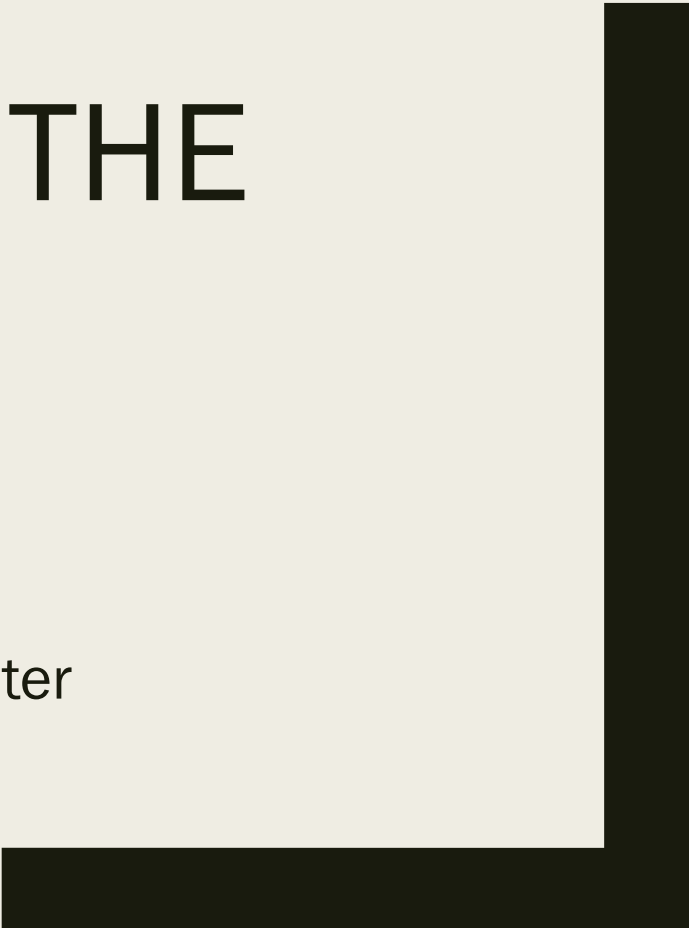




WRESTLING WITH THE ROOTS OF LAI

Presentation to LAI-Baltimore
August 18, 2021
Dan Pontious, LAI-Baltimore Chapter

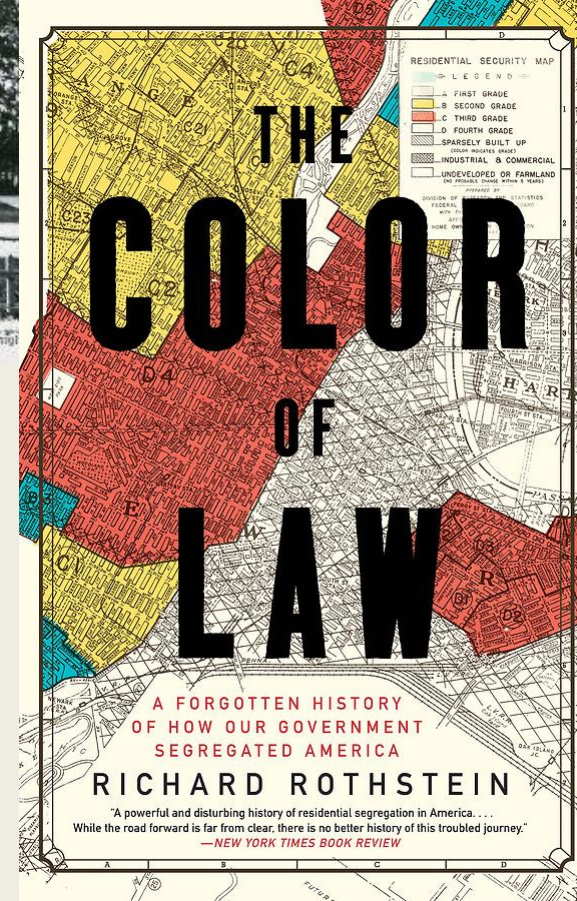
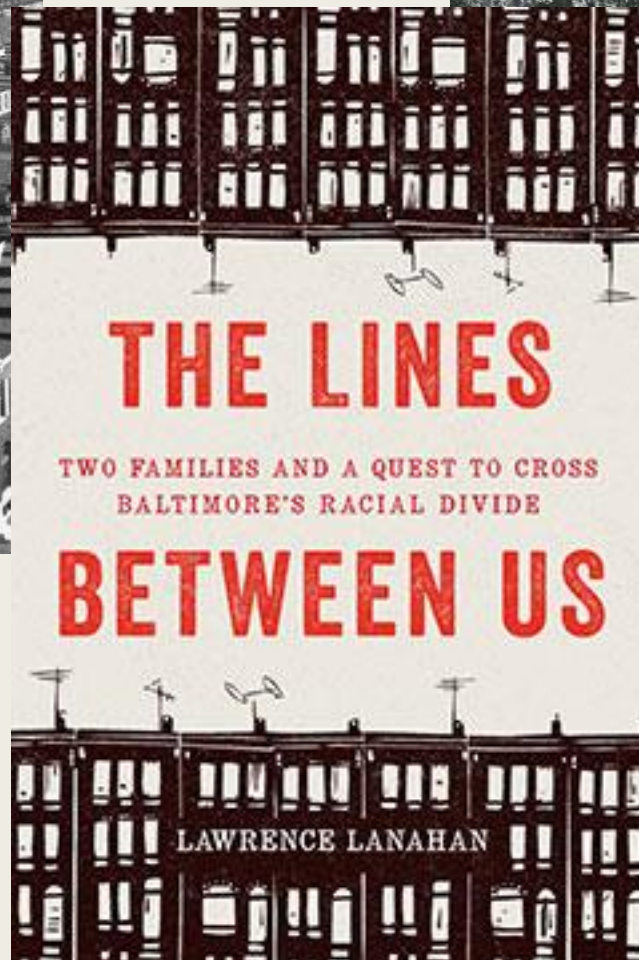
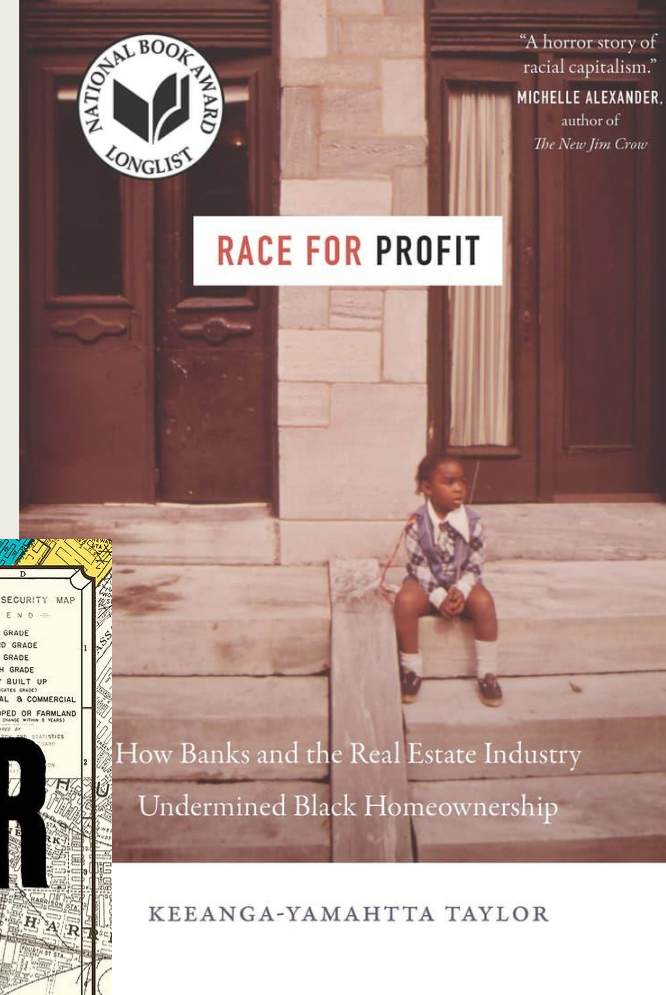
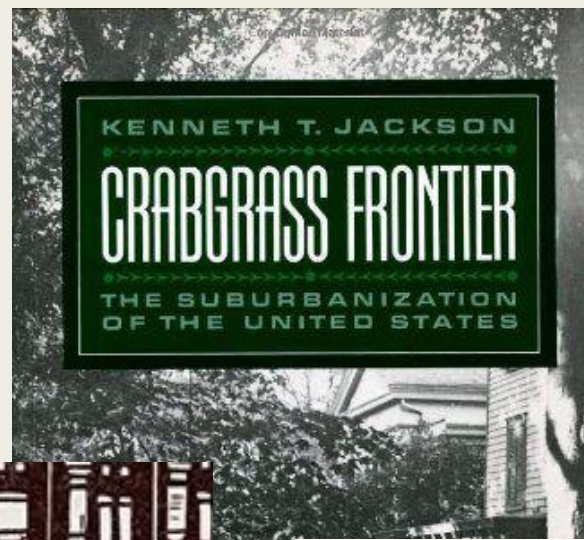
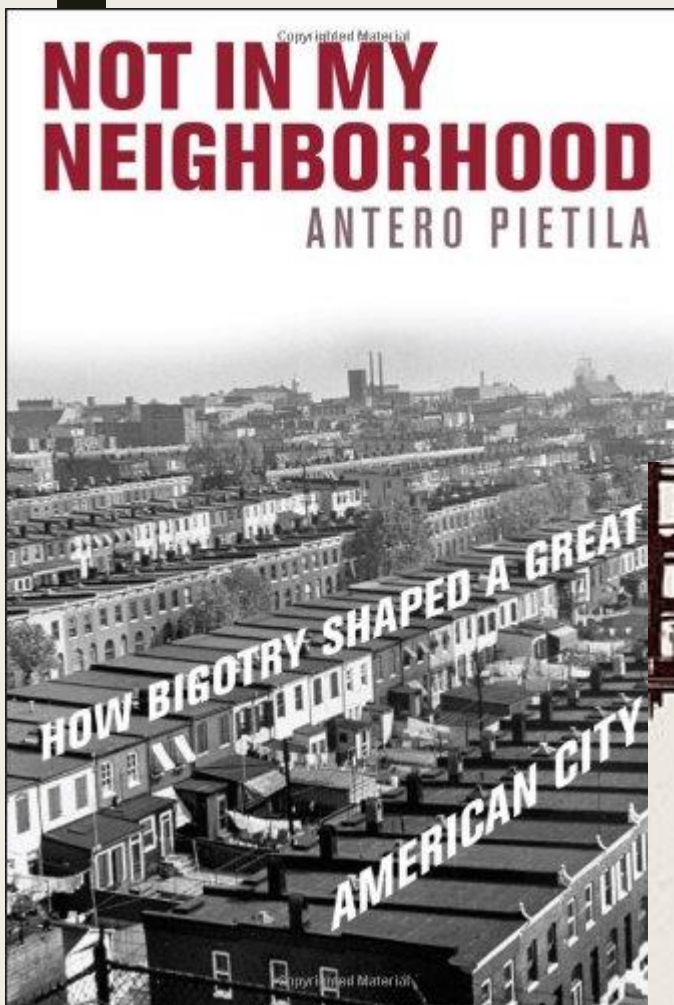


The Roots of Redlining: Academic, Governmental, and Professional Networks in the Making of the New Deal Lending Regime

LaDale C. Winling and Todd M. Michney

Racial segregation and racial inequality fundamentally shaped U.S. cities in the twentieth century and are key to understanding the American social and political landscape. A particularly notorious tool for promoting segregation has been redlining—the targeted denial of home mortgages and other financial supports according to presumed risk. Institutionalized by the Home Owners' Loan Corporation (HOLC) and adopted by the Federal Housing Administration (FHA), historical redlining defined the riskiness of investing in urban

Winling, L. & Michney, T. (2021). The Roots of Redlining: Academic, Governmental, and Professional Networks in the Making of the New Deal Lending Regime. *Journal of American History*. 108(1), 42-69. <https://doi.org/10.1093/jahist/jaab066>



Richard T. Ely

Trained in Germany

Taught at Johns Hopkins
University 1881-1892 (“Progenitor
of the twentieth-century research
university”)

1885: A founder of American
Economic Association



At University of Wisconsin 1892-1925

Excerpt at right from March 1898 issue of The Century Magazine.

“Great Migration” begins early 20th century

1908: Anti-Black riot in Springfield, Illinois.

1909: Ely declined invitation to attend conference that was prelude to founding NAACP: “One thing that I long ago resolved was that I would not take up the Negro question.”

FRATERNALISM VS. PATERNALISM IN GOVERNMENT.

BY RICHARD T. ELY.



When we hear the word «paternalism» used often enough, but generally with a meaning attached which is both historically and philosophically incorrect. The leading exponent was Sir Robert Filmer, who wrote a little book in its defense called «Patriarcha; or, the Natural Power of Kings.» It was this work which called out the treatises on government by Locke and Algernon Sidney. Henry Morley, in his edition of «Locke on Government» including Filmer's

While the coöperative theory of government is the correct one for modern times, it ought to include a certain element of paternalism. Democracies, above all other forms of government, require the leadership of wise and strong men. Moreover, there are classes in every modern community composed of those who are virtually children, and who require paternal and fostering care, the aim of which should be the highest development of which they are capable. **We may instance the negroes, who are for the most part grown-up children, and should be treated as such.** How any one who believes in the fatherhood of God and in paternalism in the family is able to sneer at paternalism and reject every element of it in government as a bad thing, I am unable to conceive. I must confess that I am too much of a conservative in my views and sentiments to do this.

Founds Institute for Land Economics, 1920

Motto: “Under All, the Land”

According to Winling and Michney, Ely believed “uncoordinated and profligate urban development potentially threatened the financial well-being of investors and thrifty homebuyers alike. However, Ely found real estate had no currency within his profession.”



Early Real Estate Board Organization

- 1908: Precursor to National Association of REALTORS (National Association of Real Estate Boards, or NAREB) founded and headquartered in Chicago.
- 1913: Code of Ethics first created
- Article 34 finalized in early 1920s.

ARTICLE 34.

A Realtor should never be instrumental in introducing into a neighborhood a character of property or occupancy, members of any race or nationality, or any individuals whose presence will clearly be detrimental to property values in that neighborhood.

ARTICLE 35.

No instructions nor inducements from any client or customer relieve the Realtor from his responsibility strictly to observe this Code of Ethics.

1919 Chicago Anti-Black Riot

White beachgoer stoned a young Black person swimming in Lake Michigan.

Week of violence followed.

38 people died, 23 of them Black



THE NEGRO IN CHICAGO

A STUDY OF RACE RELATIONS
AND A RACE RIOT

BY
THE CHICAGO COMMISSION ON
RACE RELATIONS.



THE UNIVERSITY OF CHICAGO PRESS
CHICAGO ILLINOIS

Ely Academia & Industry Collaboration

- Ely and NAREB meet in 1921
- Organize 1923 Conference on Real Estate Education in Madison.
 - *Creates two-year college course.*
 - *Ely student Ernest Fisher writes “Principles of Real Estate Practice” in 1923, edited by Ely. Used in many college courses.*
 - *Eventually four-year course, first adopted at Wisconsin, Northwestern, and University of Michigan, offered at a dozen by 1931.*
- Ely moves Institute for Land Economics to Northwestern in 1925.
- Lambda Alpha founded in 1930.

Factors Determining the Value of Real Estate for Residential Purposes.—Just as in the other cases of valuation, so in the valuation of residence property there are a number of elements.² Most prominent of these are (1) natural advantages, (2) civic advantages, (3) the rate and state of a city's growth, (4) the character of the community.

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REAL ESTATE PRACTICE

times very cheap because of the character of their residents and improvements, while sometimes a relatively poor location may be so improved and so restricted as to greatly enhance its natural value. It is a matter of common observation that the purchase of property by certain racial types is very likely to diminish the value of other property in the section. In general people of similar social standing live near together. Thus if a professional man is looking for a house site, he prefers to go where the homes are of the general type which he expects to build. Likewise the laborer prefers the section where the homes are of the sort he expects to build because the standard of living in such a neighborhood is more nearly the same as his. In the exclusive neighborhood the laborer would frequently feel ill at ease. He would also find that his income would not enable him to build or keep up the kind of home prevalent in the neighborhood.

Promoting deed restrictions

Winling & Michney relate that Ely and his colleagues believed: “Essential to maintaining long-term value was the ability to ensure that area conditions would remain the same a decade after investment or after a family moved into a house”

“In economists’ (and appraisers’) way of thinking, racial exclusion was not a moral consideration but rather a legal and practical one, because separating Black from white was deemed fundamental to preserving real estate values.” (Emphasis added)

The Use of Deed Restrictions in Subdivision Development

By Helen C. Monchow



Published By

The Institute for Research in
Land Economics and Public Utilities

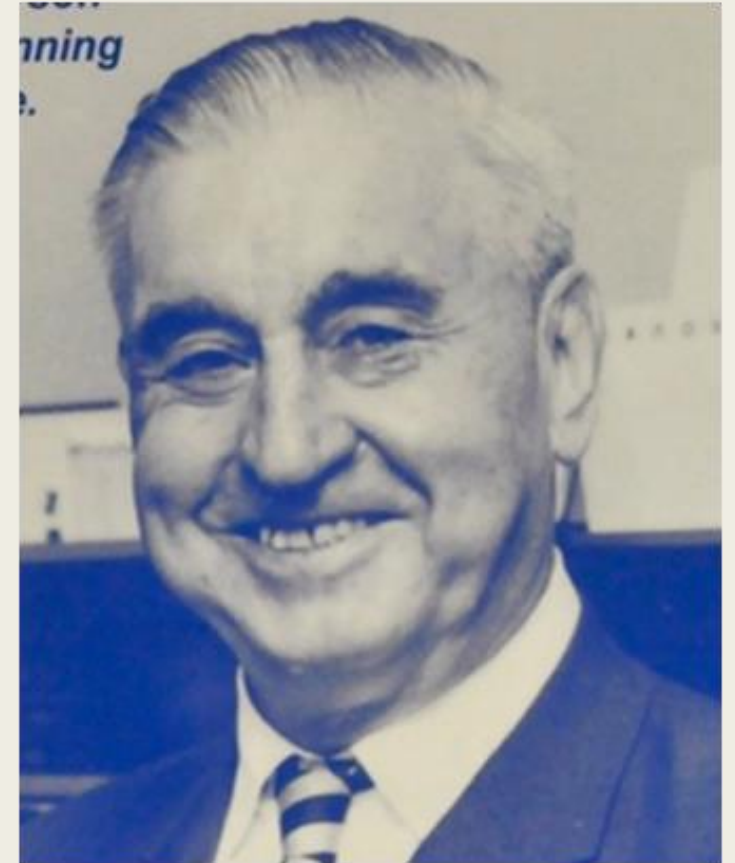
337 East Chicago Avenue

CHICAGO, ILLINOIS

1928

Homer Hoyt, LAI President 1942-1945

- Real estate broker and University-of-Chicago-trained economist.
- While at University of Chicago, worked with Ely Northwestern colleague Herbert Simpson
- From *Crabgrass Frontier* by Kenneth Jackson:
 - *At University of Chicago with Robert Park, “codified and legitimized” idea that “the influx of certain ethnic groups was likely to precipitate price declines.”*
 - *“Hoyt in particular showed that values declined as a function of the lowered status of residents and that the introduction of blacks into a neighborhood would first raise prices (the first black families had to pay a premium to break the color barrier) and then precipitate a drastic decline.” (p. 198)*



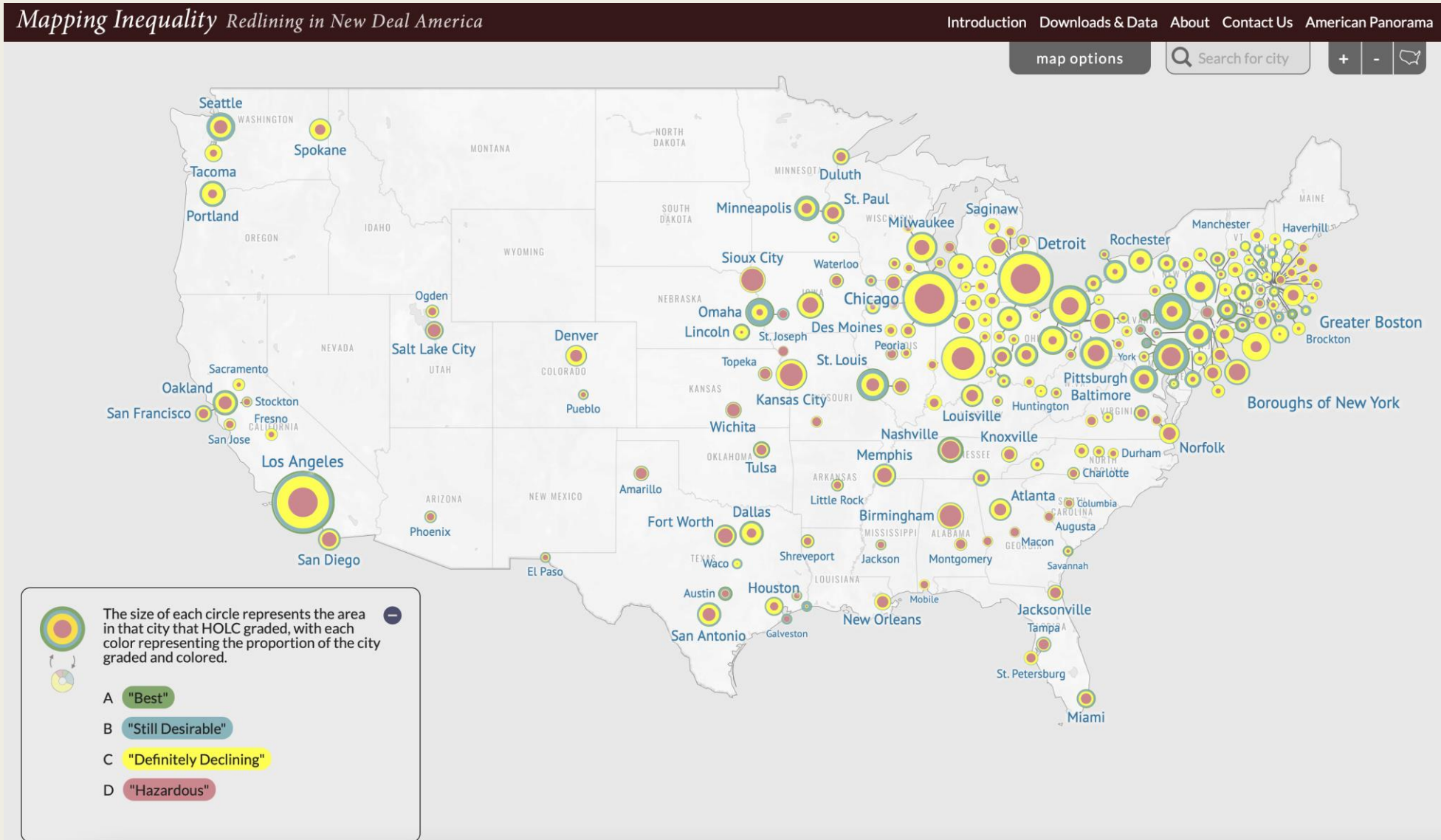
Homer Hoyt, LAI President 1942-1945

- 1933 PhD thesis listed groups in positive-to-negative order of impact on land values:
 1. *English, Scotch, Irish, Scandinavians*
 2. *Bohemians or Czechs*
 3. *Poles*
 4. *Lithuanians*
 5. *Greeks*
 6. *Russians, Jews (lower class)*
 7. *South Italians*
 8. *Negros*
 9. *Mexicans*
- 1934: Became chief economist at new Federal Housing Administration (map room at right).



1930s Redlining Maps for more than 200 Cities

<https://dsl.richmond.edu/panorama/redlining/>



Ely's Network Goes to Washington

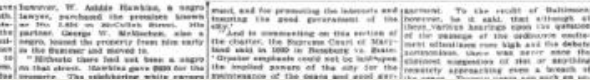
- “By 1930, houses across the country had lost some 40 percent of the value of the \$20 billion lent to finance them.” (Winling & Michney)
- **1933 Home Owners Loan Act**
 - *Creates Home Owners Loan Corporation (HOLC)*
 - *\$2 billion to bail out 1 million bad mortgages*
- **1934 National Housing Act**
 - *Creates Federal Housing Administration (FHA)*
 - *“Its supporters agreed on the desirability of lending on longer intervals, at lower interest rates, and with a single amortizing mortgage covering up to 80 percent of the property’s value. To protect investors, however, such reforms required greater security measures, including anticipating future neighborhood trends, with particular attention to race.” (Winling & Michney)*
- “The Roosevelt administration populated HOLC and the FHA with experienced professionals from Ely’s network.” (Winling & Michney)

Institutionalizing Ely's Principles

- 1932: Realtors create American Institute of Real Estate Appraisers (AIREA).
- 1935: Building & Loan League creates Society of Residential Appraisers (SRA).
- 1936: FHA Underwriting Manual warns against “inharmonious groups.” 98% of loans through early 1960s go to white homebuyers.
- 1937 National Appraisal Forum in Washington, DC
 - *HOLC & FHA staff, AIREA, SRA, National Association of Housing Organizations*
 - *FHA goal to “demonstrate the soundness of the Administration’s risk-rating system through explanation of its methods of valuation.”*
- HOLC held “technical conferences” in 16 cities by 1940, “with a particular focus on ‘common everyday problems in appraising,’ conferees discussed a variety of topics, including ‘racial groups’ and ‘vicinity trends.’” (Winling & Michney)
- Keeyanga-Yahmatta Taylor in *Race for Profit*: “Even after the passage of federal fair housing legislation, a 1973 study guide for AIREA counseled that ‘ethnological information is also significant to real estate analysis. As a general rule, homogeneity of the population contributes to stability of real estate values.’” (p. 149)

“Its sole object and intention is to protect our people in the possession of their property and to prevent the depreciation which is of necessity bound to follow when the colored family would move into a neighborhood that had hitherto been exclusively inhabited by white people.

--Baltimore Mayor J. Barry Mahool



Radnor-Winston Neighborhood in Baltimore

1917 Supreme Court struck down racial zoning ordinances.

1923 zoning law prevented rowhouses from being built.

1925 Bungalow in Radnor-Winston neighborhood between Loyola University and York Road.

Enforceable deed restriction prevented any African American person from owning, renting, or living in the house, except as a servant. (Enforceability struck down by U.S. Supreme Court in 1948)



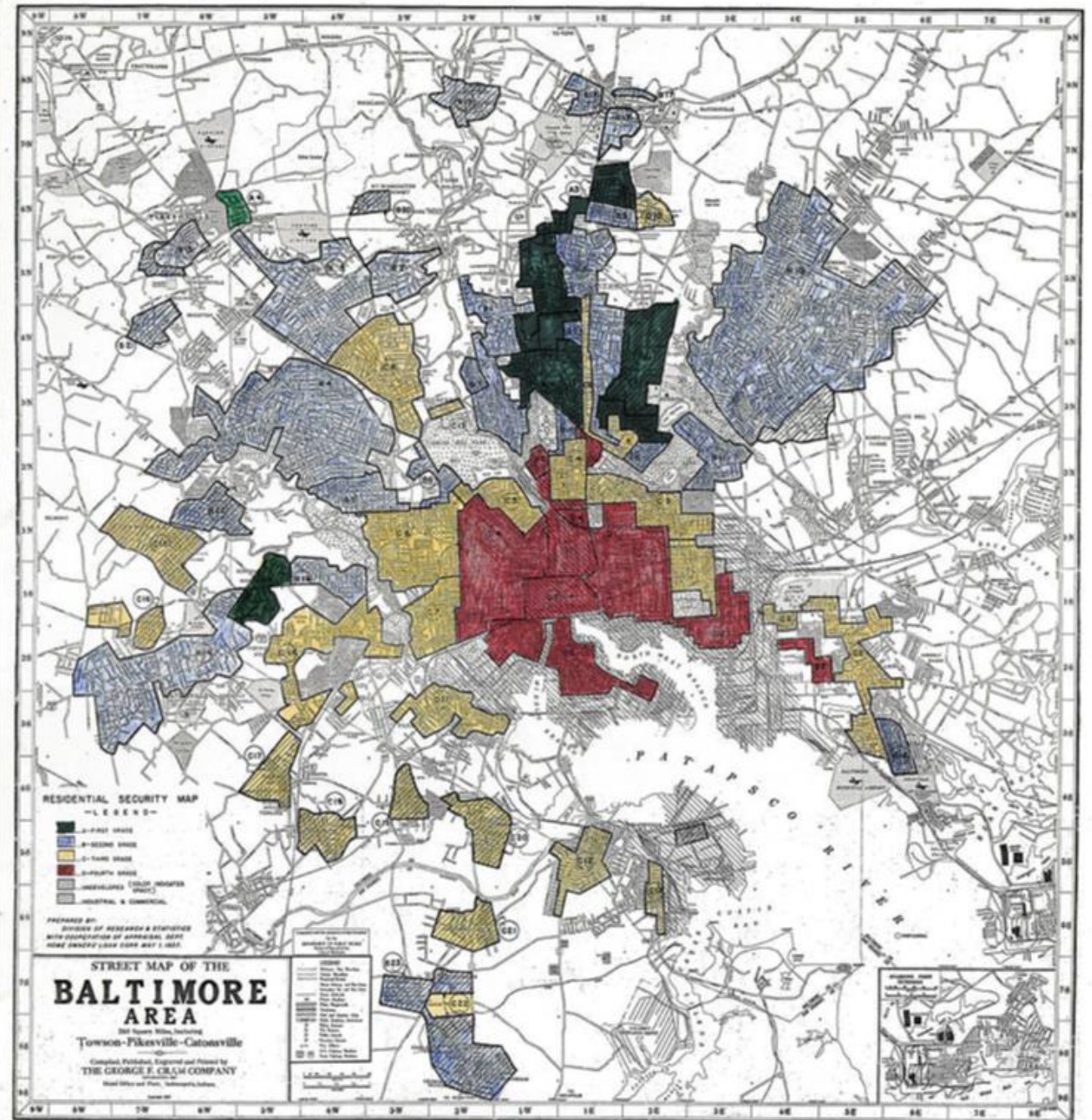
outbuilding is erected it shall be at least seventy-five feet from front street line 5 That no swine shall be kept or allowed to run on said premises no nuisance shall be maintained or allowed thereon and no use thereof shall be made or permitted noxious or dangerous to health No fence other than of hedge or wire shall be erected on said land 6 That neither said land or any part thereof or any building erected thereon or any part or parts thereof shall be sold leased transferred assigned subleased to or occupied by any negro or person of negro descent but this shall not forbid the servants or the employees as such of the occupants of such buildings occupying parts thereof but not as tenants IT IS distinctly covenanted and agreed by and between the parties hereto as part of the consideration for the execution hereof that all the covenants and conditions herein contained shall run with and bind the land hereby conveyed and shall bind all subsequent owners thereof and of any interest or estate therein and the occupants thereof until the first day of January in the year 1945 and the acceptance of this deed shall have the same effect and binding force upon the Grantee its successors and assigns as if it were signed and sealed by the Grantee provided however

Home Owners Loan Corp. 1937 Redlining Map

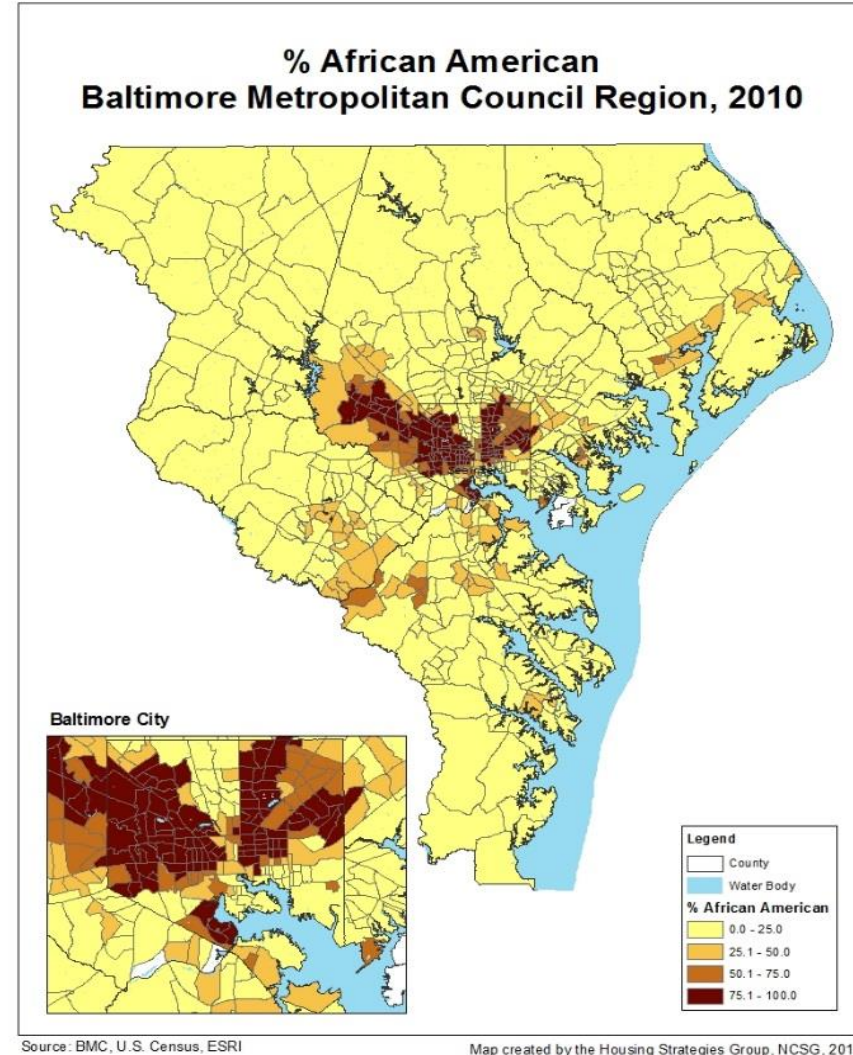
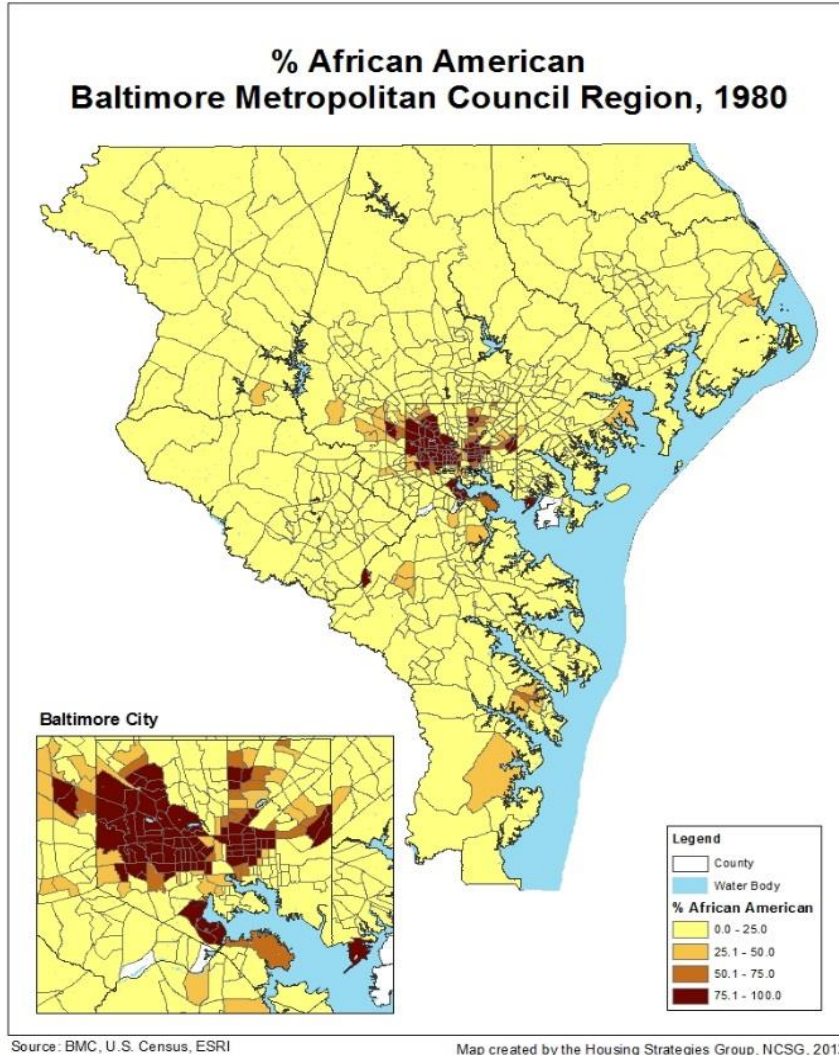
Grade A (Green): "... They are the new well planned sections of the city ... good mortgage lenders with available funds are willing to make their maximum loans ... They are homogeneous; in demand as residential locations in 'good times' or 'bad.'" (Emphasis added)

Grade C (Yellow): "... characterized by age, obsolescence, and change of style; expiring restrictions or lack of them; infiltration of a lower grade population ... neighborhoods lacking homogeneity." (Emphasis added)

Grade D (Red): "... represent those neighborhoods in which the things that are now taking place in the C neighborhoods, have already happened. They are characterized by detrimental influences in a pronounced degree, undesirable population..."



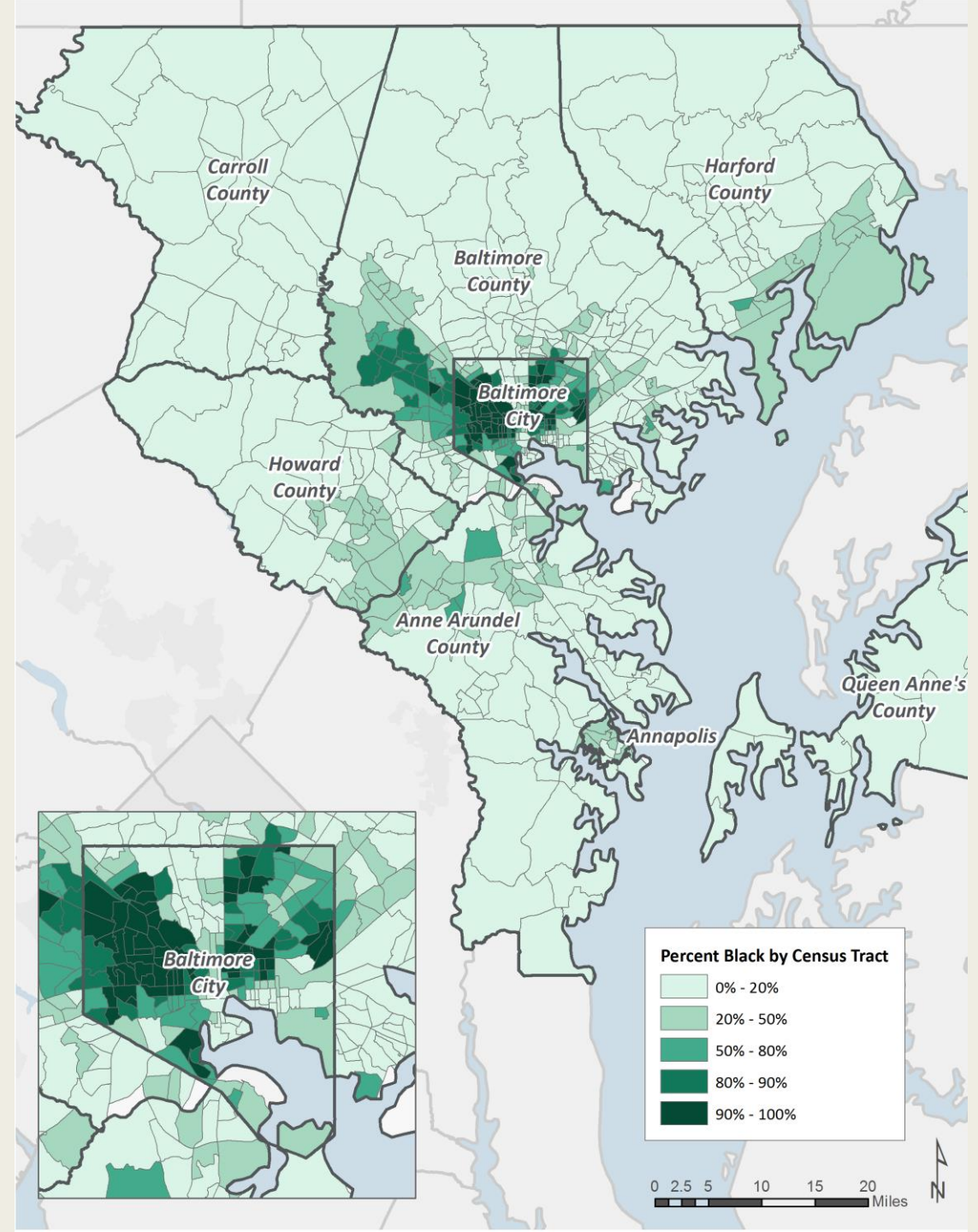
Persistence of Segregation Patterns 1980 & 2010



Percent African American by Census Tract, 2016

Region overall = 29% African American

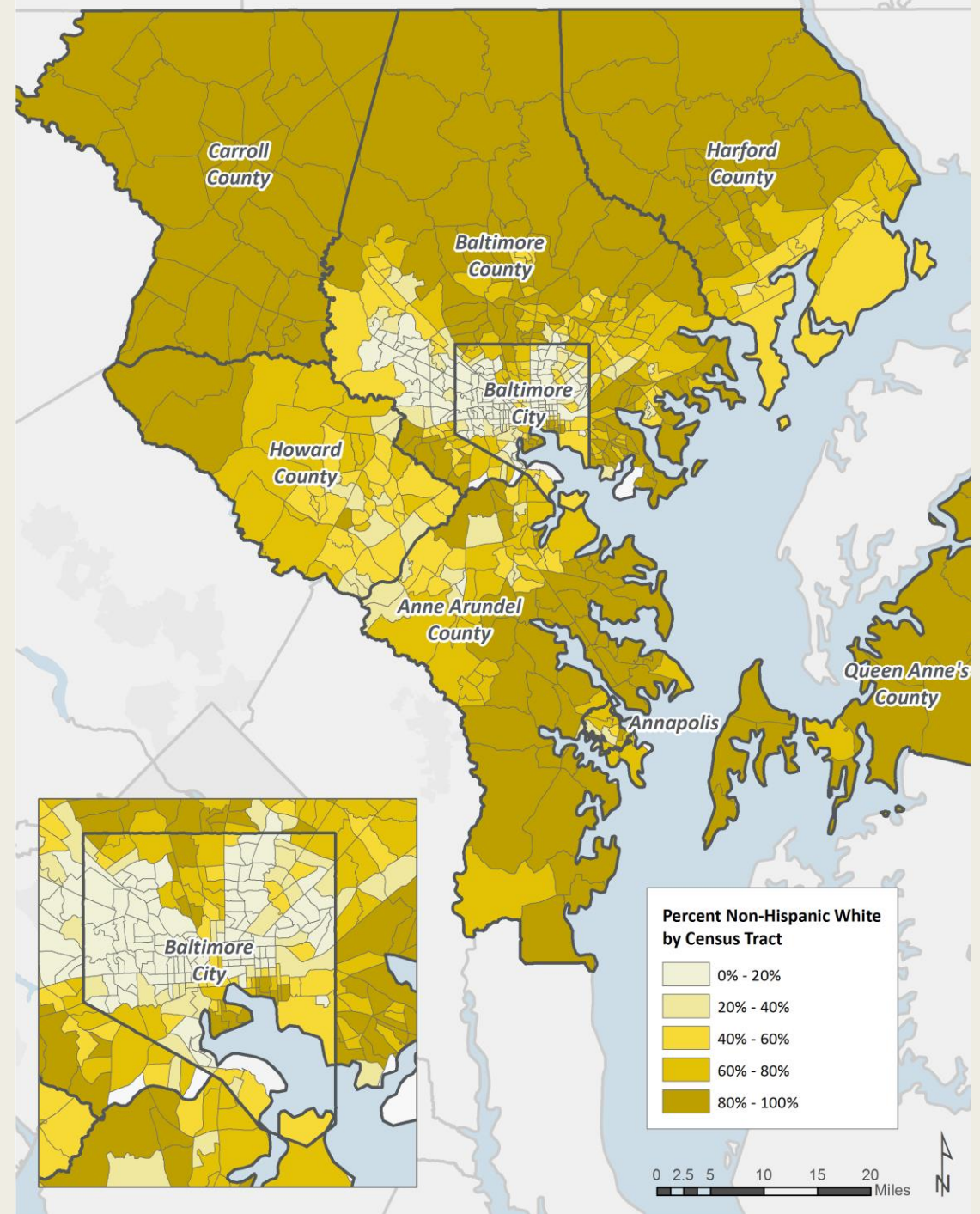
Source: Root Policy Research for Baltimore Metropolitan Council from American Community Survey Census Data 2012-2016



Percent non-Hispanic White by Census Tract, 2016

*Region overall =
56% non-Hispanic White*

*Source: Root Policy Research for
Baltimore Metropolitan Council from
American Community Survey Census Data
2012-2016*

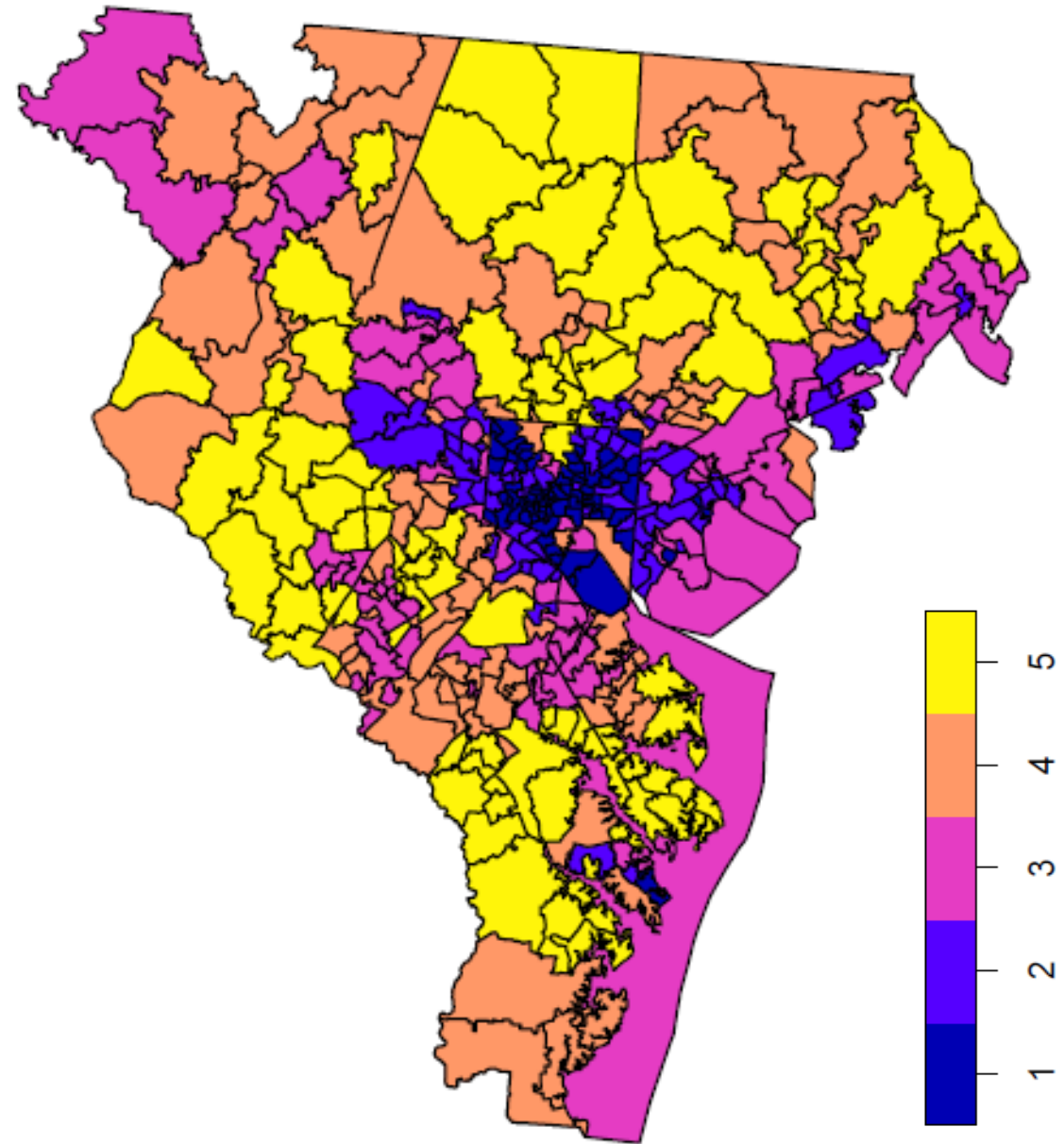


Elementary School Performance:

2017 data compiled and analyzed by the nonprofit Baltimore Regional Housing Partnership. Reflects PARCC score data from MSDE's 2017 Maryland Report Card for grade levels 3, 4, and 5.

Map reflects elementary school district quintiles. 1=Lowest performing; 5=Highest performing.

English Language Arts Met or Better Quintile



Recent School Redistricting Controversies

Baltimore County 2015-2016
Howard County 2019

Sections

The Washington Post

dan.pontious

Education

Marches, letters, emotions: School redistricting plan roils a suburban Maryland county

+ Add to list



U.S. 40: a dividing line

The night Sanford stood up to speak, the tensions in the cafeteria reflected the clashing perspectives of parents on either side of U.S. 40.

North of the highway are Johnnycake and Edmondson Heights elementary schools, with largely minority students from low-income families. Neither was scheduled to get a new building, but both were in need of work.

Where Civility Is a Motto, a School Integration Fight Turns Bitter

A plan to desegregate schools in a liberal Maryland suburb founded on values of tolerance has met with stiff resistance.



Kirwan Commission Legislation

Tackles equitable resources and policies for schools, but not school segregation patterns.

2021 legislature overrode Gov. Hogan's 2020 veto.

POLITICS

'A matter of life and death': Maryland lawmakers tackle Kirwan education funding bill with marathon hearing

S

By PAMELA WOOD and LUKE BROADWATER
BALTIMORE SUN | FEB 17, 2020



POLITICS

Larry Hogan is using an old playbook to attack a plan to transform Maryland schools. What does he hope to gain?



By LUKE BROADWATER
BALTIMORE SUN | NOV 08, 2019

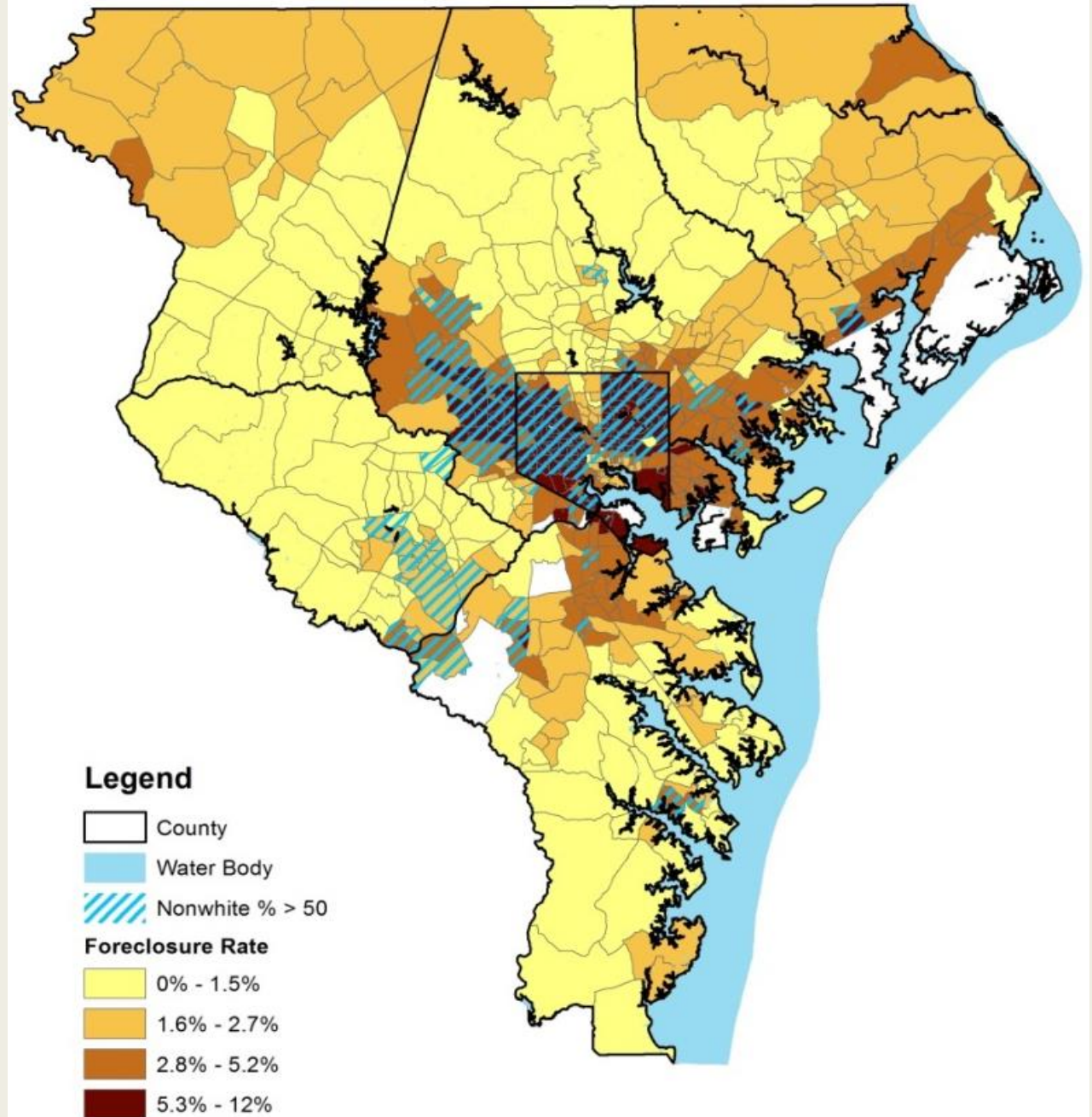


Foreclosure and Race in Baltimore

Communities of color disproportionately affected by subprime loans and foreclosures that followed.

Baltimore City 2008 discrimination lawsuit against Wells Fargo resolved by 2012 settlement, including \$7.5 million for City.

Source: Strong Communities, Strong Region: The Baltimore Regional Housing Plan and Fair Housing Equity Assessment, 2014; Realty Trac 2006-2009Q3



Housing Wealth Disparities

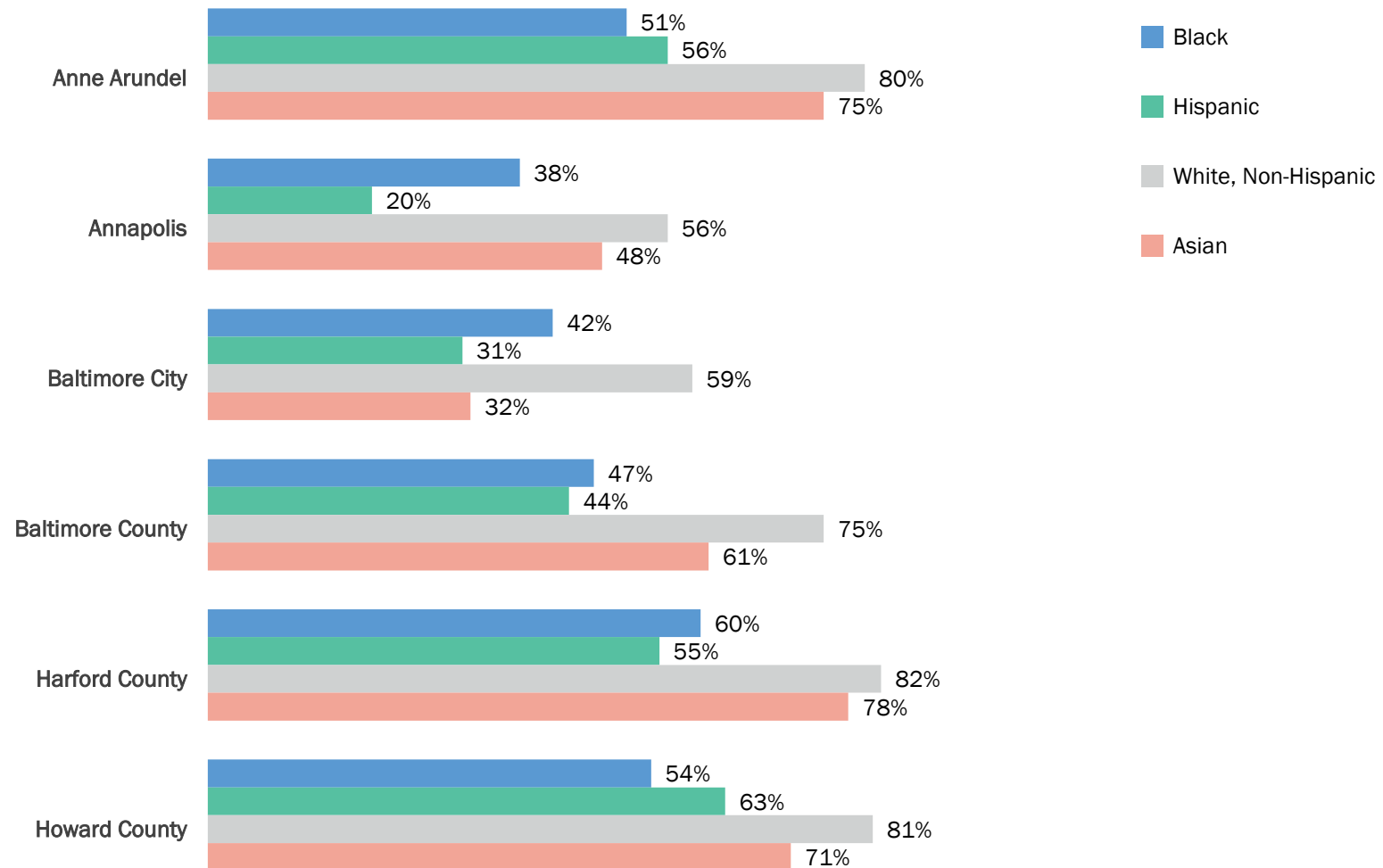
Similar homes all built by Keelty, Inc. in early 1940s, but have very different values today in neighborhoods with very different histories.

February 2020 Jayne Miller WBAL-TV story:

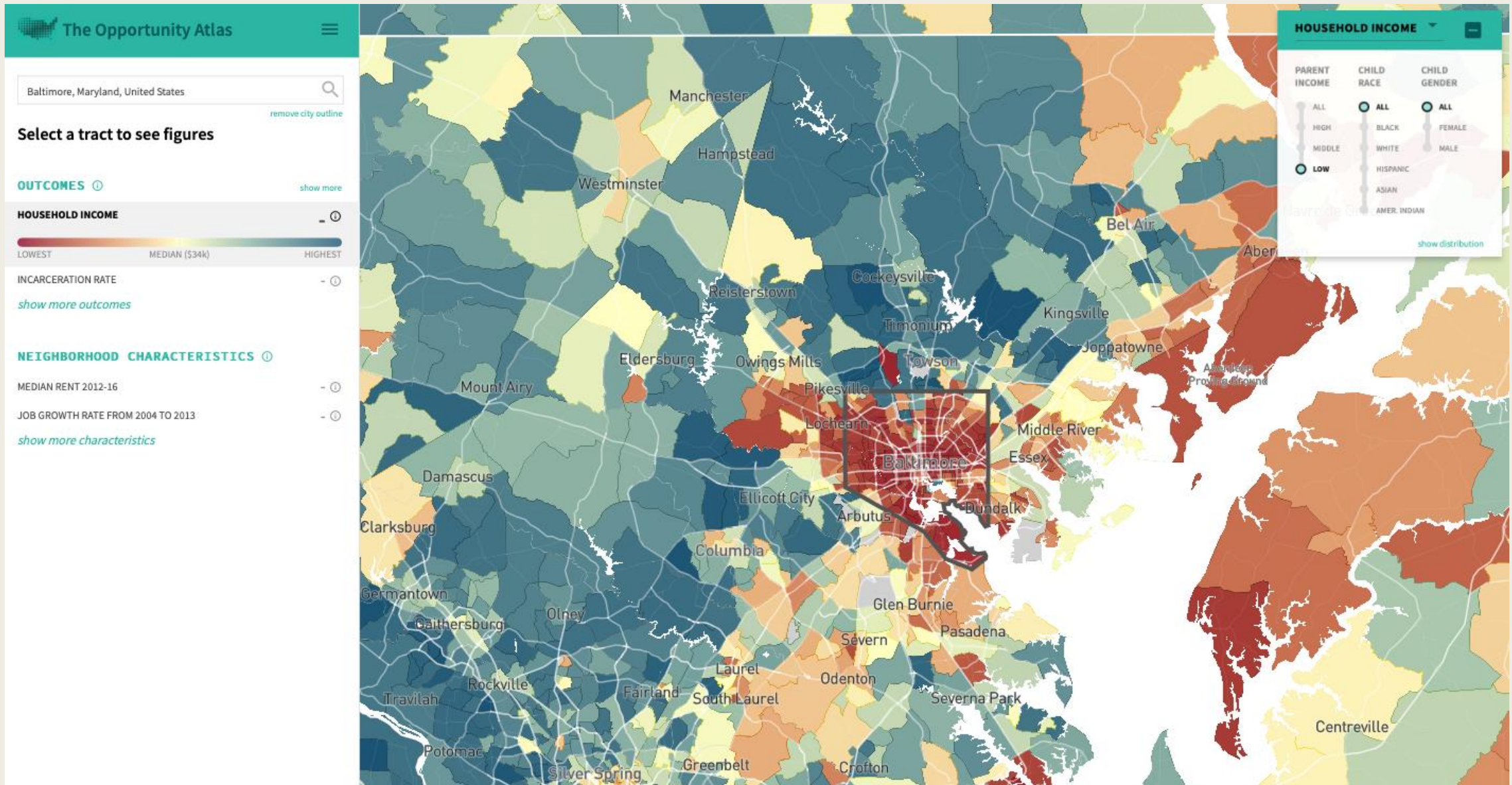
<https://www.wbal.com/article/widening-racial-wealth-gap-baltimore-edmondson-village-rodgers-forge/31020226>



Homeownership by Race and Ethnicity



Opportunity Atlas: www.opportunityatlas.org



Tackling Appraisal Gaps

RACE AND CULTURE

'I feel vindicated': HUD launches task force to tackle biased home appraisals

 By Julian Glover
Saturday, July 31, 2021





Black CA couple lowballed by \$500K in home appraisal, believe race was a factor

KGO · 2/12/2021

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RELATED QUOTES

RDFN -7.71% ▼

In the New Year, systemic racism has continued to force inequity in how across the Bay Area, and Black families who are in a position to purchase face discrimination.



RACE AND CULTURE

EXCLUSIVE: 'My heart dropped': HUD investigates \$439K difference in Oakland homeowner's appraisals

 By Julian Glover
Thursday, July 22, 2021



CHICAGO NEWS METRO/STATE

Black homeowner, 2 appraisals, \$62,000 difference

The owner thinks her lower home appraisal was skewed by her race and her neighborhood — and a recent study says those factors play more of a role in appraisals now than in 1980.

By Elvia Malagón | Updated Oct 7, 2020, 12:14pm CDT

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ANNOUNCEMENT OCTOBER 1, 2020

AEA Renames Annual Richard T. Ely Lecture

- Lecture had been held since 1962.
- AEA Chair Janet Yellen appointed *ad hoc* committee in 2020
- “The ad hoc committee noted that, although Ely made positive contributions to economic thought, he also wrote approvingly of slavery and eugenics, inveighed against immigrants, and favored segregation.”
- Lecture renamed *AEA Distinguished Lecture Series* to “be consistent with the Association's principles of professionalism and nondiscrimination.”