protests from lawmakers opposed to direct government appropriations for public housing.[10] With Congress deadlocked, the shortages kept mounting.

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[9] Corrington Gill, "Surveying the Housing Shortage," *The Christian Science Monitor*, September 20, 1941, WM3.
[10] Lindsay Peterson, "Building the Home Front: The Lanham Act and the Modernization of American Housing, 1940-1945," (Ph.D. dissertation, New York University, 2017), 20-46; Kristin M. Szylvian, "The Federal Housing Program During World War II," in *From Tenements to the Taylor Homes: In Search of an Urban Housing Policy in Twentieth-Century America*, ed. John F. Bauman, Roger Biles, and Kristin Szylvian (University Park: Pennsylvania State University Press, 2000), 121-138.

Over the course of the war, the federal government increasingly relied on private builders as the key agents of the defense housing program. President Roosevelt signaled his preference for private over public construction by appointing Charles F. Palmer as Defense Housing Coordinator in July 1940. An Atlanta real estate developer and former president of the National Association of Building Owners and Managers, Palmer rose to prominence by guiding completion of the Techwood Homes, the first public housing project in the United States. This experience instilled a belief in what he called "enlightened capitalism." While Palmer never became a committed supporter of public housing, he urged the real estate industry to cooperate with government when public action could buttress private enterprise.[11] Upon taking his post in Washington, he began lobbying for the FHA to assume a greater role. "The magnitude of the defense housing program is such as to require the utmost speed in the production of dwelling accommodations at low cost," he testified before Congress in the spring of 1941. "This can best be accomplished by the maximum use of the numerous builders…who are accustomed to operating in all sections of the country with mortgage financing."[12] Only private builders could produce high-volume, low-cost units at the speed demanded by the war emergency.

Palmer's elevation of the FHA as the solution to the shortage marked a crucial turning point in the history of federal housing policy. While the concept of "affordable housing" is of more recent provenance, reformers and policymakers had developed statistical understandings of housing affordability during the 1920s, when housing costs rose considerably.[13] In Chicago, for instance, reformers recommended that residents of modest means devote no more than 20

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[11] Lee E. Cooper, "Urges Real Estate to Aid Slum Poor," *New York Times*, June 24, 1937; Peterson, "Building the Home Front," 19-20.
[12] Testimony of Charles F. Palmer, *Defense Housing Insurance: Hearings before Committee on Banking and Currency*, House of Representatives, 77th Cong., 1st sess., February 17, 1941, 9.
[13] The Google Ngram for "affordable housing" shows the phrase did not become common until the 1970s. See here.

percent of their annual income to housing. By 1930, however, the census indicated that Chicagoans at the 25th percentile of income (one definition of modest means) committed nearly 36 percent of their income to housing.[14] Drawing inspiration from "Red Vienna" and other European precedents, advocates of "social housing" gained momentary ascendence. Catherine Bauer, the most prominent champion of social housing, advocated for increased housing production while also viewing housing a right of citizenship.[15] Unlike speculative developments designed for "quick profits," Bauer wrote in her 1934 classic *Modern Housing*, such housing would "be available at a price which citizens of average income or less can afford."[16]

These ideas also informed the early aspirations of the New Deal. Public Works Administration (PWA) director Harold Ickes hoped its low-income developments would lower the costs of private housing through market competition—similar to the "creative competition" that characterized the Tennessee Valley Authority's approach to rural electrification.[17] Yet in 1935, when the Supreme Court held that the federal government could not exercise eminent domain for public housing construction, it halted new PWA projects. The subsequent legislative battles, which culminated in the Housing Act of 1937, created a public housing program that was, in the words of housing scholar Edward Goetz, "compromised in ways that significantly constrained its implementation." The newly created United States Housing Authority partnered with locally charted public housing authorities, which delegated siting and tenant selection decisions to local administrators who generally accommodated segregation. The 1937 legislation also established strict cost limits and required the "equivalent elimination" of one substandard

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[14] Gail Radford, *Modern Housing for America: Policy Struggles in the New Deal Era* (Chicago: University of Chicago Press, 1996), 24-5.
[15] H. Peter Oberlander and Eva Newbrun, *Houser: The Life and Work of Catherine Bauer* (Vancouver: University of British Columbia Press, 1999), 134-35; Radford, *Modern Housing for America*, 59-83.
[16] Catherine Bauer, *Modern Housing* (Minneapolis: University of Minnesota Press, 2020 [1934]), xlix.
[17] Brent Cebul, "Creative Competition: Georgia Power, the Tennessee Valley Authority, and the Creation of a Rural Consumer Economy, 1934-1955," *Journal of American History* 105, no. 1 (June 2018): 45-70.

housing unit for every unit of public housing built, both of which appeased real estate interests by ensuring that public housing would not compete with the private market.[18] And so, by the late 1930s New Dealers had already retreated from the direct provision of housing. Instead, they increasingly sought to boost the supply of housing through the FHA's partnerships with builders. For the next several decades, lawmakers would consistently prioritize the *volume* of production over *affordability* as the primary metric of success for housing policy.

To accelerate housing production during World War II, Palmer called for adapting FHA credit operations. Following his advice, Congress amended the National Housing Act to include Title VI for FHA-administered "Defense Housing." The new Section 603 mortgage insurance program (est. 1941) liberalized the terms for mortgages under Section 203, the original program for single-family houses. As an added inducement, the 1941 legislation raised the level of FHA insurance from 80 to 90 percent of the mortgage value in places where "an acute shortage of housing exists or impends."[19] This measure—which reduced down payments to just 10 percent—was seen as such a risky move that Congress established a separate insurance pool for 603. FHA director Abner H. Ferguson explained that in the event of large-scale defaults, the separate pool meant the integrity of 203 loans would "not be endangered by this additional risk."[20] Despite these promises of security, several lawmakers raised concerns that such enticing terms might lead to profiteering. "Is there any safeguard against waste and extravagance?" asked Representative Wright Patman (D-TX). He predicted that 90-percent mortgages would allow

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[18] Edward G. Goetz, *New Deal Ruins: Race, Economic Justice, and Public Housing Policy* (Ithaca, NY: Cornell University Press, 2013), 24-47, quote on 24. For case studies of public housing, see Lawrence J. Vale, *From the Puritans to the Projects: Public Housing and Public Neighbors* (Cambridge, MA: Harvard University Press, 2000); Rhonda Y. Williams, *The Politics of Public Housing: Black Women's Struggles Against Urban Inequality* (New York: Oxford University Press, 2004); D. Bradford Hunt, *Blueprint for Disaster: The Unraveling of Chicago Public Housing* (Chicago: University of Chicago Press, 2009); Akira Drake Rodriguez, *Diverging Space for Deviants: The Politics of Atlanta's Public Housing* (Athens: University of Georgia Press, 2021).
[19] National Housing Act Amendments of 1941, Pub. L. No. 24, 55 Stat. 55 (March 28, 1941), 56.
[20] Testimony of Abner H. Ferguson, *Defense Housing Insurance,* February 19, 1941, 70.

builders to inflate their insured valuations and pocket the leftover funds. "Uncle Sam is signing the note," Patman huffed, but "there is no limit to the profits they make."[21]

The concerns about profiteering signaled how the establishment of Title VI also marked a momentous change in FHA operations. In the depths of the Great Depression, Congress had created the FHA to rescue the construction industry and stabilize mortgage lending. By guaranteeing private mortgages, the FHA essentially functioned as a government insurance agency. Since its inception in 1934, the 203 insurance fund never once required an appropriation from Congress; the premiums paid by mortgagors covered all of the agency's administrative expenses and still left enough to augment the reserves.[22] Title VI potentially threatened this spotless lending record. Not only did 603 raise the level of insurance from 80 to 90 percent of the loan, it also extended FHA insurance to large-scale "operative builders" who constructed dozens of houses at once—a major shift away from evaluating each borrower on an individual basis. Under the liberalized terms of 603, a builder could obtain a large mortgage to erect an entire subdivision at once. These measures, along with the general uncertainty of the wartime context, encouraged lawmakers to add provisions compensating for additional risks. The 1941 legislation increased monthly insurance premiums from ½ of 1 percent, as it had been under 203, to 1 and ½ percent under the 603, thus requiring borrowers to contribute more each month.[23] Credit liberalization was seen as such a radical move that 603 included higher insurance premiums, enhancing security for lenders, the costs of which builders passed on to residents.

Given the wartime labor and materials shortages, the production figures for 603 remained modest. Between 1941 and 1945, the FHA insured the mortgages for 373,000 houses under 603,

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[21] Wright Patman, *Defense Housing Insurance*, February 18, 1941, 26-27.
[22] Jackson, *Crabgrass Frontier*, 195-204; Ruth G. Weintraub and Rosalind Tough, "Federal Housing and World War II," *The Journal of Land & Public Utility Economics* 18, no. 2 (1942): 160-162.
[23] Testimony of Abner H. Ferguson, *Defense Housing Insurance,* March 14, 1941, 9-10, 26, quotes on 9.

slightly less than the 444,000 temporary units created by the Lanham Act.[24] Nonetheless, the program established important precedents for metropolitan development. Across the country, from major cities like Chicago to smaller towns like Rome, New York, and Portland, Oregon, FHA-backed subdivisions followed the same development model: identical rows of detached single-family houses erected in peripheral areas on cheap land (fig. 1). It seems reasonable to assume that most, if not all, of these developments excluded people of color. Indeed, FHA underwriting guidelines stated that "the procedures followed under 603 are much the same" as those under 203. "In fact," it continued, "identical forms are used in many instances for both 203 and 603," meaning the same redlining policies guided official decisions about where, and for whom, to grant FHA insurance.[25] Despite the identical paperwork, the establishment of 603 triggered important changes in mortgage finance. Once Congress offered builders liberalized terms, they would come to expect socialized risks and publicly underwritten profits.

Yet even as the FHA liberalized single-family mortgages, for most people homeownership remained out of reach and impractical. Policymakers quickly recognized that multifamily apartments utilized materials more efficiently and better accommodated a mobile population.[26] In 1942, Congress amended Title VI to include another mortgage insurance program, FHA Section 608, to provide multifamily rental housing for war workers. As with 603, the 608 program enticed builders with FHA insurance on 90 percent of the value for multifamily apartments. Within that coverage was included the "reasonable replacement costs" for building materials and land values, along with 5 percent fees each for builders and architects. The bill also

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[24] *Seventeenth Annual Report of the Federal Housing Administration: Year Ending December 31, 1950* (Washington, DC: Government Printing Office, 1951), 11; Peterson, "Building the Home Front," 19.
[25] National Housing Agency and Federal Housing Administration, *Mortgagees' Handbook: A Section 203 Guide for FHA Approved Mortgagees* (Washington, DC, 1946). On FHA redlining, see Freund, *Colored Property*, 176-240.
[26] "Builders Rush Defense Housing to Meet Growing Shortage," *American Builder and Building Age*, August 1, 1941, 63; Philip Funigiello, *The Challenge to Urban Liberalism: Federal-City Relations during World War II* (Knoxville: University of Tennessee Press, 1978), 80-101.

further liberalized 603 by extending the maturity of all FHA-insured mortgages from 20 to 25 years.[27] If speed and volume were the metrics of success, these provisions would allow maximum latitude for local FHA officers in approving projects. Testifying to the urgency of 608, a representative from the National Association of Real Estate Brokers told Congress: "Without the passage of these amendments, private building will…largely disappear."[28]

Soon after Congress enacted the Title VI provisions for single-family houses and multifamily apartments, real estate operatives and FHA officials jointly praised the federal credit subsidies. An editorial in the *American Builder and Building Age*, a trade magazine, applauded "the helpful encouragement of private building that has invariably characterized the present administration."[29] FHA Commissioner Ferguson echoed these sentiments. Praising the production figures under 603 and 608, he said they offered "proof of the effectiveness of private enterprise." The programs were "the first time that private builders…have been given the opportunity to show what they could do in a war emergency."[30] Many industry officials began emphasizing the social good that arose from stimulating homeownership and affordable rentals. For them, defense housing not only solved the war emergency; it also delivered broader social policy goals. Bankers, in particular, celebrated the supposedly widespread benefits stemming from publicly underwritten profits. Writing in the FHA's bulletin, *Insured Mortgage Portfolio*, banker L. Douglas Meredith, who managed the National Life Insurance Company's growing portfolio of 603 and 608 mortgages, endorsed this fusion of private profits and public priorities. Title VI, he wrote, "has aided the marshalling of private capital for a most worthy social purpose,

[27] National Housing Act Amendments of 1942, Pub. L. No. 559, 56 Stat. 301 (May 26, 1942), 302-3.
[28] Testimony of J.M. Mowbray, *National Housing Act Amendments of 1942: Hearings before the Subcommittee on Banking and Currency*, US Senate, 77th Cong., 2nd sess., April 29, 1942, 48.
[29] "Home Building Essential to National Defense," *American Builder and Building Age*, July 1, 1941, 63.
[30] Abner H. Ferguson, "Private Enterprise in War and Post-War Housing," *Insured Mortgage Portfolio* 7, no. 4 (1943): 8.

with the Government assuming the unpredictable risk. What better formula has yet been devised to aid the continuation of capitalistic and democratic freedom of enterprise?"[31]

Not everyone agreed that credit liberalization delivered universal benefits. From the very beginning, many critics noted how socializing builders' risks and profits meant shunting many costs onto homeowners and renters. Objecting to the public capitalization of large-scale builders, the American Federation of Labor called Title VI "the most astounding, most outrageous, and most unethical legislative proposal ever advocated by responsible officials of a democratic government."[32] Richard Deverall of the Congress of Industrial Organizations confirmed these suspicions when he testified before Congress in 1942. After a year of experience with new houses insured under 603, he told the lawmakers that the program "promoted speculative building." Most of the houses were "jerry-built." Yet despite their small sizes and shoddy materials—shortcuts taken to boost profits—builders were selling them at prices well beyond the means of the typical war worker. "It just is not right," he protested, that builders profited handsomely on what were essentially "gingerbread houses."[33] Housing activist Charles Abrams went so far as to denounce 603 as "a swindle." He fumed that, at the behest of real estate lobbyists, "FHA standards were lowered to increase builders' profits [and] bait more workers into buying homes."[34] Federal officials deflected these critiques by pointing to impressive production figures and smooth lending operations. But in retrospect, especially given how abuses of Title VI would erupt into a major scandal, these critics' suspicion appears prescient.

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[31] L. Douglas Meredith, "The Investment Advantages of FHA Loans," *Insured Mortgage Portfolio* 8, no. 2 (1943), 39. On liberals' and businesspeoples' embrace of publicly subsidized, private sector-led solutions for social problems, see Brent Cebul, *Illusions of Progress: Business, Poverty, and Liberalism in the American Century* (Philadelphia: University of Pennsylvania Press, forthcoming 2023), chs. 1-4.
[32] Quoted in Peterson, "Building the Home Front," 28.
[33] Testimony of Richard Deverall, *National Housing Act Amendments of 1942*, April 29, 1942, 26-27, 31, 43.
[34] Charles Abrams, "Rent Control Is Not Enough," *New Republic*, March 16, 1942, 362.

**The Great Apartment Boom**

After FHA Sections 603 and 608 made significant contributions to the war housing effort, Congress allowed both of them to lapse in 1945. But the housing shortage did not abate at the end of the war; instead, it worsened as millions of returning soldiers created an uptick in marriage and birth rates. With nowhere else to go, newlyweds squeezed into spare bedrooms, empty basements, and other converted spaces.[35] Congress responded to the postwar shortage with further credit liberalization. To incentivize rapid construction, the Veterans' Housing Emergency Act of 1946 quickly revived both 603 and 608, utilizing the federal credit programs for the social welfare goal of providing housing "for veterans of World War II and their families."[36] Testifying before the Senate, the National Housing Administrator said the goal was to "provide homes for veterans" by increasing "pressure at every point to produce faster."[37]

The revival of 603 for single-family homes kickstarted the suburban boom, even as Congress remained deadlocked on a comprehensive housing bill. Between 1945 and 1948, Section 603 underwrote the construction of an additional 332,000 single-family houses nationwide.[38] When 603 expired in 1948, lawmakers simply exported its liberalized provisions into Section 203, the original single-family program. The Housing Act of 1948 extended the maximum mortgage maturity for 203 loans from 20 to 25 years, and for smaller houses up to 30 years. Significantly, it also raised the level of FHA insurance to 95 percent of the appraised value—making down payments vanishingly small—and authorized construction advances for large-scale "operative builders." It was these measures, coupled with the Veterans

[35] Jackson, *Crabgrass Frontier*, 231-233; P. M. Hauser and A. J. Jaffe, "The Extent of the Housing Shortage," *Law and Contemporary Problems* 12, no. 1 (1947): 3-15.
[36] Veterans' Emergency Housing Act of 1946, Pub. L. No. 388, 60 Stat. 207 (May 22, 1946).
[37] Statement of Wilson W. Wyatt, *Veterans' Emergency Housing Act of 1946: Hearings before the Committee on Banking and Currency*, US Senate, 79th Cong., 2nd sess., March 26, 1946, 18 and 20.
[38] HHFA, *Tenth Annual Report* (Washington, DC: Government Printing Office, 1957), 52.

Administration mortgage guarantees established by the 1944 GI Bill, that allowed white veterans to buy houses in new suburbs for little or no money down.[39] Liberalized credit, enacted as a wartime emergency measure, became an entitlement for white veterans and their families. It also provided significant boon to the building industry, which came to view publicly underwritten profits as just compensation for meeting the nation's critical housing needs.

The Housing Act of 1948 also laid the groundwork for an apartment building boom that remade the metropolitan built environment in significant but less appreciated ways. The law further liberalized the Section 608 program for multifamily apartments by tweaking builders' cost calculation formulas from "estimated replacement cost" to "necessary current cost." Whereas before builders could only count the cost to "replace" all the materials in their buildings when applying for an FHA-insured mortgage, now they could estimate the "current" market value, for which the FHA would offer 90 percent insurance.[40] The change all but invited speculation, since it allowed builders who had assembled cheap land during the war to inflate their property values—often with the help of a friendly appraiser. These new enticements unleashed an explosion of apartment construction. Nationwide, between 1947 and 1953, approximately 759,000 new apartment units were built, and the FHA insured 74 percent of the total. In 1950, fully 99 percent of new apartments were underwritten by Section 608.[41] "The remarkable fact about the Great Apartment Boom," *Architectural Forum* gushed in a 1950 feature article, was that it all had been underwritten "by the U.S. government."[42]

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[39] Housing Act of 1948, Pub. L. No. 901, 62 Stat 1268 (Aug. 10, 1948); Freund, *Colored Property*, 184-186.
[40] Housing Act of 1948, at 1269.
[41] Leo Grebler, David M. Plank, and Louis Winnick, *Capital Formation in Residential Real Estate: Trends and Prospects* (Princeton: Princeton University Press, 1956), 147.
[42] "Apartment Boom Floated on Public Risk and Private Profit," *Architectural Forum* 92, no. 1 (January 1950): 97.

For the duration of the apartment boom, FHA redlining further entrenched residential segregation. Nearly all the new apartments were built in predominantly white areas, though in most major cities, FHA 608 underwrote at least one apartment complex in a historically Black neighborhood. For this reason, the FHA and its private partners celebrated 608 for expanding the housing options of nonwhite renters. By 1953 the New York Life Insurance Company held a portfolio of $250 million in outstanding 608 loans, of which approximately $17 million "provided accommodations for nonwhites." These "Negro" projects included the Carver Hall Apartments of low-rise cinderblock buildings in the Trinidad neighborhood of Washington, DC; Brookfield Gardens, with one hundred wood-frame duplexes in Richmond, Virginia's Apostle Town neighborhood (later known as Gilpin Court); and Lincoln Fields, a development of two-story garden apartments in Miami's Brownsville-Liberty Square neighborhood. These 608 projects seemed to validate the existence of what FHA officials identified as a profitable "Negro Housing Market."[43] As New York Life's vice president enthused in a feature article for the FHA trade journal: "thus far…financing for minority groups is a sound investment."[44]

Despite underwriting a small number of new apartments in Black neighborhoods, the FHA still firmly adhered to established color lines. Whether in new suburbs or older cities, all of the housing developments insured by the FHA at this time were racially segregated. In this way, Section 608 expanded the rental housing options for a select few Black Americans, albeit within the confines of segregation. Overall, as builders contemplated how to boost their profits in FHA-insured projects, they largely resisted building in urban areas with the greatest housing needs

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[43] On civil rights advocacy for an expanded "Negro Market" for housing, Preston H. Smith, *Racial Democracy and the Black Metropolis: Housing Policy in Postwar Chicago* (Minneapolis: University of Minnesota Press, 2012), 221-253.
[44] Charles R. Van Anden, "New York Life and the Housing of Minority Groups," *Insured Mortgage Portfolio* 18, no. 2 (1953-54): 5-8.

because they believed the costs were too high—in terms of labor, land, assembly and clearing older structures. These further flung, largely white locations not only reinforced landlords' practices of refusing black renters. They also erected more subtle barriers to working class or poor citizens regardless of race of ethnicity, for whom the costs of an automobile and commuting to urban places of work might have been prohibitive.

Park Forest, a well-known Section 608 development in Chicago's far south suburbs, illustrates how builder preferences shaped the apartment boom. In his canonical study of the midcentury, white, professional middle class, William H. Whyte profiled Park Forest, where he wrote, despite the fact that "no Negroes ever did move in," the mere possibility stoked "an acrid controversy."[45] Upon its completion, Park Forest offered white renters some 5,000 units of low-rise garden apartments. In metropolitan Chicago more broadly, 608 apartments facilitated white suburbanization through the construction of projects in predominantly white suburbs to the north such as Evanston, which saw at least 20 projects totaling 485 units. Dozens more were scattered across west side suburbs including Elmhurst, Oak Park, La Grange Park, and Broadview, offering a minimum of 984 new units of housing (fig. 2). At a moment of severe overcrowding in Chicago's urban Black neighborhoods, however, it was not until 1950 that a single Section 608 rental project was greenlit.[46] When that lone 608 project at last broke ground on the city's south side in October 1950, it was the result of political pressure from the city's African American dining car waiters union, whose members, the *Chicago Defender* reported, "were hard hit by the housing shortage and compelled to live in slum areas." Once completed, Parkway Gardens,

[45] William H. Whyte, *The Organization Man* (Philadelphia: University of Pennsylvania Press, 1956 [2002]), 311.
[46] Figures tabulated by authors from Insured Multifamily Mortgages Database, U.S. Department of Housing and Urban Development, July 31, 2022, https://www.hud.gov/program_offices/housing/comp/rpts/mfh/mf_f47, and Seventeenth Census of the United States, 1950, Records of the Bureau of the Census, National Archives and Records Administration, Washington, D.C.

which prospective residents had to partially finance themselves through a cooperative ownership model, included 694 units of new housing for some 3,000 Black Chicagoans.[47]

These same patterns of spatial and racial inequality were replicated in other metropolitan areas. In New York City, builders constructed just three 608 projects in Manhattan and only one, Sugar Hill's Convent Gardens, in the historically Black neighborhood of Harlem. Instead, they constructed thousands of apartment projects in growing white neighborhoods in exurban Queens. In the 1930s and 1940s, Robert Moses stimulated investment in the borough by transforming an industrial ash dump into Flushing Meadows Park, home to the 1939 World's Fair. At least nine 608 apartment projects with a total of 1,540 units were developed within walking distance of the new park. Dozens more were completed further to the east, including in the white, working- and middle-class neighborhoods of Hollis and Queens Village, which saw at least twenty 608 developments and 1,529 units of new rental housing. Available data suggests that at least 13,535 units of 608 housing were constructed in Queens census tracts with no statistically significant Black population; meanwhile, census tracts with Black residents saw 424 units constructed in just three projects (fig. 2).[48]

As in Park Forest, 608 developments usually *preceded* interstate highway construction and regional spurs, suggesting that builders' decisions about where to locate FHA-backed housing developments may have played a role in planning the location of freeways.[49] Indeed, just

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[47] Albert Barnett, "Parkway Gardens Apartments—A New Idea in a New Era," *Chicago Defender*, October 7, 1950, 7.
[48] Figures tabulated by authors from Insured Multifamily Mortgages Database, U.S. Department of Housing and Urban Development, July 31, 2022, https://www.hud.gov/program_offices/housing/comp/rpts/mfh/mf_f47, and Seventeenth Census of the United States, 1950, Records of the Bureau of the Census, National Archives and Records Administration, Washington, D.C.
[49] The Federal-Aid Highway Act of 1944 authorized federal planning, including the selection of urban right-of-ways, at the same time that the 608 developments were being built. See Teal Arcadi, "Remapping America: The Interstate Highway System and Infrastructural Governance in the Postwar United States," Ph.D. Dissertation, Princeton University, January 2022, 85-87.

as it behooved builders to cultivate intelligence about planned highway developments as they assembled land, state and federal highway planners would have been wise to factor in the location of housing developments, many of which, like Park Forest, with space for some 20,000 residents, would become significant population centers in their own right.

Not only did FHA credit policies shape decisions about where and when to build new housing, they also influenced choices about the design and type of structures they would erect. Until the Housing Act of 1948, Section 608 guidelines allowed cost calculations up to "$1,500 per room," which incentivized the construction of apartments with multiple-bedroom floorplans. As a result, between 1941 and 1948, most 608 developments consisted of low-rise, garden-style apartments with ample parking and grassy setbacks. As in Park Forest, many of these developments also included dedicated spaces for community facilities like parks, schools, and libraries.[50]

The Housing Act of 1948, however, decisively changed the building style of FHA-insured apartments. The law shifted the cost calculations for FHA Section 608 from "$1,500 per room" to "$8,100 per family unit."[51] Because costs were now tabulated *per unit*, instead of per room, builders quickly recognized an incentive to construct taller, cheaper complexes with narrow hallways and miniature rooms (fig. 3). After all, the more units a builder could squeeze into an apartment tower, the bigger the mortgage the FHA would approve, and the larger their potential profits. While these developments certainly reflected more efficient uses of urban or suburban space, *Architectural Forum* noted that FHA cost calculations encouraged both

[50] Edward J. Kelly, "Building a Satellite City Under FHA," *Insured Mortgage Portfolio* 13, no. 2 (1948): 3-5, 30-32.
[51] Housing Act of 1948, at 1269.

"financial radicalism" and "design conservatism." Although highly profitable for builders, for residents, these apartments were hardly well-appointed, inspiring structures.[52]

While the FHA succeeded in stimulating a stunning boom of apartment construction, it also drew criticism from a variety of corners. Disgruntled FHA official Leo Grebler, who had served as chief of the Housing Finance Section from 1944 to 1946, critiqued the overreliance on credit liberalization. The wartime 603 and 608 programs, he maintained, would soon lead to housing price inflation. The basic goal of the programs was to facilitate construction by "enlarg[ing] the effective demand for new housing through cheap credit." But the postwar moment was fundamentally different from the Great Depression that birthed the FHA. In a context of full employment, inflation, and materials shortages, cheap credit would not increase production; it would further push up prices. "After supporting 80 to 100 percent loans," Grebler mused, "what weapons are left to stimulate housing construction?"[53] Others criticized the new social welfare goals of the FHA. Former top-level FHA official Miles L. Colean decried how 603 and 608 had converted the agency into "a social credit system for mortgage finance." Instead of approving loans based on actuarial calculations, FHA officials now channeled mortgage credit to particular classes of worthy citizens. Colean complained, "The power of who shall receive credit, how much credit shall be extended, what types of houses shall be financed and in what locations the financing shall take place, all now reside in official hands."[54]

But it would be the rampant profiteering of builders that generated the most sustained criticism. Just as some lawmakers and critics had initially warned, builders quickly learned to bend 603 and 608 to their advantage. The "mortgaging out" process was relatively

[52] "Apartment Boom Floated on Public Risk and Private Profit," *Architectural Forum*, 101.
[53] Leo Grebler, "Stabilizing Residential Construction--A Review of the Postwar Test," *The American Economic Review* 39, no. 5 (1949): 898-910, quotes on 899, 909.
[54] Miles L. Colean, "FHA and the Welfare State," *House & Home*, January 1953, 180-181.

straightforward and—in the absence of provable graft—technically legal. In the process of applying for FHA mortgage insurance, builders could increase the value of the mortgage by marking up land values, overestimating construction costs, and tacking on a 5 percent "architect's fee" (when the standard was 1 percent) or a 5 percent "builder's fee" (an unheard-of practice). For 608 projects built during the apartment boom, FHA insurance commitments regularly exceeded the actual construction costs by 20 percent or more. All of these techniques were openly discussed in trade periodicals. Referring to Section 608 and its miniscule down payments, *Architectural Forum* enthused, "This miraculous piece of legislation makes it possible for almost anybody of moderate acumen to become an apartment owner without spending a cent of his own money." The "608 bonanza" enabled builders to stake their claims to "the FHA gold mine."[55] Cleveland-area appraisers described builders' relationship to the FHA in even clearer terms: Because the insurance programs required only a "token equity investment," profiting mightily from FHA multifamily housing may have "involved a high order of promotional skill, but it certainly did not depend upon private financing in any real sense."[56]

Beyond questions of outright bribery or fraud, political contestation over credit liberalization raised searching questions about the public-private housing system. The policy of credit liberalization did deliver massive numbers of new housing units, as well as fantastic profits for builders. But the cry of "windfalls" suggested that many believed these profits to be excessive and unjust. It remained an open question whether the FHA could produce enough new housing without allowing for such high profits, and whether the agency could ever adequately

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[55] "Apartment Boom Floated on Public Risk and Private Profit," *Architectural Forum* 92, no. 1 (January 1950): 97-106, quotations at 97 and 98. On "mortgaging out," see Leo Grebler, *The Role of Federal Credit Aids in Residential Construction* (New York: National Bureau of Economic Research, 1953), 27-28.

[56] B.B. Beyer, K.F. Kaserman, L.E. Smith, Re-Use Value Appraisal of Designate Areas in Garden Valley – Urban Renewal Project No,. 1 (Ohio -R1) prepared for the Cleveland Development Foundation, 1955, 169, folder Garden Valley – Reuse Value Appraisal, box 30, Cleveland Development Foundation Records, Western Reserve Historical Society, Cleveland, OH [hereafter CDF].

serve nonwhite Americans, given how central segregation remained to its operations. These questions would be front and center as policymakers simultaneously debated the proper response to the windfalls scandal and contemplated solutions for the urban housing crisis.

**Windfall Profits**

The largest windfall in the country for a single-family project went to builders Levitt & Sons of Long Island. The firm used FHA Section 603 to build the first 4,028 Cape Cods in their iconic Levittown development as rental properties. For those houses, they invested just $50,000 of their own money, but secured an FHA mortgage commitment of $29.9 million, which they used to obtain a loan in that amount from the Bank of Manhattan. As the Senate investigation later revealed, that figure was grossly inflated. The actual construction costs ended up only $24.3 million, yielding them a stunning $5.8 million in profits.[57] To be sure, the company had systematically lowered their costs through vertical integration and economies of scale. They used synthetic materials, bought appliances wholesale, preassembled major components, employed nonunion contract workers, and organized the construction process in a reverse assembly line. All of these methods are widely known, and most scholars have attributed the company's methods to market competition, claiming that by offering lower prices, the Levitts undersold their competitors.[58] This explanation misses the fact that 603 gave the company a material incentive to cut costs, since they could pocket any mortgaged-out funds. Rather than simply competing with their rivals, the Levitts were skimming from the federal government.

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[57] Senate Committee on Banking and Currency, *FHA Investigation*, 62-63, 88, 115.

[58] Jackson, *Crabgrass Frontier*, 234-238; Dolores Hayden, Building Suburbia: Green Fields and Urban Growth, 1820-2000 (New York: Vintage Books, 2003), 130-138; Richard Longstreth, "The Levitts, Mass-Produced Homes, and Community Planning in the Mid-Twentieth Century," in *Second Suburb: Levittown, Pennsylvania,* ed. Dianne Harris (Pittsburgh: University of Pittsburgh Press, 2010), 123-174.

The Levitts then transformed the Cape Cods into devices for tax evasion. The $5.8 million in excess mortgage funds, if withdrawn from the bank, would have been subject to federal income taxes at a marginal rate of 75 percent. To avoid this high tax liability, they arranged a deal with Junto Inc., an adult education charity in Philadelphia. On Christmas Eve of 1949, Junto obtained a short-term loan to purchase the 4,028 rental houses from a Levitt-owned subsidiary. Without using a cent of its own money, Junto acquired the entire Levittown rental portfolio: all the houses, plus the leftover mortgage funds. The next day, Junto declared a dividend and paid Levitt & Sons $5.1 million for the acquisition of the stock. The Levitts, in turn, declared the payment a capital gain, subjecting it to the lower federal tax rate of 25 percent, rather than 75 percent if it were classified as income. Even after paying capital gains taxes, the transaction allowed the Levitts to walk away with $3.8 million—funds purloined from an FHA-backed mortgage, and by extension American taxpayers.[59] In an elaborate shell game, the Levitts enjoyed a fantastic return and dodged income taxes, Junto reaped the equity, and tenants effectively serviced the mortgages through higher rents and fees.

Brooklyn builder Fred C. Trump used similar maneuvers when building FHA-insured apartments. As a co-founder of the Brooklyn Home Builders Association, Trump became a local champion for the FHA. He often framed these efforts in patriotic and populist terms, at one point celebrating how "The working classes have been fully awakened as to the benefits of home ownership under the FHA 25-year mortgage plan."[60] By the 1940s, backed by the liberalized

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[59] Senate Committee on Banking and Currency, *FHA Investigation*, 62-63; Rowland T. Moriarty, "Absentee Landlord Venture Makes $1,000,000 for Junto," *Philadelphia Evening Bulletin*, Oct. 16, 1951, 2; John G. McCullough and Rowland T. Moriarty, "Junto's $30,000,000 Deal for Levittown Has Financiers Gasping Here and in NY," *Philadelphia Evening Bulletin*, Feb. 26, 1950, 1; "Whence Comes the Dew?" *Time*, March 13, 1950, 85-86.

[60] Will Bredderman, "Will Donald Trump Slash the Kind of Federal Housing Programs that Made his Family Rich?" *Observer*, January 13, 2017, https://observer.com/2017/01/will-donald-trump-slash-the-kind-of-federal-housing-programs-that-made-his-family-rich/; Jason Horowitz, "Fred Trump Taught His Son the Essentials of Showboating Self-Promoting," *New York Times*, August 12, 2016, A1.

terms of FHA Section 608, Trump and his partner, William Tomasello, developed the Beach Haven and Shore-Haven Apartments in the Coney Island and Bensonhurst neighborhoods of Brooklyn. Although the FHA essentially absorbed all of the risk, a 1949 advertisement in the *New York Times* described Shore-Haven as "a new monument to the American spirit of free enterprise." That claim was true in a sense. Socialized risk and publicly underwritten profits had certainly become central to federal housing policy. But Trump's boasting of "free enterprise" elided the reality that Trump and Tomasello had only invested $249,000 in the project yet managed to reap $3.02 million in excess mortgage funds. Despite benefiting enormously from federal largesse, Trump described himself in an advertisement as "a free and rugged individualist [acting] to meet the basic need for shelter." It was only in the fine print that he conceded: "Government and American financial institutions cooperated in the mortgage financing."[61]

Fred Trump also used sophisticated tactics to avoid paying taxes. During the early 1940s, Trump ingratiated himself with New York City's Democratic machine by donating money and doing favors for Brooklyn politicians. In exchange, they gave him advance word of tax-lien sales, which allowed him to assemble the land for the Beach Haven Apartments for a mere $180,000. (Thanks to a friendly FHA appraisal, in 1952 the agency valued that same land at $1.5 million, a key component of the cost inflation that allowed Trump to mortgage out for millions.) Trump promptly transferred ownership of the land to a trust. The beneficiaries of the trust were his five children, including future president Donald J. Trump, who was three years old at the time. Fred Trump set up a 99-year lease between the trust and a shell company, Beach Haven Apartments Corporation. The lease channeled $60,600 annually to his children for the rest of their lives, all without Fred Trump ever paying any gift or estate taxes. As a recent *New York*

[61] Fred C. Trump, "The American Way of Life," paid advertisement, *New York Times*, Jan. 16, 1949, R2; Senate Committee on Banking and Currency, *FHA Investigation*, 123.

*Times* investigation has uncovered, the lease arrangements at Beach Haven and other apartment buildings made Donald Trump a millionaire by the time he was eight.[62]

In cashing out excess mortgage funds and maneuvering to avoid paying taxes, Levitt and Trump were hardly alone. Thousands of builders did the same. Ian Woodner, builder of The Woodner and dozens of other apartments throughout Washington, DC, inflated several FHA-insured mortgages by including the legal fees for his divorce among the construction costs. Other builders plied FHA officials with lavish gifts, alcohol-fueled parties, tropical vacations, favorable real estate deals, and straight cash. The chief appraiser for Los Angeles, John William Salmon, accepted a Ford automobile and $25,000 for an inflated appraisal. The Assistant Director of the New Mexico FHA, Andrew Frost, attended deep sea fishing trips and rowdy "girl parties" hosted by builders. In New York, Thomas Grace served as state FHA director from 1934 to 1952, and builders knew that securing generous appraisals required hiring his brother as legal counsel. Their firm, Grace & Grace, received $400,000 in legal fees associated with 64 apartment projects insured by Section 608, all while Thomas claimed to be an "inactive" partner in the firm. Similar stories of graft surfaced in big cities, small towns, and suburbs across the country.[63]

But the corruption did not just originate from low-level officials. After all, it was the wanton corruption of Clyde L. Powell—an employee of the FHA since its inception in 1934, and the director of Section 608 for the duration of the program—that exposed the systemic fraud coursing through federal credit operations. Powell gave final approval for every insurance commitment issued under 608, and he abused this authority to line his own pockets. For the Park

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[62] Testimony of Fred C. Trump, *FHA Investigation: Hearings before the Committee on Banking and Currency*, Part 1, 83rd Cong., 2nd sess., July 12, 1954, 397-400; Wayne Barrett, *Trump: The Deals and the Downfall* (New York: HarperCollins, 1992), 41-47, 54-55; David Barstow, Susanne Craig, and Russ Buettner, "Trump Engaged in Suspect Tax Schemes as He Reaped Riches From His Father," *New York Times,* Oct. 2, 2018, https://www.nytimes.com/interactive/2018/10/02/us/politics/donald-trump-tax-schemes-fred-trump.html.

[63] Senate Committee on Banking and Currency, *FHA Investigation*, 65, 88-89, 20-25.

Forest apartment development in suburban Chicago, Powell extracted a $7,500 payment from builder Nathan Manilow in exchange for a higher FHA mortgage commitment. For Mayfair Mansions, one of the few 608 apartments open to Black residents in Washington, DC, Powell demanded a $10,000 bribe for his "services" of inflating mortgages. Between 1946 and 1954, Powell's net salary totaled roughly $80,000, yet he made bank deposits over that period of $218,330, most in cash. None of the extra income was reported on his income-tax returns. He kept safe deposit boxes at the Wardman Park Hotel, where he lived, and at a several banks throughout Washington, DC. That a friendly developer ended a drunken evening at a Virginia Beach casino by covering his gambling losses was simply how Powell did business.[64]

The revelations about Powell's escapades in Virginia Beach set into motion a chain of events that culminated with the Senate investigation of "windfall profits." Tipped off regarding the wads of cash that Powell flaunted in casinos, the FBI soon discovered his safe deposit boxes and reams of unreported income. The Internal Revenue Service (IRS) then checked the income tax returns for every sponsor of 608 apartments and found excess mortgage funds in over 1,000 of them. As these probes snowballed into a major scandal, the Senate Committee on Banking and Currency held hearings over the summer of 1954, subpoenaing builders, bankers, FHA officials, homeowners, and tenants.[65] It was this congressional testimony, and the archive it created, that exposed the immense scale of mortgaging out.

When hauled before Congress, most builders remained unapologetic for their actions. Some even grew indignant at any suggestion of impropriety. After dissecting how Levitt & Sons pocketed millions in mortgaged-out funds, Senator Homer E. Capehart (R-IN) vented his disgust:

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[64] Senate Committee on Banking and Currency, *FHA Investigation*, 18-22; Warren Unna and Richard J. Maloy, "Architect Says Money Was Paid To Help Complete Mayfair Mansions," *The Washington Post and Times Herald,* Oct. 6, 1954, 1.

[65] Senate Committee on Banking and Currency, *FHA Investigation*, 1-2.

"I think it is quite an indictment of the private enterprise system…that you just can't get housing unless the Federal Government guarantees it 100 percent."[66] Company president William J. Levitt, by that time the largest builder in the country, swatted away these critiques. "The housing was produced," he shot back, even if the "desperate" postwar circumstances meant that in doing so, "certain evils had to be experienced." Without the generous provisions of 603, he argued, "you would never have gotten any builder over the age of 16 to go in and venture time, trouble, money, or anything else to get the volume of housing that had to be gotten."[67] Fred Trump issued similar rebuttals during his testimony. News of a $3 million windfall at the Beach Haven Apartments had prompted tenants to demand rent reductions. Trump denounced the "Washington headline hunters" for "circulating false and misleading stories concerning Beach Haven." While Trump freely admitted to inflating his FHA-insured mortgage by listing the architectural fee as 5 percent, when in reality he only paid the architect 1 percent, he justified this as the "maximum allowed by FHA regulations." He also displayed the sanctimonious indignation that would come to define the Trump dynasty. The negative publicity and tenant organizing, he complained, was "very wrong and it hurts me."[68]

As the pressure of the hearings ratcheted up, many voiced their support for builders. *Newsday*, the Long Island daily, defended Levitt with an editorial titled, "Horrors! He Made Money." The editors – whose subscriber base promised to grow along with suburban housing developments – asked sarcastically, "Since when has it become a crime to make money?" They continued, "All Levitt did was make a profit and revolutionize the housing industry in the process."[69] The FHA's aim was rapid construction, and Trump and Levitt had achieved that goal.

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[66] Senator Homer E. Capehart, *FHA Investigation*, Part 1, July 15, 1954, 545.
[67] Testimony of William J. Levitt, *FHA Investigation*, Part 1, July 15, 1954, 545.
[68] Testimony of Fred C. Trump, *FHA Investigation*, Part 1, July 12, 1954, 409, 411.
[69] "Horrors! He Made Money," editorial, *Newsday*, July 17, 1954, 30.

They built decent housing, made sizable profits, and neither of them did anything found to be illegal. The real estate magazine, *House & Home*, reinforced this point. "For all its faults," they editorialized, "the 608 program was an outstanding success in achieving the goals set by Congress and the President." In the end, "it broke the back of the postwar housing shortage."[70] The rebuttal from the real estate industry continued for months, as letters and telegrams poured into the offices of *House & Home*. In their outrage, many writers reached for colorful metaphors. Harold S. Goodrich, Vice President of the National Association of Real Estate Boards, said the Senate, in emphasizing the most flagrant abuses, was akin to "burning the house down to get rid of the bedbugs." An official from the National Association of Home Builders complained that all builders "have been unjustly tarred and feathered in the eyes of the public."[71]

The rebuttals pointed to a central tension in the windfall hearings. While the abuses by FHA officials were certainly illegal, they did not necessarily violate the agency's core mission. In a sense, the corruption reflected the very design of Title VI. At issue was a fundamental power asymmetry: The FHA could not build housing; it merely insured mortgages. And so, the agency remained dependent on the real estate industry. Desperate for new units to relieve the housing shortages, FHA officials came to accept cost inflation as a necessary enticement for builders. Indeed, FHA administrators rated local field offices based on the volume of their business; they tied the salary of each local director to the number of new units in their district. This "volume consciousness," as one investigator termed it, "made FHA employees reluctant to say 'No' to builders."[72] Others emphasized that volume had always been the point. Former FHA official Miles Colean thought the entire episode had been overblown. "What it amounted to," he

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[70] "FHA's Five-Year-Old Scandal," *House & Home*, May 1954, I-H.
[71] "The Industry Speaks Up for FHA," House & Home, June 1954, 126-127.
[72] William F. McKenna, report for the Special Investigations Office, HHFA-OA-No. 707, Aug. 31, 1954, in *FHA Investigation*, Part 3, Sep. 14, 1954, 2089-2090.

reflected decades later, "was that people had done what they'd been encouraged to do." That builders took advantage of "inducements" offered by 603 and 608 should not have been a surprise. "The real fault was in Congress for enacting this type of legislation."[73]

Like the residents of Trump's Beach Haven Apartments, many tenants were outraged by the mortgaging out. In some cases, this led to protracted litigation as tenants and tax collectors attempted to claw back the mortgaged-out funds. But real estate operatives prevailed in the courtroom. Builders Alfred Gross, Lawrence Morton, and George M. Gross had reaped a windfall of $4.6 million for Glen Oaks Village in Queens, the largest windfall anywhere in the country for a 608 project.[74] They distributed the proceeds as a stock dividend, allowing them to pay just $1.5 million in capital gains taxes. The IRS sued to recover more funds, claiming the sum should have been classified as ordinary income and thus subjected to much higher rates. The United States Tax Court dismissed the suit and a federal appeals court upheld the decision, with two of three judges voting in favor of dismissal. Lauding the developers as "experienced builders," the majority decision said the funds derived from "appreciation of value in the property." In a scathing opinion, the lone dissenting judge implied that his colleagues did not understand FHA credit programs. "If we go beneath the surface," he wrote, "we find that, realistically considered, this was anything but the case of a realty owner investing capital…in the hope of later realized gain." Instead, under the liberalized terms of 608, "the risk was taken over by the Government," and thus, the funds should be considered income. But he was just one of three votes, and the ruling blocked any further legal challenges by tenants.[75]

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[73] *A Backward Glance—An Oral History: The Growth of Government Housing Policy in the United States, 1934-1975: A Series of Interviews with Miles L. Colean for the Oral History Research Office, Columbia University* (New York: Columbia University, 1975), 109, 111.
[74] Senate Committee on Banking and Currency, *FHA Investigation*, 48, 62, 88.
[75] *Commissioner of Internal Revenue Service v. Gross* 236 F.2d 612 (1956), at 612, 619.

For all their drama, the Senate hearings ended without any clear resolution to the dilemmas of provisioning affordable housing. In their final report, the Senate Committee on Banking and Currency appeared to disavow the entire policy of credit liberalization: "We are not prepared to accept the premise that adequate rental housing cannot be made available to the American people except when unconscionable windfall profits are realized." Builder after builder testified that they would not construct affordable rentals unless assured of sizable profits. "If that is the only alternative," the report declared, "it is better that the Government build such projects itself." Yet the same committee report also characterized the episode as the workings of "a few greedy, and sometimes dishonest, builders…and sometimes dishonest FHA officials."[76] If not for the nefarious individuals, all would have been fine.

These ambivalent conclusions arrived at another pivotal moment, as Congress was simultaneously discussing the Housing Act of 1954 and remedies for the ongoing urban housing crisis. Despite the fact that builders had attested to the importance of sizable, guaranteed profits, lawmakers believed they could both clamp down on profiteering and expand the availability of affordable rentals. The most vulnerable urban residents, those displaced from urban renewal projects, would be left to navigate this contradictory and shifting credit landscape.

## Urban Renewal Housing

While the media focused on the windfalls scandal, the housing crisis grew dire in Black neighborhoods. During the postwar crush, "doubling up" was widespread, but it became especially common for Black Americans. As of 1948, the doubling up rate in Washington, DC, was 37 percent for all veterans, but a staggering 71 percent among Black veterans. Other cities

[76] Senate Committee on Banking and Currency, *FHA Investigation,* 3, 1.

displayed similarly high rates, including Baltimore (57 percent), Cleveland (53 percent), Raleigh (58 percent), New York (53 percent), and Tampa (66 percent).[77] But, as the FHA encouraged suburban developments that excluded Black residents, urban housing continued to lag behind. In his 1949 State of the Union address, President Harry Truman acknowledged that by "producing too few rental units and too large a proportion of high-priced houses, the building industry is rapidly pricing itself out of the market" for affordable, urban housing.[78] In Detroit, a 1950 investigation found just thirty-seven units of rental housing available across the entire city, eighteen of which were too expensive for the average renter, while others were either unsuitable for or did not allow families with children.[79] Truman's 1949 Housing Act thus committed to a new round of both low-rent *public* housing and, as he explained earlier that year, a wider "campaign to induce all segments of the building industry to concentrate on the production of lower priced housing."[80] Upon signing the Housing Act of 1949, Truman explicitly linked affordable housing to his broader civil rights agenda, which would, together, "take a long step toward increasing the well-being and happiness of millions of our fellow citizens."[81]

But Truman's public housing agenda faced well-mobilized opponents and, as numerous scholars have emphasized, significant racial and structural impediments.[82] Meanwhile, without accounting for Section 203, by 1953, FHA's 603 and 608 had produced over 1.14 million units

[77] Housing and Home Finance Agency [HHFA], *The Housing of Negro Veterans: Their Housing Plans and Arrangements in 32 Areas* (Washington, DC, 1948), 37.
[78] Harry S. Truman, Annual Message to the Congress on the State of the Union Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/230007
[79] Thomas J. Sugrue, *The Origins of the Urban Crisis: Race and Inequality in Postwar Detroit* (Princeton: Princeton University Press, 1996 [2005]), 52.
[80] Harry S. Truman, Annual Message to the Congress on the State of the Union Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/230007
[81] Harry S. Truman, Statement by the President Upon Signing the Housing Act of 1949. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/229714
[82] See, for instance, Sugrue, *Origins of the Urban Crisis*, chs. 2 and 3.

of housing.[83] The 1954 Act is best known for formalizing the federal urban renewal program and for sunsetting the federal public housing agenda. But the legislation also redoubled the federal government's commitment to market-based approaches to affordable housing. The Act included a new FHA program, Section 220, designed to stimulate private development of affordable multifamily rental apartments on urban renewal sites. The program would also prioritize the housing of residents displaced by urban renewal, which disproportionately destroyed Black homes and neighborhoods.[84] But, because the 1954 Act was written in the shadow of the windfall profits scandal, officials also instituted stricter regulations governing builders' costs and profits, setting up something of an economic experiment: would builders undertake housing developments where the profits were steady but less spectacular compared not only to the expired 603 and 608 programs, but to the ongoing Section 203?

If redlining had always functioned as a negative inducement to the development of housing in particular locations, Section 220 represented the federal government's first attempt to affirmatively intervene in the spatial location of privately constructed affordable housing. Paired with federal urban renewal's eminent domain and clearance powers, FHA 220 deployed government insurance to aid the *re*development of densely settled, often highly segregated urban areas.[85] The pairing of FHA mortgage backing with urban renewal was intended to overcome the

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[83] HHFA, *Fourteenth Annual Report* (1960), 73.

[84] The new FHA program was the product of intense debate by President Dwight Eisenhower's Advisory Committee on Housing, which was dominated by real estate and development interests intent on demonstrating that socialized support for private affordable housing developments might succeed where public housing had been a disappointment. On the policy debates of Section 220 and public versus private affordable housing, see D. Bradford Hunt, "How Did Public Housing Survive the 1950s?," *Journal of Policy History* 17, no. 2 (2005). The legislation also created FHA Section 221, designed to support mortgages for housing developments in other areas of cities for residents displaced from urban renewal sites.

[85] This was not the first-time federal credit incentives and selective tax advantages were martialed for urban redevelopment purposes. Since its establishment in 1913, the federal income tax included exemptions for municipal bonds, which were often essential for municipal development and capital improvement efforts. Beyond these forms of municipal securities, federal incentives and programs, including the New Deal's Public Works Administration and federal public housing programs relied upon favorable federal credit and taxing structures. Quinn, *American Bonds*; Cebul, *Illusions of Progress*, ch. 2; Jenkins, *Bonds of Inequality*.

land acquisition and preparation cost differentials that favored suburban development. By the 1940s, many urban real estate markets appeared paralyzed by high costs. While land in outlying urban areas and undeveloped suburbs could be acquired at prices from around $1.60 per square foot down, sometimes, to less than $.20 per square foot, the costs to acquire let alone raze outmoded properties on "close-in areas" could be staggeringly high. In New York City, Metropolitan Life Insurance Company, acting as financier-developer, paid more than $6.00 per square foot for the Stuyvesant Town site, while an actuarial report found "other blighted sites in New York have ranged up to $20.00 a square foot." Prohibitive costs also limited market-based redevelopment in Baltimore, Chicago, and Cleveland.[86]

Of course, segments of urban real estate markets also appeared paralyzed because they were redlined, and so to jumpstart new urban housing developments on formerly redlined properties FHA 220 would experiment with significantly adjusted underwriting practices.[87] Rather than base its appraisal and mortgage insurance on historical demographic data, physical factors, or even upon current replacement costs as in 608, Section 220 based appraised values on developers' and local urban renewal authorities' estimates of a development's *future* value. The "workable program" reports required in urban renewal applications, which detailed a project's development and rehousing plans, thus served as important evidence in the FHA's appraisal

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[86] B.B. Beyer, K.F. Kaserman, L.E. Smith, Re-Use Value Appraisal of Designate Areas in Garden Valley – Urban Renewal Project No,. 1 (Ohio -R1) prepared for the Cleveland Development Foundation, 1955, 166-68, folder Garden Valley – Reuse Value Appraisal, box 30, CDF. On Stuyvesant Town and Metropolitan Life, see Caley Horan, *Insurance Era: Risk, Governance, and the Privatization of Security in Postwar America* (Chicago: University of Chicago Press, 2021), ch. 3. See also, Mabel Walker, *Urban Blight and Slums* (Cambridge: Harvard University Press, 1938) on property owners' holding fast to "fictitious" land values in the Depression.
[87] See, for instance, Renewing Inequality maps and HOLC redlining overlays. As an example, Cleveland: https://dsl.richmond.edu/panorama/renewal/#view=0/0/1&viz=map&city=clevelandOH&loc=13/41.4940/-81.6470&cityview=holc

process.[88] As it had in previous experiments in credit liberalization, the FHA created a separate insurance fund for Section 220, insulating the renewal initiative from its broader portfolio.

Despite this theoretically radical change, Section 220 was also forged in the context of the windfall profits investigations and hearings and, as FHA director Norman P. Mason explained it, the new program sought "a satisfactory balance . . . between over-laxity . . . and over-rigidity."[89] To limit builders' ability to rig excessive future mortgage values, builders were required to submit cost certification reports. Section 220 also required that builders apply unanticipated cost savings to the principal, rather than pocket or disperse them to investors as dividends.[90] Moreover, the legislation also stipulated a maximum profit margin of five percent. And, while in earlier programs, developers artificially inflated land values by, for instance, selling and reselling property through shell companies, Section 220's association with federal urban renewal – which used federal financing to secure, prepare, and convey land cheaply to private developers – further constrained developers' ability to inflate land values prior to receiving FHA backing.[91]

Given these constraints, the FHA's Norman Mason also emphasized the class of investor Section 220 sought to entice: the "rental housing program is for investors . . . who wish to create income-producing properties" held over the long term.[92] In the 1940s, insurance companies had

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[88] *Replacing Blight with Good Homes: FHA's Section 220 Mortgage Insurance for Urban Renewal*, issued jointly by Federal Housing Administration and Urban Renewal Agency, Housing and Home Finance Agency (Washington, D.C.: U.S. Government Printing Office, October 1955).
[89] "Top FHA Official Gives Long Island Builders Green Light Under New Federal Housing Act," *Long Island Commercial Review,* Sep. 20, 1954, 1, 6
[90] See Housing Act of 1954, PUBLIC LAW 560, August 2, 1954, pages 597-9 and 608-11 for discussion of Section 220. https://www.govinfo.gov/content/pkg/STATUTE-68/pdf/STATUTE-68
[91] In Cleveland, builders sought multiple reappraisals in hopes of gaining incrementally larger mortgages. Upshur Evans to Ben B. Beyer, June 8, 1955, folder Garden Valley – Section "A" Re-Use Appraisal Beyer-Kaserman-Smith, box 32; Edwin H. Smith to James T. Yielding, May 12, 1955, folder Garden Valley – Section "A" Appraisal and Reappraisal by Kirby and Ostendorf-Morris, box 31; and W. Kirby to Seth C. Taft, May 12, 1955, folder Garden Valley – Section "A" Appraisal and Reappraisal by Kirby and Ostendorf-Morris, box 31, CDF.
[92] "Top FHA Official Gives Long Island Builders Green Light Under New Federal Housing Act," *Long Island Commercial Review,* Sep. 20, 1954, 1, 6

become leading investors in FHA multifamily housing, viewing long-term, steady profits from rental incomes as akin to bondholding. But with the sunsetting of Section 608 and in the context of inflation and a shifting investment climate, by the mid-1950s, many institutional investors sought higher yield, less complex investments. With 220, FHA hoped to entice these investors back into multifamily housing at precisely the moment when many sought to exit those markets.[93]

Compared to other low-risk or tax advantaged investment opportunities such as utility or municipal bonds, Section 220 also came with considerable complexity and risk—bureaucratic headaches of working with multiple federal and local public agencies, a more cumbersome and protracted regulatory process, and a longer time to development thanks to lengthy land assembly and preparation intervals.[94] Further stacking the deck against affordable urban rental developments were cities' considerably higher construction and labor costs. By 1962, Section 220 developments had the highest per unit costs of any of FHA's mortgage programs, averaging $21,002 per unit versus an FHA-wide average of $17,345.[95] Delays also meant that 220 developers had to keep considerable reserve funds tied up, making it difficult for small or medium scale developers with less available capital to get involved in the program.

The other major impediment to gaming the future value provisions of Section 220 was the FHA's persistent actuarial and racial conservatism. In one Cleveland project – which was among the first 220 projects in the country – FHA officials wavered for months over whether to secure mortgages on the site. After numerous trips to Washington and persistent lobbying by

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[93] As Caley Horan notes, by 1953, the year before the creation of Section 220, many insurance companies, facing complications, high costs, and controversies associated with urban housing, had already begun to shed housing investments. Horan, *Insurance Era*, 99-100.

[94] In the state of the New York, for instance, the *average* urban renewal project took a full decade from conception to completion. Nicholas Dagen Bloom, *How States Shaped Postwar America*, p. #.

[95] FHA Foreclosure Hearings, 78

local officials and a chamber of commerce-affiliated development organization, FHA administrators at last indicated the reasons for the delay: they were concerned about "the extent of mortgage guarantee that can be given safely on new construction in areas surrounded by slums."[96] Put another way, while Section 220 was designed to reverse the effects of redlining on targeted renewal sites, those sites' adjacency to *other* impoverished, minority-majority neighborhoods meant they remained questionable actuarial bets.

Section 220's future value clause, its theoretically potent liberalized reversal of FHA redlining practices, thus ran up against ongoing racial biases. A 1956 congressional investigation found that the program's sluggish rollout stemmed from "the negative attitude and philosophy displayed" by FHA operatives. Investigators heard "criticism to the effect that FHA's property and neighborhood standards are overly restrictive and unrealistic." Officials "have generally followed a negative, business-as-usual approach which just will not work in such a huge, difficult, and challenging problem as slum eliminating." In a footnote, staffers obliquely gestured at past practices of redlining: FHA officers continued "to apply some of the standards which were previously part of the valuation procedure."[97] Testifying before Congress in February 1956, one of Cleveland's private sector urban renewal leaders complained that FHA's delays and tight profit regulations made it difficult to find builders.[98] Indeed, in terms of profits, congressional investigators heard from numerous "multifamily builders . . . that 10 percent would be the rockbottom minimum they would consider."[99] As Miles Colean explained, given the relative ease and assurance of profits to be found through FHA's suburban, owner-occupied initiatives, no

[96] Eugene Segal, "FHA Hesitation Sets Back Start of Garden Valley," *PD*, May 12, 1955, 13.
[97] House Committee on Banking and Currency, Subcommittee on Housing, *Slum Clearance and Urban Renewal* (Washington, D.C.: U.S. Government Printing Office, 1956), 19, 9, 11 n. 1.
[98] *Investigation of Housing, 1955–56*, 123 (Evans testimony).
[99] Report of the Subcommittee on Housing of the Committee on Bank and Currency, "Slum Clearance and Urban Renewal" (Washington: GPO, 1956), 13.

"wonder . . . the entrepreneurial type of builder . . . now gives rental housing a wide berth."[100] As one builder grumbled, "With one hand the FHA recognizes the low-cost housing need; with the other it refuses to foster such housing."[101]

Perhaps the most significant impediment to Section 220, then, was the differentiated spatial credit environment the FHA had created and within which savvy builders operated. Members of Congress quickly recognized these comparative limitations to 220 and amended the program in the Housing Act of 1956-- it bumped developers' approved profit margins from 5 percent to 10 percent and empowered local FHA officers to approve larger mortgage applications (of up to an additional $1,000 per room).[102] Congressional staffers also urged greater deference to local officials and to certify mortgage costs as early in the process as possible, perhaps creating a bit more opportunity for developers to reduce costs on the backend.[103] Taken in a vacuum, then, these revisions to 220 might have succeeded in spurring residential developments on renewal sites.

But most developers, especially those who operated with the scale required for taking on complicated, time-consuming renewal projects, approached Section 220 with knowledge of the broader constellation of publicly structured investment opportunities. These included not only the earlier, more generous multifamily housing programs but also Section 203 mortgages, which had in fact been further liberalized in the Housing Act of 1954, thanks, in part, to pressure from

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[100] Miles Colean, "Impotency of FHA Policies," *Architectural Forum*, June 1955, 111.
[101] Oscar Steiner, *Our Housing Jungle—and Your Pocketbook: How to Turn Our Growing Slums into Assets* (New York: University Publishers, 1960), 85. These complaints also typified FHA support for rehabilitation of urban renewal sites rather than wholesale redevelopment. See, for instance, Lawrence O'Kane, "A Study is Urged in Slum Financing," *NYT*, October 1, 1963, 80.
[102] Housing Act of 1956,
[103] Report of the Subcommittee on Housing of the Committee on Bank and Currency, "Slum Clearance and Urban Renewal" (Washington: GPO, 1956), 24-5.

builders such as William Levitt.[104] Indeed, the same Act that first created Section 220 had simultaneously lowered the minimum down payment on 203 mortgages from 12.5 to 7.0 percent and extended the maximum maturity from 25 to 30 years, bolstering the attractiveness to builders of a suburban alternative to affordable urban housing initiatives.[105] Even prior to these inducements, many builders already favored suburban, owner-occupied investments over long term investments in rental housing because they could get their initial investments out quickly. At the very moment the Housing Act had tightened cost certifications for multi-family, affordable urban apartment complexes, it had sweetened the terms underwriting the suburban boom. One credit door remained essentially closed as another was again thrown wide open.

Miles Colean summed up the vexed situation surrounding Section 220, writing in *Architectural Forum* that the initiative was, in essence, "a sort of inverted '608' – an anomaly that much increased the amount of venture capital required [and] froze it into the enterprise at low yield more irretrievably than ever . . ."[106] Many developers had also been entangled in the FHA windfall profits scandals and so avoided the FHA rental development field entirely.[107] Thus, while it is true FHA had not ignored the mounting urban housing crisis, its variegated metropolitan credit and regulatory frameworks spoke volumes to builders and, in effect, further entrenched it.

As usual, the burdens were borne by residents, in this case African Americans, many of whom had been displaced by urban renewal. Cleveland's first Section 220 project, Garden Valley, suggests the cost and corner cutting builders often employed to secure profits in FHA-

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[104] Testimony of William B. Levitt, *Housing Act of 1954: Hearings before the Committee on Banking and Currency*, Part 1, US Senate, 83rd Cong., 2nd sess., March 17, 1954, 388-389.
[105] Tom F. Lord, *Residential Construction in the 1950s and 1960s* (Washington, DC: Congressional Research Service, 1969), 14.
[106] Miles Colean, "Impotency of FHA's apartment policies," *Architectural Forum*, June 1955, 174-175.
[107] Warren Unna, "Feelings of Cafritz Ruffled by Ingrates," *The Washington Post and Times Herald*, August 20, 1954, 26.

renewal housing. Garden Valley's first phase opened in 1957, and developers continually delayed planned recreational facilities, playgrounds, and green spaces. Residency rates remained volatile even as many of the city's Black neighborhoods struggled with overcrowding and substandard housing. The Garden Valley Neighborhood House, a voluntary residents' organization, described the "disaster of the private housing development." Tenants "make their homes . . . between rubbish dumps and slag piles, amid black clouds of smoke and rodent infestation" and where the nearest service or store "is long blocks away."[108] Garden Valley residents paid between $77.50 and $90.00 per month in rent, prices out of reach for many poor or working-class Clevelanders, while public housing residents paid as little as $23.00. The more expensive private units, meanwhile, continued to suffer inadequate heating and a lack of basic facilities such as laundry.[109] By the early 1960s, with its residency rates still in flux, Garden Valley was at risk of foreclosure. Despite an FHA mortgage refinance – a bailout, essentially – the project entered foreclosure by the end of the decade. Garden Valley's failure reflected broader difficulties within FHA Section 220 housing initiative. By 1963, 1/7 of all Section 220 projects were delinquent on mortgage payments as many struggled with long delays and vacancies.[110] By December 1964, nearly a quarter of all Section 220 projects reported "some difficulty" in meeting payments. Three years later, more than 40 percent of FHA Section 220 projects were "in difficulty" and eight were in foreclosure proceedings.[111]

Section 220's difficulties also occurred in the context of renewed Congressional concern about builders' financial impropriety within the growing suite of FHA multifamily mortgage

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[108] A View of the Garden Valley Urban Renewal Project as Seen by Staff of Garden Valley Neighborhood House, February 16, 1961, 2-3, and5, folder Garden Valley Neighborhood House, box 30, CDF.
[109] Ibid., 2-3.
[110] Howard Norton, "FHA Units Face Money Problem," *The Baltimore Sun*, August 14, 1963, 1.
[111] *Investigation into FHA Multiple Dwelling Projects*, 10 and 6; Laurence G. O'Donnell, "Apartment Ills: Some 'Luxury' Towers Fall into Foreclosure as Tenants Shun Them," *WSJ*, May 27 1965, 1; Howard Norton, "FHA Expects Mortgage Foreclosure Rate To Climb," *The [Baltimore] Sun,* February 10, 1963, 1.

programs.[112] One subcommittee investigation found that builders often improperly removed assets and capital from developments, offering loans to stockholders, paying legally questionable dividends, and even salaries. This reduction in working capital, in turn, increased the "probability that the corporation will not have sufficient funds to meet day-to-day operating expenses" which "represent a significant problem" in terms of undermining livability, resident satisfaction, and, ultimately, the projects' financial viability.[113] Investigators also discovered that project sponsors often acquired land which was then sold to a corporation controlled by the sponsor at an artificial markup. That price became the value reported to the FHA to secure development mortgages. In 89 FHA projects, investigators discovered 70 with land values that far exceeded actual costs, 43 of which exceeded costs by 150 percent. Builders had again found ways to engineer windfalls. Rather than emphasize the ongoing reality of private sector profiteering, however, much of the media's coverage highlighted the increased risk of FHA mortgages entering foreclosure—in these narratives, the crisis was laid at the feet of the public agency rather than private developers' "milking" apartment projects of assets that might have made them attractive to residents.[114]

Perhaps most striking, of the 19 projects that did not see excessive land values, nearly all were under FHA Section 220, in which developers' ability to rig land values was tightly constrained.[115] Builders' inability to engineer profits, then, largely explains why they avoided

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[112] These included the standard FHA Section 207 multifamily program as well as a range of other specialized sub-categories including for nursing home construction and, for families displaced from urban renewal projects, the 221 program that developed housing not on urban renewal sites.

[113] Statement of Louis Hunter, *FHA Mortgage Foreclosures*, January 27 and 28, 1964, 55, 59-60, and 515-16

[114] For typical coverage of FHA foreclosures that emphasized over-building and the particular vulnerability to risk of FHA mortgages, see Richard F. Janssen, "FHA, VA Push Effort to Reduce their Glut of Foreclosed Homes," *NYT*, January 27, 1964, 1. Coverage written by Howard Norton, of the *Baltimore Sun's* Washington bureau, was an exception. Norton was a close chronicler of FHA mortgage programs, and he emphasized developers' "Illegal 'milking' of the assets of FHA-insured apartment projects," in his coverage of struggling multifamily developments. See Norton, "Foreclosure Cases Rise," *The [Baltimore] Sun*, December 12, 1963, 13.

[115] *FHA Mortgage Foreclosures*, January 27 and 28, 1964, 489-90 and 498.

Section 220. As of June 1963, the FHA insured 12,289 multifamily housing projects valued at $10.5 billion. Nationally, meanwhile, several hundred municipalities pursued 1,227 urban renewal projects that displaced residents, suggesting the considerable opportunity to pursue 220 developments.[116] By December 1964, however, the FHA backed just 206 Section 220 projects on 147 renewal sites. [117] Given the opportunity to more easily realize quick profits through other FHA programs, builders avoided FHA Section 220, which, combined with renewal's clearance agenda, only further hollowed out many cities' affordable housing stock.

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Long after the hearings concluded, the FHA 608 "windfalls" scandal continued to influence debates about federal housing policy. Former FHA commissioner Clyde Powell, the central figure whose gambling habit triggered the episode, ultimately faced no consequences for his actions. For the duration of the IRS investigation and the Senate hearings, Powell refused to answer any questions. Invoking his Fifth Amendment right against self-incrimination, he sat silent throughout the interrogations, casually puffing away on cigarettes.[118] A Federal District Court judge sentenced him to a one-year prison sentence for contempt of court. But Powell posted bail, and one year later an appeals court overturned his conviction on a technicality.[119] The revelations about official graft resulted in the firing of twenty-one FHA officials and the suspension of eleven others.[120] Despite this official housecleaning, the general approach among FHA officials was to wash their hands of the episode and move on.

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[116] Figures drawn from Digital Scholarship Lab, "Renewing Inequality," *American Panorama*, ed. Robert K. Nelson and Edward L. Ayers, accessed September 17, 2022, https://dsl.richmond.edu/panorama/renewal/#view=0/0/1&viz=cartogram.

[117] *Investigation into FHA Multiple Dwelling Projects*, 10 and 6 [need to **check these citations again due to cut and paste**]; It is worth noting that Chicago and New York (particularly on the Upper West Side, where the program was used to rehabilitate existing housing) had numerous Section 220 projects, a subject worthy of further inquiry.

[118] "FHA's Five-Year-Old Scandal," *House & Home*, May 1954, I-A.

[119] "F.H.A. Ex-Official Cleared by Court," *New York Times*, July 29, 1955, 7.

[120] "21 More Ousted in F.H.A. Scandal," *New York Times*, October 24, 1954, 58;

Although courts dismissed the initial lawsuits from 608 tenants, they did allow the FHA to recover some of the mortgaged-out funds. For years after the Senate hearings, the FHA, together with the Department of Justice, pursued litigation for 608 loans in cases where the mortgage insurance commitments were "excessive" compared to the actual construction costs. By 1959, the agency had taken over dozens of 608 apartments, removing their boards of directors and installing new executives for the controlling corporations. The takeovers led to a total reduction of $37 million in 608 loans, those windfalls effectively erased from the outstanding mortgages.[121] Even so, reduced mortgage balances did not lead to lowered rents for tenants, nor did they reclaim any of the dividends paid out to stockholders. They simply returned some of the mortgaged-out funds to lenders, underscoring once again how federal officials prioritized creditor security over the provision of affordable housing.

Meanwhile, the failure of FHA Section 220 once again abandoned urban residents of color to predatory rental markets. The program was supposed to incentivize the construction of affordable apartments in urban renewal areas. The same credit tools that underwrote the suburbs, officials believed, could be re-deployed to revive ailing cities. Yet by 1960, the 220 program had insured the construction of just 20,956 apartment units nationwide—this compared to 465,674 units insured under 608.[122] The reason, of course, was that stringent cost certifications for 220 made it unattractive for builders. Without the promise of quick profits from minimal investments, builders kept using the liberalized FHA programs for single-family, suburban housing. Legal scholar Charles M. Haar identified this contradiction in federal policy: "The painful truth was that builders would simply not build, nor investors invest in, rental projects unless—to put it bluntly—conditions were similar to those which allowed 608 'scandals' were

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[121] HHFA, *Thirteenth Annual Report* (1959), 56-7.
[122] HHFA, *Fourteenth Annual Report* (1960), 73.

permitted." Accordingly, in future programs lawmakers kept returning to credit liberalization because, as Haar quipped, "how else to get the donkey to move?"[123]

In this regard, mortgaging out presented lawmakers with a thorny dilemma. After declining to pursue a more robust public housing agenda, their choices were either to incentivize private construction by allowing builders to inflate their mortgages and pad their profits, thus undercutting the goal of affordability (the outcome of 608), or to crack down on profiteering, institute cost controls, and risk builders withdrawing from FHA programs entirely (as was the case with 220). Over subsequent decades, when faced with pressing demands for affordable housing, lawmakers would repeatedly turn to the FHA and its credit facilities. When urban rebellions during the late 1960s exposed the consequences of segregation and spatial neglect, lawmakers tasked the FHA with devising a program for low-income homeownership. When stagflation and soaring interest rates undermined the viability of single-family homeownership during the 1970s, the FHA helped devise new financial products like mortgage-backed securities to inject more private capital. In both cases, the speculative frenzies ended with foreclosures, boarded-up houses, shattered dreams, and enormous public liabilities.[124]

Whereas lawmakers kept choosing credit liberalization, many critics identified the pitfalls of this policy framework from the outset. Writing in 1954 at the height of the "windfalls" investigation, NAACP director Walter White pulled no punches when describing FHA Section 608 as legalized "thievery" facilitated by public officials whose main goal, it seemed, was "to provide maximum of profit to the chiselers." White shrewdly noted that despite all the outrage over "heartless profiteering," it would be poor and nonwhite Americans who bore the brunt of

[123] Charles M. Haar, *Federal Credit and Private Housing: The Mass Financing Dilemma* (New York: McGraw-Hill, 1960), 196.
[124] Taylor, *Race for Profit*; Dan Immergluck, *Preventing the Next Mortgage Crisis: The Meltdown, the Federal Response, and the Future of Housing in America* (Lanham, MA: Rowman & Littlefield, 2015).

the fallout. “The most tragic consequence” of the whole debacle, he predicted, would be a withdrawal of support for those “who need decent housing the most.”[125]

[125] Walter White, “Sees New Threat To Housing In FHA Profiteering Scandal,” *The Chicago Defender,* May 1, 1954, 11.

**Figure 1.** Houses Insured by FHA 603 in Joliet, IL, Portland, OR, and Rome, NY, 1941-1942. The wartime program unleashed an early surge of all-white suburban development.

Source: "Title VI Houses," *Insured Mortgage Portfolio* 6, no. 1 (1941): 18; "A Portfolio of Houses Built for Rent Under the Title VI Program," *Insured Mortgage Portfolio* 6, no. 4 (1942): 14.

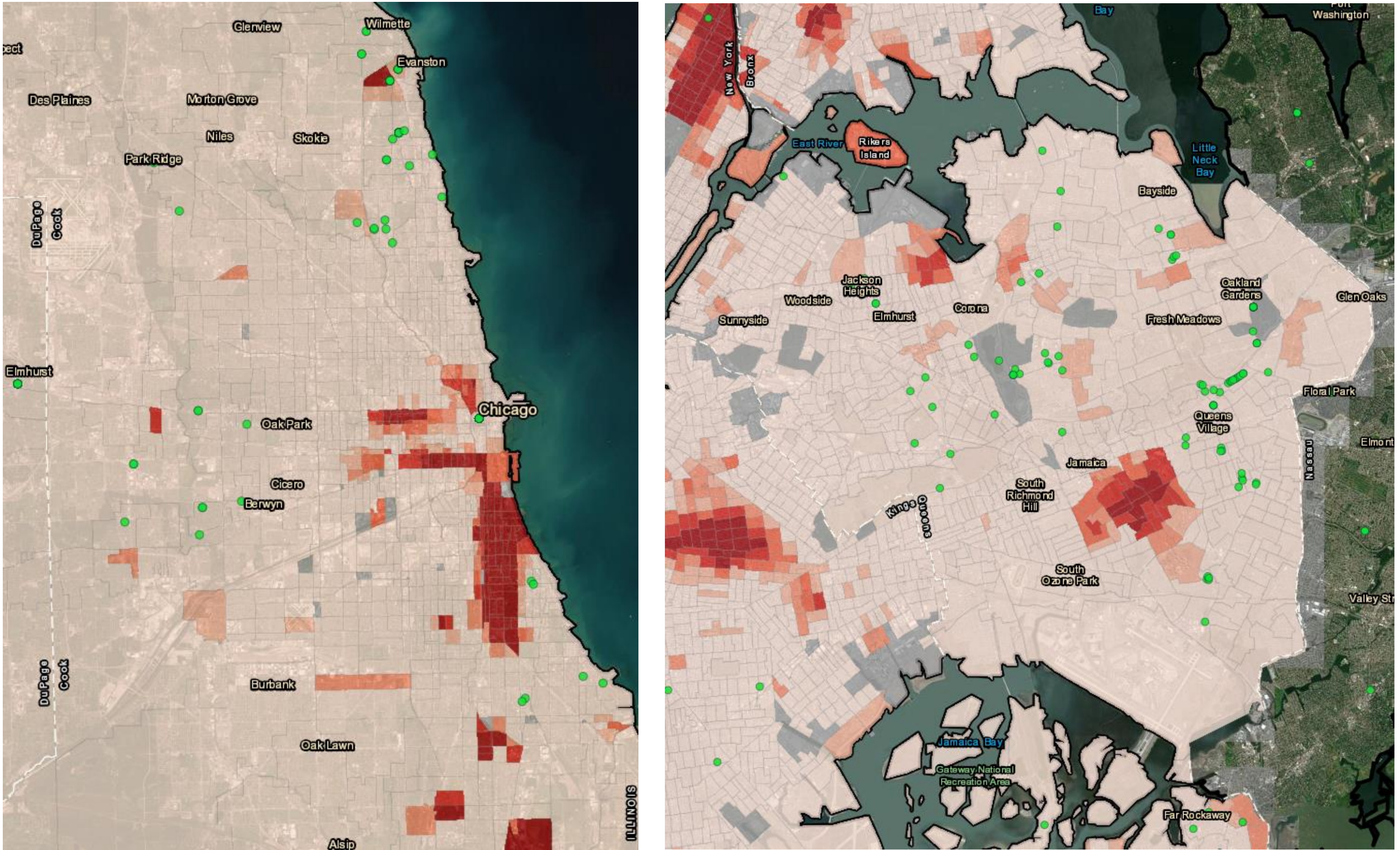


**Figure 2.** Provisional maps of Section 608 developments and density of African American residents by census tract (1950) in metropolitan Chicago and Queens, New York.

Source: Brent Cebul and Michael Glass, "Mortgaging Out: FHA Credit, Redlining, and Rental Housing in Metropolitan America," Price Lab for Digital Humanities, University of Pennsylvania. Co-Investigators, Laura Eckstein and J.D. Porter. Map data sources: Insured Multifamily Mortgages Database, U.S. Department of Housing and Urban Development, July 31, 2022, https://www.hud.gov/program_offices/housing/comp/rpts/mfh/mf_f47, and Seventeenth Census of the United States, 1950, Records of the Bureau of the Census, National Archives and Records Administration, Washington, D.C.

**Figure 3.** Apartments insured by FHA 608 in Queens, NY, and Washington, DC, 1947 and 1954. The change in building style, from low-rise garden units to high-rise towers, resulted from changes instituted in 1948 for the cost calculations in FHA-insured mortgages.

Source: "A 3,800-Unit Project for Long Island," *Insured Mortgage Portfolio* 12, no. 2 (1947): 7; "Architectural Design Under the FHA Program," *Insured Mortgage Portfolio* 18, no. 3 (1954): 6.