On Redlining

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N THE EARLY PART OF THE LAST CENTURY, THE FEDERAL government worked hard to persuade middle-class families to become homeowners, as a way to help them build wealth and provide stability to cities. To encourage home buying, the federal government created the Federal Housing Administration (FHA) and the Home Owners’ Loan Corporation (HOLC) to help underwrite loans to make homeownership possible. This established our current system of mortgages that allow families to pay off their housing loans over a long period (usually thirty years) with interest.

To facilitate lending, the HOLC adopted an Underwriting Manual to guide appraisal of properties. Since homes are used as collateral on loans, lenders are very concerned that the homes will maintain or increase in value over the life of the loan, because if the homeowner fails to pay his loan (at that time women were not granted credit), the bank could sell the house to get its money back. The Underwriting Manual provided a method for determining whether homes were likely to maintain their value. According to this method, real estate agents and appraisers developed risk maps of every major city in the United States, showing “grades” for each area:

A New construction, homogenous populations (“American business and professional men”), high demand

B Still desirable neighborhoods that had already reached their peak and were stable

C Definitely declining

D Neighborhoods in which the things that were happening in C neighborhoods “had already happened”

The colors on the maps—which are now widely available digitally (just Google “HOLC maps”)—gave rise to the term “redlining,” which refers specifically to the red color used to demarcate...
the “riskiest” neighborhoods, and has been adopted to refer to policies or practices that unfairly target minority populations.

Richard Rothstein, the author of *The Color of Law* (2017), the single best resource on the topic of redlining, writes: “A white middle-class suburb . . . was colored green because, according to an HOLC appraiser in 1940, it had ‘not a single foreigner or negro.’” “Appraisers were told to give higher ratings where ‘[p]rotection against some adverse influences is obtained,’ and that ‘[i]mportant among adverse influences . . . are infiltration of inharmonious racial or nationality groups.” “The FHA discouraged banks from making loans at all in urban neighborhoods rather than newly built suburbs; according to the Underwriting Manual, ‘older properties . . . have a tendency to accelerate the rate of transition to lower class occupancy.’ The FHA favored mortgages in areas where boulevards or highways served to separate African-American families from whites, stating that ‘[n]atural or artificially established barriers will
prove effective in protecting a neighborhood and the locations within it from adverse influences, . . . includ[ing] prevention of the infiltration of . . . lower-class occupancy, and inharmonious racial groups.”

The Underwriting Manual was widely adopted, even by private lenders, and although it was outlawed with 1968’s Civil Rights legislation, redlining continued to be practiced into the 1970s, and still informs other discriminatory practices in the real estate and lending industries. The guidelines were institutionalized in the appraisals of properties and have had a long-lasting impact not only on racial segregation, but also on suburban sprawl and the concentration of poverty. Further, the greater risk attributed to more urban and diverse neighborhoods quashed housing values and has directly contributed to the gap in wealth that still exists between blacks and whites.