From the Suburban Dream to the Urban Nighgg am:go
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Preface

There is a street that runs along the outskirts of downtown Los Angeles, and if you look closely at the houses while driving down it you will notice a neat row of fourplexes. However, if you drive slowly, you will notice something eerie. All three of the fourplexes are in different stages of foreclosure. Coming from the south side of the street, the first fourplex you pass is boarded up with Golden Feather Realty signs in the windows. Four houses up, and on the opposite side of the street, you will come to a second fourplex, also completely empty with the same realty signs in the windows. Right next door sits the third fourplex. Ironically, this fourplex is in much worse shape than its neighbor even though it is partially inhabited. You almost have to come to a complete stop to read the federally posted sign in the window of the two empty units. The sign

During the course of the discussion the man recounted how a HUD official came into his

individual financial circumstances. As a journalist with the *Chicago Reporter* writes, "FHA loans have higher default rates because they are riskier."[2]

In the second scenario, people are evicted as a result of abuse within the FHA program. Brian Boyer in *Cities Destroyed for Cash*, chronicled the most famous FHA abuse at HUD during Nixon's Administration. The scandal Boyer chronicled, includes a web of bankers, realtors, appraisers, and public servants who worked together to sell

topic grew as I began to realize the prominent role that the federal government has played (and continues to play) in deciding where and how we live. The FHA quickly became much more than some innocuous acronym. Although much has already been written about the FHA and its role in suburbanization in the 1950s, this paper will bridge the gap between the FHA's history of suburban subsidies and its more recent programs that have focused on the urban core. This missing link adds to the great debate among social scientists and historians over the origins of the urban crisis.

Introduction

Eric Schlosser in *Fast Food Nation*, does a remarkable job at deconstructing America's Happy Meal. Schlosser weaves together a series of complex social problems—globalization, corporatization, worker's rights, immigrant rights, obesity, commercialization—but he connects them all to a very simple and tangible commodity. Fast food is a powerful metaphor for many social anm.85LB??O'c C.GGO5"8OBcpC.G5B'BGOchC.G5G

Chapter 1: The FHA from 1934 through 1968

The American Government's Double Standard

There is a growing body of social science research that underscores the powerful,

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

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

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

entire neighborhoods. Neighborhoods were graded (A, B, C, D) with each grade representing a color, green, blue, yellow, and red, respectively. This information was translated into “Residential Security Maps” by appraisers. The maps were placed in “City Survey Files,” but widely used by the lending indus

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

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

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

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

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

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

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

the Racial Segregation," Gotham identifies the real estate industry, representing its trade association the NAREB, as a key player in perpetuating residential segregation. Gotham writes:

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

was the result of FHA legislation which only made small loans for short durations available to people who wanted to repair existing structures. "But the most important factor encouraging white suburbanization and reinforcing the segregation of blacks was the FHA requirement for an 'unbiased,' professional appraisal of insured properties, which naturally included a rating of the neighborhood."[51]

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

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

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

Literally built into the FHA bureaucracy was an *Underwriting Manual* that included the following guideline: "if a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes."[54] These guidelines, which were written into the deed, insured that "the vast majority of FHA and VA mortgages went to white middle-class[55] suburbs, and very few were

awarded to black neighborhoods in central cities."[56] In 1948, the Supreme Court ruled in *Shelly v. Kramer* that restrictive covenants could not be enforced through the courts. But, the court did not go so far as to declare these covenants unconstitutional.[57]

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

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

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

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

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

> Governmental standards not only influenced the [home finance industry]… directly [by] participating in federal programs, but [it] also profoundly affected the way the rest of the business worked. In a highly fragmented industry

sponsored three of the top four influences; these included the 1956 Interstate Highway Act (and the automobile's dominance), the FHA, and urban renewal (downtown redevelopment and public housing). The top-10 list did not solely consist of government initiatives, it also emphasized how private enterprises seized on opportunities afforded by the federal government. These private developments

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

The FHA's construction standards became the norm among contractors because potential purchasers would not consider a house that had not been approved by the FHA.[71] The "typical American house" was branded and then mass-produced by entrepreneurs, like Abraham Levitt and his two sons, William and Alfred. Jackson writes that the Levitt family "had the greatest impact on postwar housing in the United States."[72] The Levitt's built more than 140,000 houses, with their most famous subdivisions (all called Levittown) located in New York, New Jersey, and Penns

insure *all* the home mortgages in a given development.[75] Between 1938 and r

a means to protect this "entitlement." [83] Homeowners Associations were also called "civic associations," "protective associations," and "improvement associations."[84]

neighborhoods as a white entitlement, an entitlement that if encroached, jeopardized "white rights." Sugrue describes this either/or binary:

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

Whites who staunchly opposed desegregation did not simply hold Homeowners Association meetings. It was not uncommon for these all-white homeowners to use racial violence as a means to an end.[90]

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

The Supreme Court's historic

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

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

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

What white Americans have never n i

rehabilitation of units, plus a lack of adequate staff in many field offices."[121] In the end, the FHA's "anything goes" attitude, coupled with its reliance on "private money sources"[122] *reinforced* residential segregation.

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

In Kansas City from 1969 through mid-1972, HUD's data indicated that 475 low-income families on the Section 235 program lived in a mere eight square mile area.[124] Since HUD's data did not indicate the race of those families, Gotham used census tract data to show "the rapid racial transition at the height of the Section 235 program."[125] In the area Gotham researched, in 1950, three out of 33 census tracts had a population of 50% or more African Americans. By 1980, 20 out of 33 of the same census tracts were over 90% African American.[126]

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

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

Blockbusting was not unique to Kansas City. Hillel Levine and Lawerence Harmon, in *The Death of an American Jewish Community*FY/GWQ'//YHtLGz/HiL,qWq-:..FaYHvL,GWQ'//YI

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

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

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

Boyer quantified the FHA scam during the early 1970s through the title of his first chapter, "The $70 Billion Slum." Since there was a massive discrepancy between Washington D.C.'s records on foreclosed properties and regional offices, Boyer was forced to estimate the actual number of HUD-owned FHA properties. After being in contact with U.S. Secretary of Housing and Urban Development, George Romney, Boyer approximated that 390,000 units sat in HUD's jurisdiction. If each house was worth $15,000, then HUD's real estate "assets" totaled $5 billion. However, properties that ended up in HUD's hands usually sat vacant for months, sometimes years. Neighborhoods still exist throughout America with row after row of vacated houses. "Houses in Motor City [Detroit] have remained in the HUD inventory for an average stay of forty-three months."[142] Hence, missing from this estimate was the government's four

dollars a day holding cost, about $5,000 more per house. In addition to the HUD's holding costs, the federal government also owed interest subsidies to the largest insurance companies, mortgage companies, banks, and other investors. Boyer estimated this pay out at $66 billion. Although not taking into account th

Chapter 3: FHA from 1973 through Today

How Important is the FHA Today?

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

According to Laurie Maggiano at HUD's asset management and disposition office in Washington D.C., as of August 31, 2001, there were 6,613,853 FHA insured loans in the nation. This translates to $498.8 billion dollars of FHA insured loans. Of the six and a half million insured loans, 275,552 were 90 days delinquent, equivalent to a default rate of 4.5%. Ms. Maggiano explained that one percent of the FHA insured loans are in foreclosure at any one time. Between October 1, 2000 to August 31, 2001, there were 55,283 foreclosures. Ms Maggiano pointed out that 49,446 FHA insured loans were currently part of HUD's loss mitigation program. Under this program, delinquent loans are reinstated or sold prior to foreclosure. The number of FHA insured loans part of loss

mitigation is up an astounding 61 percent from the prior year. However, Ms. Maggiano did not specify the number of insured loans being reinstated vs. sold.[149]

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

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

	Latest Quarter

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

Although the FHA plays a smaller mortgage insurance role within the entire homeownership population, its role is more significant among first-time, low-income, or minority homebuyers. In 1994, the FHA insured 20 pe

concentrated in the inner cities, “HUD has allowed, through its lack of effective administration, the misuse and abuse of FHA.”[158]

The NTIC did not rely on HUD's data collection methods for its report, but it did use HUD's definition of high lender default rates. According to HUD, a high lender default rate greater than 1.5 times the field office default rate (aka MSA default rate) is considered cause for concern. For example, in Los Angeles, the MSA default rate is 8.36%. This means that "High Default Census Tracts" in Los Angeles, must have a

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

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

HUD issued a response to the NTIC's study at the end of 2001. HUD's study reached the following five main conclusions. HUD began by justifying the FHA's heightened foreclosure rate e

lenders. But HUD did acknowledge that regardless of the specific technique, "there still appears to be some high-default neighborhoods and high-default lenders in most of the urban areas examined."[165] HUD's final conclusion highlighted the variation in default rates depending on the loan origination year, suggesting "that some problems generating high default rates are temporary."[166]

"The Two Faces of FHA"

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

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

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

First, Bradford found that the FHA's concentration in the very communities it redlined before 1968 have made it the very antithesis of the Fair Housing Act.[170] HUD frequently congratulates itself on the FHA's significant role in minority and racially changing communities. Bradford complicates this achievement by pointing out that the FHA's high level of mortgage insurance in primarily minority communities is a measure

examine the rates of loan default in the first year

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

Over thirty years after the major FHA scam that Boyer chronicled in *Cities Destroyed for Cash*, the FHA remains fraught with similar abuses. Newspaper headlines such as *The Washington Post's* "U.S. Conducting 240 Probes of Possible Mortgage Fraud," or "Flip, Flip, Flip, Flop" in *Shelterforce* (housing journal) underscore the re-emergence of property flipping scams across the country. Former

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

Like Baltimore, New York City has also been the focus of intense investigations

participation by investors in this program. A number of these prohibited investors persuaded various nonprofits to front for them in order to purchase single-family houses under the 203(k) program. From 1998 through 1999, 54 non-profits bought 720 properties in and around New York City (Brooklyn, Harlem, and the Bronx) under the 203(k) insurance program. According to Assistant Secretary Weicher:

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

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

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

In November 2001, the Office of the Inspector General released an audit report on nonprofit participation in HUD's single-family programs. "The audit disclosed serious problems with HUD's discount sales program which bring into question the viability of the program."[186] The report found that low and moderate income homebuyers did not

significantly benefit from the $220 million in discounts awarded through the program from January 1, 1998 through April 30, 2001. This was largely because "HUD's current regulations, guidelines, and controls have allowed profit motivated entities and individuals to manipulate the program and reap the benefits of discounted sales prices."[187] The report also found that homeownership centers (especially in Santa Ana and Atlanta) inadequately controlled the establishment of revitalization areas. The nonprofit program was intended to promote homeownership in revitalization areas defined as "economically distressed." The report found that HUD properties were sold at a discount to ineligible areas. This deficiency was attributed to problems within homeownership centers that administer the FHA program across the country. [188]

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

In Gaffney's statement to the House, she explains how HUD established the Housing Fraud Initiative (HFI) in October of 1998 in order to *detect* and *prosecute* fraud within HUD programs. HFI sites were designated in Eastern New York, Maryland, Washington D.C., Maryland, Northern Illinois, Central California, and Northern Texas. In the Inspector General's Semiannual Report to Congress on September 30, 2001, case after case of FHA abuse are described in detail. The Housing Fraud Initiative's emphasis

on detection and prosecution enables HUD to accumul

that “In 1994, there were 2,700 plus HUD staff operating single family program

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

The audit reported that the FHA did not meet *core* elements of its mission. "It did

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

Outsourcing was in part a response to the FHA's consolidation into homeownership centers, which in turn brought about staffing shortages. In addition to audit reports focusing on the effects of outsourcing, the United States General Accounting Office (GAO) investigated the homeownership centers (HOC) since they are responsible for *overseeing* the private contractors. In July 2001, the GAO released a

issuing FHA-insured loans. The GAO's testimony before the Senate's Subcommittee on Investigations, Committee on Governmental Affairs, underscored this problem. As a result of a lack of a lender approval process, "HUD's homeownership centers have applied the guidance differently and have approved lenders that made multiple and serious underwriting errors."

submit their mortgage case files to the homeownership centers before deciding on whether to insure the loan. Of the lenders the GAO reviewed, at least 131 should have been candidates for this action.[206] "As of October 1, 1999, HUD's homeownership centers had not suspended any of these lenders."

HUD's Attempt at Change Through Credit Watch

HUD's Credit Watch program began in May 1999 as a w

against these lenders."[208] Results from the first round of the Credit Watch program illustrate its limitations. Of the 33 lenders HUD terminated, 17 relied on other lenders to underwrite the 6,200 loans they originated and the FHA insured during the two-year period of analysis. "Nevertheless, the underwriting lenders escaped sanctions under the Credit Watch program."[209]

Chapter 4: It all Comes Together in Los Angeles

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

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

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

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

Is L.A. Number 1?

Similar to the magnitude of FHA-insured subdivisions in California, in *Cities Destroyed for Cash* Boyer predicted that the size of the FHA scam in Los Angeles would be second only to Detroit. In 1973 Boyer writes "So it's possible to anticipate that the nation's largest inventory of foreclosed properties could be in Los Angeles which, of all

case involved several types of complicated schemes including fraudulent loan origination, equity skimming, and home improvement loan fraud.

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

Problems in Santa Ana

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

In February of the same year, the Office of the Inspector General audited the Los

Urevich's story raises numerous questions about not only HUD, but specifically how the FHA program is being abused in Los Angeles. FHA-insured single-family

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

enforcing the program. According to Cathy Klump with NTIC, the mortgage industry's voice (as represented by the Association of Mortgage Bankers) overpowers the new administration and as a result the administration is not doing its part to enforce the program.

The NTIC's fourth proposal is to mandate alternatives to foreclosures. Unlike the

even review the ten percent of all appraisals they are supposed to. One former FHA official said “there just isn’t the staff or the kn

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

[26] The Veterans Administration (VA) was created in 1944 under the GI Bill. The VA program helped the 16 million WWII veterans purchase homes. According to Jackson, 204, "Because the VA very largely followed FHA procedures and attitudes and was not itself on the 'cutting edge of housing policy,' the two programs can be considered a single effort.
[27] Massey & Denton, 53.
[28] Jackson, 196.
[29] "Boondoggle" is a derisive term for supposedly unproductive work relief. It came into general usage in the spring of 1934.
[30] Gabrielle Esperdy, *Modernizing Main Street: Everyday Architecture and the New Deal*. Ph.D. Dissertation, City University of New York, 1999.
[31] Ibid., 19.
[32] Ibid., 26.
[33] Ibid., 27.
[34] Gotham, "Racialization," 303.
[35] Ibid.
[36] Kevin Fox Gotham, "Urban Space, Restrictive Covenants and the Origins of Racial Residential Segregation in a US City, 1900-50," *International Journal of Urban Spaces and Regional Research* 24, no. 3 (2000): 221.
[37] Ibid., 218.
[38] Marc A. Weiss, *The Rise of the Community Builders* (New York: Columbia University Press, 1987), 145.
[39] Calvin Bradford, "Financing Homeownerhsip," *Urban Affairs Quarterly* 14(3): 324.
[40] Weiss, 142.
[41] R. Allen Hays, *The Federal Government and Urban Housing* (New York: State University of New York Press, 1985), 84.
[42]

[64] Ibid.
[65] Ibid.
[66] Jackson, 213.
[67] Robert Fishman, "The American Metropolis at Century's End: Past and Future Influences," *Housing Policy Debate*, 11(1): 199. The complete list is as follows: (1) The 1956 Interstate Highway Act and the dominance of the automobile (906 points). (2) Federal Housing Administration mortgage financing and subdivision regulation (653). (3) Deindustrialization of central cities (584). (4) Urban renewal: downtown redevelopment and public housing projects (1949 Housing Act) (411). (5) Levittown (the mass-produced suburban tract houses) (439). (6) Racial segregation and job discrimination in cities and suburbs (436). (7) Enclosed shopping malls (261). (8) Sunbelt-style sprawl (242). (9) Air conditioning (234). (10) Urban Riots of the 1960's (219).
[68] Malvina Reynolds, "Little Boxes" cited in J. John Palen, *The Suburbs.*
[69] Kelly, 16. Jackson, 211.
[70] Jackson, 208.
[71] Ibid., 205.
[72] Ibid., 234.
[73] D.J. Waldie, *Holy Land* (New York: St. Martin's Press, 1996), 10-11.
[74] Weiss, 1.
[75] Weiss, 147.
[76] Gotham, "Racialization," 308.
[77] Weiss, 156.
[78] Jackson, 6.
[79] Duany et al., 43.
[80] Jackson, 211.
[81] Kelly, 16.
[82] Ibid., 17.
[83] Arnold R. Hirsch, "Choosing Segregation," *From Tenements to the Taylor Homes*, ed. John Bauman, Roger Biles, and Kristin M. Szylvian (Pennsylvania: Pennsylvania State University Press, 2000), 208. Hirsch explains how this dramatic increase in homeownership led many to consider housing a working class entitlement.
[84] Sugrue, 211.
[85] Gotham, "Urban Space," 625. J.C. Nichols was one of the first and most prominent developers-builders to promote the use and enforcement of restrictive covenants before homes were constructed.
[86] Gotham, "Urban Space," 627.
[87] Sugrue, 209.
[88] Ibid., 219.
[89] Ibid.
[90] Ibid., 232.
[91] Jackson, 208.
[92] Hirsch, "Choosing Segregation," 213.
[93] Massey & Denton, 188.
[94] Hirsch, "Choosing Segregation," 215.
[95] Ibid.
[96] Ibid., 214.
[97] Ibid.
[98] Massey & Denton, 55.
[99] Hirsch, "Choosing Segregation," 221.
[100] Hirsch, "Choosing Segregation," 221.
[101] Ibid., 207.
[102]

[107] Ibid., 192.
[108] Ibid., 192.
[109] John Charles Boger, “Race and the American City: T

providing housing for low and moderate-income families and families displaced from urban renewal areas or as a result of governmental actions." **Section 235** was created under the National Housing Act of 1968. Section 235 was different than Section 203 in that it provided mortgage interest ***subsidies*** to promote homeownership for low and moderate-income families. **Section 236** was a subsidized, multifamily interest program. **Section 223-e**, created under the 1968 National Housing Act, provided FHA mortgage insurance for older, "declining" urban areas that someone determined were still "viable" and that the property posed an "acceptable risk." **Section 237** and **Section 203-1** were less widely used FHA programs.

[139] Ada Focer. "Flip, flip, flip, flop," *Shelterforce Online*, September/October 2000 <www.nhi.org/online/issues/113/focer.html

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

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

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

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

[174]

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

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