THE COMING REAL ESTATE CRASH

By J. L. Brown

When the final word on New Deal futility is written, the fiasco which is likely to be awarded first place will not be the celebrated NRA, or the WPA, or even the AAA: it will be that grandiose project which was to scotch once and for all the wolf in sheriff's clothing — the Home Owners' Loan Corporation.

Yet, surprising to record, the latter subject is one upon which the Press has seemingly displayed the least curiosity; and during the late-lamented plebiscite, even Republicans studiously avoided it as a campaign issue. A valid explanation of the first phenomenon is found primarily in a censorship the like of which has never been surpassed in any civil agency of the government. The justification of the latter was votes — a good many million of them. As a consequence of this conspiracy of silence, the awakening, when it does come, promises to be an unmercifully rude one.

Midway in its prescribed three-year span of activity, the HOLC in a sudden flush of optimism proclaimed to the public at large:

> The refinancing operations of the Corporation have prevented thousands of foreclosures, stabilized real estate values, liquidated over two billion dollars of frozen mortgage credit, checked the cycle of deflation, and, in brief, arrested the further disintegration of the entire mortgage credit structure.

Probably nothing could be further from the truth. It appears much more certain that, when the full mischief is done, hundreds of millions of dollars of public money will be dissipated; that thousands of home owners who were falsely encouraged to become debtors of their country will be disillusioned and embittered; and that, most disastrous of all, the real estate market will be the special victim of the first government-planned crash in history. It is with this latter eventuality that we are presently concerned, for, needless to say, in a nation of owner-occupied homes, an unusual slump in real estate values is a major calamity.

The fact is, a more impractical

and harebrained scheme than the HOLC could hardly have been tried by responsible authority. For the amazing proposal of this agency was to loan out billions of dollars — but only to those borrowers who were obviously the least able to repay. From the beginning there never was the slightest doubt among realists as to the inevitable outcome of such a grotesque "lending" policy.

The underlying theory of the Home Owners' Loan Act had no plausible basis. Reduced to the purest substance of ancient melodrama from which the theme was patently lifted, it proclaimed the run-of-the-mine homesteader an honest, God-fearing hombre, unjustly threatened with eviction from his ancestral dwelling. The remedy was to confound the villainous mortgagees with the last-minute appearance of some Good Fairy, bearing the necessary cash — this denouement, needless to say, being good for sustained and rapturous applause.

That the Congress of 1933 was essentially a hero with money to burn, is, of course, by now conclusively established. When, therefore, it launched upon the noble aim of playing the supreme Good Fairy to all embattled homesteaders, it had no intention of dillydallying, even in an undertaking which called for billions. There was an Emergency which required nothing less than that the United States should forthwith take over the mortgage business; and so acute was the situation that time could not be afforded even to figure the probable collossal cost. Thus, when the initial allotment of $2,000,000,000 was found to be insufficient, second and third helpings of $1,000,000,000 and $1,750,000,000 were, with commendable speed, tossed to the diabolical money-lenders.

What the spendthrift Congress failed to notice, however, was the singular preference which the supposedly grasping lenders displayed for greenbacks as opposed to old homesteads. In the play, the villain always accepted the money reluctantly, and with a terrible scowl of defeat.

It goes without saying that the scenes attendant upon the distribution of this vast largesse were a veritable wonder to behold. In numerous cities long queues of people stretched daily, from early morning to early evening, before the various district offices of the HOLC. In suffocating numbers they crowded into barn-like rooms before bewildered hirelings who, if the confusion was any criterion, knew considerably more about landing a political job than lending on mortgage. Many applicants could barely speak English; many others were ward politicians of varying degree; great numbers knew only that the government was handing out money, and now was the time to get rid of that bothersome private mortgagee who insisted upon his interest only thirty days after it was due, and likewise got nasty when taxes were but one year in arrears.

In very little time, therefore, thousands upon thousands of applications were accepted, but without any further steps being taken to act upon them. The obvious reason for the stalemate was that the officials of the Corporation, face to face with an unworkable law on the one hand, and a mass of practicalities on the other, were in a hell of a mess.

In the meantime, the delighted homesteaders sat back confidently, paying neither interest nor taxes, just leaving it to Uncle Sam. In those happy days, consequently, it was far cheaper for the knowing ones to luxuriate in an elegant $20,000 home than to inhabit a modest flat for which rent was inevitably payable the first of each month.

The situation might easily have rested in an impasse, and a lengthy respite been gained for the homesteaders without more than a fraction of the billions being spent, had not the money-lenders, now seeing themselves the bag-holders as well, taken a hand. So well did they take a hand, in fact, that Uncle Sam himself now promises to become the greatest bag-holder ever known upon this shining earth.

For here it must be written that the same, sad fate which always overtakes the more noble products of legislative Uplift likewise caught up with the Home Owners' Loan Act. Not only did the law provide a happy hunting ground for chiselers, but far from being the relief and haven of the harassed, it became instead the vehicle for their oppression. The mortgagees, in other words, sensing opportunity, naturally took advantage and immediately instituted thousands of foreclosures which otherwise would never have occurred. The explanation is quite simple: Real estate was a frozen commodity; what better than dispose of investments in it, likewise unliquid, to any ready buyer? And if the first yokel with well-filled pockets who happened to come along was Uncle Sam, then so much the better.

Consequently, in numerous instances where mortgagees had been working out their mutual problems satisfactorily, if slowly, the mortgages were suddenly called. A wave of notices went out to unsuspecting homesteaders from banks, mortgage companies, loan associations, and individual lenders, demanding the redemption of loans in full. When the indignant homesteaders stormed the gates in protest they were politely directed to the HOLC.

Whereupon the pressure to get to the trough before the vast feed was exhausted, became terrific. If the administrators of the HOLC still had any illusions about staying the flood, these were dispelled by effective blasts from the White House, such as: "If anybody in this country is afraid he's going to lose his house, let him telegraph me." Prodded by enthusiastic mortgagees who turned the screws energetically to get action, the homesteaders telegraphed, screamed, and stampeded.

The net result was that whereas in the first six months the HOLC had stumbled through a mere $43,000,000 in mortgage loans, a year later it had disbursed more than two billion dollars. And foreclosures jumped to an all-time high of 1000 a day.

II

What was the actual truth of the situation? It rests in the fact that the so-called Emergency of 1933, if it existed at all, was far more serious for the lenders on homes than the borrowers. Every realistic person knows that in the aggregate of foreclosures, cases are extremely rare in which proceedings are instituted out of mere covetousness. Before the advent of the HOLC, the average foreclosure was palpably deserved; it was not the choice of the mortgagee, but rather a prime necessity to protect an investment. Certainly, in a frozen market, no man — not even a grasping money-lender — would willfully incur the responsibility of acquiring real estate through expensive legal proceedings. An unbiased survey of the situation during the Depression, moreover, would have disclosed that mortgagees as a whole were doing everything possible, short of cancelling obligations entirely, to induce home owners to retain their properties. In many cases the mortgagees advanced funds with which to pay taxes and insurance; in numerous others they reduced the interest rate and waived payments on account of principal. In addition, the practice of calling mortgages when due was allowed to become well-nigh extinct. But none of these heroic measures could have effect on great numbers of people to whom proprietorship of the homestead during difficult times, and in a stagnant market, had lost all appeal. Many of these people had purchased during prosperity, at excessively big prices and for little cash. The homes were over-mortgaged, and more often than not, they were the fruit of a speculative building era — showy rather than useful. Hence foreclosure, far from being considered a curse by many people, was accepted as a downright boon.

This is the more realistic view of the situation in 1933, when the HOLC came into being, whatever the theorists of those days had in mind. The result was that the HOLC actually provided a vast relief for money-lenders instead of helping out the borrowers. This is perhaps the most extraordinary fact about the whole set-up. Obviously the title of this weird piece of legislation is a misnomer — it should have been called the Home Loaners' Aid Act.

For, by reason of the extraordinary policy of loaning only to applicants in acute distress, it was inevitable that every bad loan and undesirable risk in the United States should be drawn into the fold. Further, persons who had sensibly abandoned dwellings which were beyond their means, and others who had fled flimsy and over-loaned shacks, were encouraged to cart back their furniture and assume greater obligations by the conviction, widely held, that Uncle Sam would prove to be a complaisant creditor who would never think of dispossessing his nephews. And, as might be expected, as fast as many loans were completed, the borrowers defaulted. "I couldn't keep up my last mortgage; that's why Uncle Sam helped me out. How can he expect me to pay on a new one?" Under the circumstances, it was a valid plea which thousands raised.

The mortgagees, being hardheaded realists, realized at once that the unique lending policy of the Corporation could lead to but one result, namely, ruination of the urban home market. Hence the race to liquidate. It is palpably apparent from developments that even HOLC officials saw the handwriting on the wall. Accordingly, they tossed aside the pretense of being the Good Fairy, and went in seriously for red tape. Under the new set-up, business-like methods were prohibited. With a genius born of desperation they devised a maze of evasions, vicarious stallings, and deliberately complex obscurities to confound applicants, and leave them to the very fate the law was supposed to prevent. The methods used in the new passion to exclude cannot be cited at length in this short space, but they were not without their humorous aspects. Thus, it was ruled that persons who carried on their businesses in their homes were no longer eligible. This, of course, barred exactly those persons who demonstrated the most visible means of support, and who, consequently, might have been considered good risks by any but a government lending agency. Harassment of applicants became the order of the day, but most triumphant of all were the bizarre financial requirements laid down in an official pronunciamento as follows:

> (1) The applicant must be financially unable to make payments on his present mortgage and actually be faced with foreclosure or tax sale.
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> (2) If the applicant or the spouse of the applicant has an income from any source sufficient to pay interest and taxes, or if either spouse has other investments which can be sacrificed to save the home from foreclosure, the applicant is not eligible.
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> (3) If an applicant has no prospective income and clearly could not repay a loan from the Corporation, he is not eligible. . . .

Truly, these were obstacles to hurdle, and they helped much to sabotage an onerous law by eliminating from the trough all but politicians and financial Houdinis. But, nevertheless, when the HOLC banged shut the till on June 13, 1936, it had in its portfolio over one million mortgages; and, to the tune of over three billion dollars, was the Colossus of the real estate world.

It is axiomatic among lenders that if you loan on mortgage you must at all times be prepared to become a landlord; and indicative of the possible eventuality confronting the HOLC is the fact that in all of New York, Chicago, St. Louis, and a half-dozen other large American cities combined, there are not so many owner-occupied homes as are now in Uncle Sam's capacious bag. But the situation is not even comparable with any past experience, for while the ordinary lending agency was always concerned with the good credit rating of its borrowers, and invariably limited loans to not more than from fifty to sixty-five per cent of appraised value, the HOLC, on the contrary, was concerned primarily with the insolvency and unreliability of its applicants, and granted loans up to eighty per cent of total appraisal.

III

It is thus apparent that from any angle, the HOLC is indeed unique. It is increasingly clear, also, despite the rigid censorship, that the inevitable rendezvous with reality is near. The futility of trying to get the facts is illustrated by an interview I had with a high HOLC official. "No, you can't get the dope," he said bluntly—and by way of emphasizing the foolhardiness of my attempt—"even United States senators can't get the dope."

But all foreclosure papers, when they are filed, are necessarily public records, and so it is known that some 70,000 of such have already been authorized. In other words, 70,000 American families are already on the way to being dispossessed by their generous government.

The real cracking down, however, now that the election is over and all votes safely counted for the New Deal, is only beginning. It is believed that foreclosures will eventually approach the five hundred thousand mark. Hence, there impends an era in which Uncle Sam will play the supreme villain, flaunting the auctioneer's flag of distress over the nation's disappearing homes.

The implication in this, aside from the moral issue, already has the real estate market in a dither of apprehension. Certain organizations of financial institutions, for instance, are canvassing their memberships, urgently advising the disposition of holdings at whatever sacrifice. For when hard-hearted Uncle Sam, thoroughly chastened, decides to dump hundreds of thousands of houses on the market, what will happen to the market? To paraphrase one of the blurbs of the HOLC and bring it up to date:

> Under the pressure of a flood of foreclosed properties selling at sacrifice prices, property values will fall to continually lower levels, threatening serious and permanent impairment to all real estate equities.

In other words, it will be the first government-induced market crash in history.

Unhappily for America, the dire blow which impends in this instance threatens to descend most harshly upon the very folk who are commonly held to constitute the backbone of the Republic. Thus, for millions of earnest, hard-working Americans who have by reason of endless sacrifices managed to retain their homes through thick and thin, the outlook is anything but cheerful. For, as the reward of their industry, thrift, and tenaciousness of purpose, they face an additional and staggering burden — the colossal cost of the HOLC blunder. Needless to say, the situation is one which also profoundly concerns all of us; for no nation, no matter how strong, can afford to gamble with the security of its best citizenship in so reckless a fashion.

HUMILITY

By Robert B. Read

Sometimes I grow sorry for my hands,
Fastened as they are to mind. One does not bind
A flower in its turning; yet here are cells
Welled up from earth, craving since birth
Warmth of sun, startle of water,
And always a wet root digging —
Here are cells welled up from earth,
Having a business to transact with wind;
But tight in glove cased, shoved into pocket,
Puppet of mind, bent to a stilted scenery.

Sometimes, shot through with stars,
Burning, sure of a music in me,
I know it is my real humility
That I grow sorry for my hands —
For all taut, crying cells, caught in my person,
Mad with my tyranny,
Eager,
Mad to be rid of me.

JAPAN'S SECRET NAVY

By Fletcher Pratt

It is about time to say publicly what every naval man has known in private for the last ten years — that the Japanese Navy has been cheating on warship building ever since 1924. The facts are these: the Japanese have constructed 10,000-ton cruisers which are in fact pocket battleships, light cruisers that are in fact 10,000-tonners, destroyers over the naval treaty quotas, and "defensive" submarines which can operate off the Panama Canal from Japan without refuelling.

But let it also be made clear that this statement is not an effort to conjure up a new Yellow Peril. The Japanese have had plenty of reason to distrust Occidental idealism and plenty of provocation for disregarding their commitments. These particulars are merely an explanation of why the American and British admirals were so reluctant to agree at London on that "common upper limit" of naval strength which seemed so reasonable a demand. The official explanation, of course, has been that the common upper limit would give Japan so decisive a naval superiority in the Western Pacific that America would be unable to maintain her hold on the Philippines and her trade interests in China; and the incontrovertible answer has been that America has no business in the Philippines and her trade interests in China are insignificant. But actually the case is far stronger; the admirals have learned that Japan refuses to be bound by anything that does not suit her convenience, and a naval treaty that accorded parity to Japan would actually mean Japanese naval superiority, not in the Western Pacific, but off the coast of California. And Japanese superiority in these waters is nothing to be contemplated with equanimity by anyone who is aware of the fact that America has given the Orientals causes of grievance which they feel as keenly as they did the Russian theft of Port Arthur.

In the background of the Washington naval reduction conference lay the neglected but important