

## HOUSING AND THE LAW: LESSON 2: HANDOUT 2

### REDLINING

Housing was a part of American life hit hard by the economic devastation of the **Great Depression**. As unemployment rose and banks began to fail, people struggled to afford homes, secure loans, and pay their mortgages. This crisis led to a large number of **home foreclosures**, meaning that banks and lenders would take ownership of homes away from people who could not make payments. To address this problem, the government began enacting housing policies and establishing new organizations.

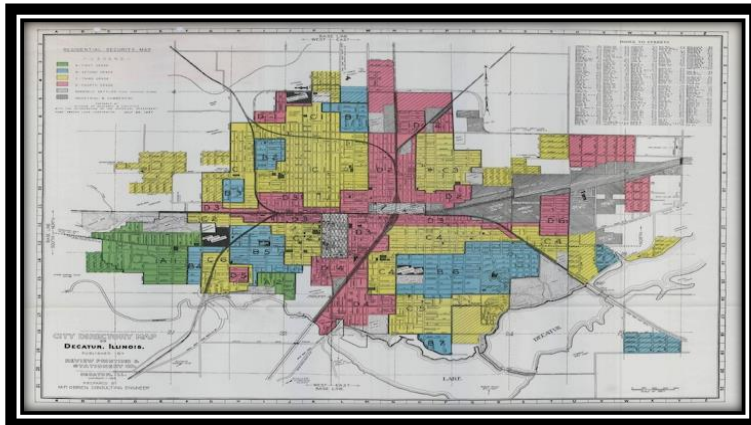


FIGURE 1: MAP OF DECATUR, IL CREATED BY THE HOLC

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#### Federal Policies & Redlining

First, the **Home Owners' Loan Corporation (HOLC)** was created in 1933. The purpose of the HOLC was to prevent and reduce the number of home foreclosures and allow people to refinance their loans. The organization was asked to create maps of American cities that would assess the "risk" involved with investing or developing real estate in different parts of a city. They were also used to claim how likely someone living in that area would repay the debt they owed on their home.

These maps were color coded. Green areas, designated "Type A," were considered to be desirable areas of investment and where people were likely to not fall into foreclosure. The next most desirable were blue "Type B" areas, followed by yellow "Type C" areas. Red areas, designated "Type D," were claimed to be "hazardous" for investment and where people were less likely to receive support from the government. The red areas were often neighborhoods where African Americans and other people of color lived. As a result, they were disproportionately excluded from receiving help to refinance their mortgages or receive loans for homes, unlike White people who lived in the green areas.

In addition to the creation of the HOLC, the **National Housing Act of 1934** was also enacted to address some of the economic problems of the Great Depression and restructure how banks operated. This act established the **Federal Housing Administration (FHA)** and the **Federal Savings and Loan Insurance Corporation (FSLIC)**. A major goal of the FHA and FSLIC was to increase the number of homeowners in America. One way they accomplished this was by offering mortgage insurance to banks and lenders. If someone, for instance, failed to make mortgage payments, the bank would still be compensated because of the insurance.

However, this FHA insurance would only be offered in areas that were considered “safe” for investment, typically the newer “green areas” on the outskirts of cities where White people tended to live. The FHA also required banks to avoid areas with “inharmonious racial groups.” As a result, these conditions facilitated racial segregation and a lack of investment in communities of color. White people were able to secure ensured mortgages in newly developed suburbs outside of cities, whereas African Americans were not.



FIGURE 2 PRESIDENT JOHNSON SIGNS THE CIVIL RIGHTS OF ACT OF 1968 INTO LAW.

The practice of withholding services, or charging higher prices for services like insurance, from geographically defined areas on the basis of race is referred to as redlining. **Redlining** led to the underdevelopment of America’s inner cities where people of color were heavily concentrated. The government, banks, and real estate developers actively denied and limited the ability of African Americans and other people of color to secure mortgages and other financial services.

The practice of redlining officially came to an end when President Johnson signed the Civil Rights Act of 1968 into law. Part of this act included the **Fair Housing Act**, which made it illegal to discriminate in housing based on race, religion, sex, or national origin. If anyone felt like they were being discriminated against or that their community was still being redlined, they could file a complaint through the Office of Fair Housing and Equal Opportunity.

In 1988, the act was expanded to protect people against discrimination in housing based on disability and family status. While the Fair Housing Act put a formal end to redlining, discrimination in housing still continued to exist. In many cases, the law has been difficult to enforce.<sup>1</sup>

<sup>1</sup> Retrieved from Richard Rothstein, *The Color of Law* (New York: Liveright Publishing, 2017); “The sordid history of housing discrimination in America: Keeanga-Yamahtta Taylor on how the real estate industry undermined black homeownership,” <https://www.vox.com/identities/2019/12/4/20953282/racism-housing-discrimination-keeanga-yamahtta-taylor>; Robert K. Nelson, LaDale Winling, Richard Marciano, Nathan Connolly, et al., “Mapping Inequality,” *American Panorama*, ed. Robert K. Nelson and Edward L. Ayers, <https://dsl.richmond.edu/panorama/redlining/>; Keeanga-Yamahtta Taylor, *Race for profit: How banks and the real estate industry undermined black homeownership* (Chapel Hill, NC: UNC Press Books, 2019); <https://lakeconews.com/news/community/55284-hud-commemorates-fair-housing-month-and-50-years-of-the-fair-housing-act>