THE IMPACT OF FHA INSURANCE PRACTICES ON URBAN HOUSING MARKETS IN TRANSITION—THE ST. LOUIS CASE†

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In 1966 Congress authorized a change in Federal Housing Administration (FHA) insurance practices. Prior to 1966 FHA approval for mortgage insurance depended upon the mortgagee's credit rating, the soundness of the physical property, and the stability of the neighborhood in which the property was located.[1] The change allowed FHA to insure mortgages on the basis of the first two considerations alone, neglecting neighborhood stability. In 1968 Congress approved the establishment of a special risk fund for unstable areas.[2] This was a definite shift in FHA policy in favor of loans on property in transition neighborhoods.

In this paper we suggest hypotheses about housing markets in transition from higher to lower income levels and from one race to another. We indicate the expected impact of the change in FHA

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1. 1967 HUD ANN. REP. 13.
2. 1969 HUD ANN. REP. 49.

insurance practices on prices, income and racial transition. We then develop actual price and income data for St. Louis housing markets in transition, describe changes in housing markets in transition, and evaluate the impact of the shift in FHA policy.

I. THE THEORY

A. *Lending in Transition Markets*

Prior to the change in policy, when those involved in a local housing market anticipated that a particular area was beginning to change, either through occupation by families with a lower socio-economic status than those currently in the neighborhood or by shifting racial composition, they lowered their estimate of the future property income stream, and, therefore, the value of the property. A lender who did not do this might commit more resources than advisable to such properties since the decline in house value might exceed the decline in mortgage debt outstanding. In addition to decreased value, mortgage terms would become stricter, with a shorter payment period and higher down payment, to prevent market value from declining faster than mortgage value.

As income declines to so low a level that problems are anticipated with the maintenance of structures at current building code standards, institutional investors, such as banks, savings and loan associations, and insurance companies, begin to withdraw their financing.[3] Individual real estate investors then become the major source of financing. The incidence of second and third mortgages increases.[4] Until 1970 examiners for the Federal Home Loan Bank Board required higher reserves for mortgages on property in particular postal zip code areas considered higher risk neighborhoods, providing further cause for withdrawal of institutional lending.[5]

A transition market becomes, therefore, a difficult one in which to sell property. Houses are on the market longer before being sold and more people want to sell than are willing or able to buy. Prices, accordingly, tend to decline and people begin to leave if they can

3. NAT'L URBAN LEAGUE, THE NATIONAL SURVEY OF HOUSING ABANDONMENT 30 (1971) [hereinafter cited as NAT'L URBAN LEAGUE]; M. STEGMAN, HOUSING INVESTMENT IN THE INNER CITY: THE DYNAMICS OF DECLINE 55 (1972).

4. A. SCHAAF, ECONOMIC ASPECTS OF URBAN RENEWAL: THEORY, POLICY, AND AREA ANALYSIS 26 (1960).

5. WASHINGTON UNIVERSITY INSTITUTE FOR URBAN & REGIONAL STUDIES, URBAN DECAY IN ST. LOUIS 58 n.6 (1972).

afford to do so, renting unsold property in order to avoid suffering a capital loss.[6] Thus one would expect an increase in the number of renter-occupied units. Since most owners are not real estate professionals, they do not have any experience at tenant selection and maintenance of rental property. Also, they do not have access to inexpensive maintenance services but instead have to rely on the same costly retail services of plumbers, carpenters and painters as every homeowner does. These constraints make renting such property an unprofitable endeavor.[7] The final step is sale to a real estate speculator at a loss, just to "get out from under" the financial obligation.

B. *Expected Market Response to FHA Policy Change*

FHA policy changes did not alter standards for credit worthiness of either the mortgagee or the physical structure. In effect, only expectations about the neighborhood were to be disregarded. This implies an improvement in credit terms for a current loan over earlier loans. The loan-to-value ratio would rise and the ratio of the residual loan value to market value over the life of the property would tend to be higher since the new loans have a longer pay-off period.

The immediate impact of such a policy is to increase the availability of mortgage funds in transition neighborhoods; that is its intended purpose. Nevertheless, if the same expectations about change in the neighborhood are held generally by consumers, momentarily disregarding racial segregation, families with the same income as those currently occupying the neighborhood can afford to obtain a similar mortgage in other neighborhoods with better long-term prospects. Since families with low income, who cannot obtain a mortgage because of the low level or instability of their income, are still unable to obtain a mortgage, it is unlikely that property owners can liquidate their assets in the transition neighborhood any more readily than prior to the policy change. This is true at the beginning of transition, as long as blacks are not part of the market.

The ramifications of the new FHA policy for a neighborhood in racial transition are far more dramatic than for those undergoing

6. NAT'L URBAN LEAGUE, *supra* note 3, at 27-29; M. STEGMAN, *supra* note 3, at 41.

7. M. STEGMAN, *supra* note 3, at 117-23.

simple socio-economic change. Not only can many black families seeking new neighborhoods in fact meet the income criterion for a loan but, in addition, the property to be purchased would meet FHA standards. We expect, therefore, to find neighborhoods undergoing initial racial change to have a larger number of FHA insured loans than other transition neighborhoods. Private lenders, anticipating a sequence from black to poor, lend on more stringent terms than possible under FHA even though the first blacks moving in might well pay higher prices than whites.[8] If there are sufficient blacks to maintain a middle-income market, prices might rise or stabilize.[9] If middle-income blacks are insufficient in number in the neighborhood market, vacancies rise and values decline just as before the change in FHA policy.

If a neighborhood also experiences income transition after racial transition prices may begin to drop below mortgage debt outstanding. At that point the owner's equity is eliminated and he has no economic reason to retain or maintain the property and continue mortgage payments. Repossessions and delinquencies begin to rise after the change in income and price. The number of delinquencies and repossessions increases after the shift in FHA policy because credit terms prior to the change should have adjusted for the risk of a decline in price by increasing the downpayment and shortening the repayment period. More stringent credit terms would, of course, slow down the rate of transition since fewer white families could find buyers qualified to obtain mortgage financing. Thus more white families would have rented rather than sold before the policy change. The net effect is to shift the burden of a change in price from whites trying to leave the neighborhood to blacks moving into the neighborhood and then to FHA as housing is repossessed.

II. The St. Louis Experience

A. *Selection of Study Areas*

Usually study and control areas are selected to be as similar as possible. In this study, however, we were interested in observing the impact of FHA policy on housing markets going through income

8. For discussion of two St. Louis neighborhoods in which initial racial transition did not cause a decline in values see Nat'l Urban League, *supra* note 3, at 29; Phares, *Racial Change and Housing Values: Transition in an Inner Suburb*, 52 Social Sci. Q. 560, 569-73 (1971).

9. Nat'l Urban League, *supra* note 3, at 29.

transition, racial transition, or both. Furthermore, we wanted to test whether neighborhoods that went through transition were those with older structures or those adjacent to previous transition areas. Our theory of the impact of the new policy was based on the hypothesis that income is more important than age of structure in determining values.[10] To examine this hypothesis we selected neighborhoods located at various distances from the main thrust of income change, with different levels of income and racial mixture, and whose structures were built in different years.

Nine communities in the inner ring of suburbs in St. Louis County were selected. (These areas are shown in Map 1.) All but Normandy are defined by municipal boundaries. Normandy is actually the Normandy School District, which includes some 25 small municipalities. Four other neighborhoods were selected from St. Louis City with census tract boundaries used to approximate neighborhoods with some degree of cohesiveness. For example, "The Hill" is an Italian, working-class neighborhood focused on its church and parochial school. We first determined parish boundaries and then approximated it with the appropriate census tracts. Baden is an old German neighborhood. Walnut Park-Riverview Gardens was selected because of its proximity to the main path of racial change and because it had undergone major racial change during the 1960's. Soulard-Lafayette, the oldest community, was chosen to examine one area in which family income had declined much earlier.

B. *Developing a Data Base*

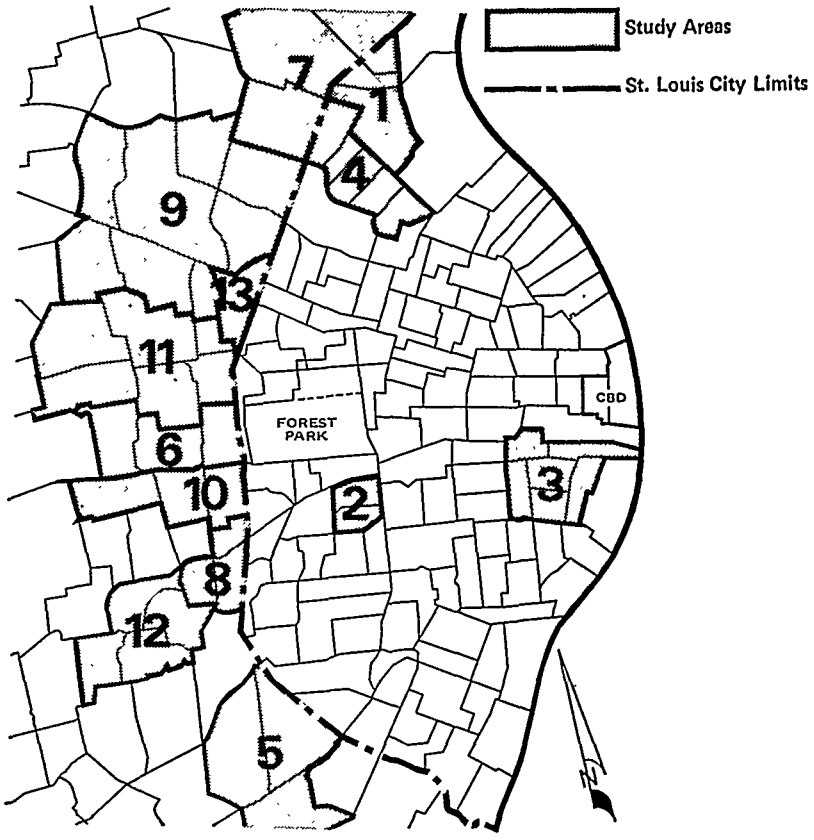
The primary information on housing markets needed to describe transition and trace the impact of the shift in FHA policy can be obtained from the census[11]—race, income, housing prices, and vacancy rates. These data, however, are available only every decade. This is much too long an interval, so it was determined to try to find the required data on a more continuous basis.

A previously developed method estimates the socio-economic status of residents in a small area using city directory information.[12] Within

10. J. Little, H. Nourse & D. Phares, The Neighborhood Succession Process 1-56 (1975).

11. U.S. Bureau of the Census, U.S. Census of Population and Housing: Census Tracts for St. Louis and Adjacent Area (1940, 1950, 1960, 1970).

12. Guy & Nourse, *The Filtering Process: The Webster Groves and Kankakee Cases*, in 5 Papers and Proceedings of the American Real Estate and Urban



MAP 1
STUDY AREAS: ST. LOUIS CITY AND COUNTY

CITY

1. Baden
2. The Hill
3. Soulard-Lafayette
4. Walnut Park-Riverview Gardens

COUNTY

5. Affton
6. Clayton
7. Jennings
8. Maplewood
9. Normandy
10. Richmond Heights
11. University City
12. Webster Groves
13. Wellston

each study area, a sample of structures was randomly selected from the stock of housing existing in a year when the area was almost completely developed.[13] We then recorded information on the head-of-household's occupation and changes in occupancy of the structure from city directories for each year in which they were available between 1926-30 and 1970-71.[14] These occupations were converted into a decile rank for the median earnings of an occupation. An occupation's actual decile rank was derived from federal census income data for the years 1939, 1949 and 1959.[15] Each occupation was assigned a decile rank from 1 to 10; the lowest 10 percent of wage earners were given a 1, the highest 10 percent a 10. The decile rank for the nearest available census year was assigned any occupation recorded between census years. The median of the decile ranks for each study area was determined for each year data were available. Changes in these medians by study area are shown in Table 1.[16]

ECONOMICS ASSOCIATION 33-49 (1970); Nourse, Phares & Stevens, *The Effect of Aging and Income Transition on Neighborhood House Values*, in THE EFFECT OF PUBLIC POLICY ON HOUSING MARKETS 107, 110-11 (H. Nourse ed. 1973).

13. Sampling was done on an address basis. In most instances a sample of 300 was chosen. Actual sample sizes were above 300 when an address had a multiple dwelling structure and below 300 when observations were lost. Loss of observations could occur because a structure had not been built, had been torn down, or had changed to a nonresidential use, because information on occupation was missing, or because the occupation could not be translated into an earnings figure.

14. R. L. POLK CO., ST. LOUIS CITY AND COUNTY DIRECTORY. While this source is not available for every year, it was published every second or third year prior to 1960 and has been published annually ever since.

15. H. MILLER, INCOME DISTRIBUTION IN THE UNITED STATES 95-98 (1966).

16. The decile rank does not represent a smooth increase in income from one rank to the next. Since the earnings distribution by workers is more of a Pareto distribution, changes in rank from 5 to 6 or from 4 to 5 represent several hundred dollars. A change in rank from 9 to 10, however, may represent five thousand dollars or more. A selected list of occupations in 1960 by decile rank is shown below:

Decile Rank	*Occupation*
1	Waiters, shoe repairers, parking attendants
2	Painters, barbers, construction laborers
3	Drivers, deliverymen
4	Secretaries, bakers, carpenters, cement finishers
5	Mechanics, machine operators
6	Salesmen, bricklayers, salaried managers (eating and drinking establishments)
7	Accountants, teachers, policemen, welders
8	Machinists, plumbers, typesetters, salaried managers (retail trade, excluding eating and drinking establishments)
9	Artists, pharmacists, foremen, insurance agents
10	Professionals, salaried managers in manufacturing and finance

Table 1
AGE OF HOUSING, DECILE RANK CHANGE AND PERIOD OF CHANGE BY NEIGHBORHOOD

Study Area	Median Year Built	Period of Change in Decile Rank	Change in Median Decile Rank	
			from	to
		St. Louis City		
Baden	1932	1936-37	5	6
		1939-40*	6	7
		1952-55*	7	6
The Hill	1910	1941-42*	1	2
		1946-48*	2	3
		1963-64*	3	4
		1970-71	4	5
Soulard-Lafayette	1889	1936-37	5	4
		1942-44	4	5
		1952-55	5	4
		1966-68	4	3
Walnut Park-Riverview Gardens	1923	1926-30*	5	6
		1952-56*	6	5
		1965-66	5	6
		1969-70	6	5
		St. Louis County		
Affton	1952	1934-36	5	6
		1941-43*	6	7
Clayton	1929	1939-41	9	10
		1953-59*	10	9
		1962-63	9	10
Jennings	1941	1941-43	5	7
		1953-55	7	6
Maplewood	1920	1953-55	7	6
		1959-61	6	5
		1970-71	5	4
Normandy	1929	1930-32	8	7
		1966-67	7	6
Richmond Heights	1926	1928-30	9	8
		1941-43	8	9
		1953-57*	9	8
		1961-62	8	7
University City	1938	1943-46	8	9
		1953-55	9	8
		1968-69	8	7
Webster Groves	1920	1961-67*	9	10
Wellston	1918	1934-36	4	5
		1938-53	5	6
		1959-61	6	5
		1961-69	5	4

*Period defines a trend; there may be an inversion in the decile rank for a year or two.

Since the decile rank is derived from occupational earnings, it is only one of several factors affecting income. Transfer payments and ownership of wealth also affect the income of families. Nonetheless, occupational earnings provide a good indicator of income status. Among 35 of the 52 census tracts comprising our 13 study areas, however, we found correlation coefficients between our median decile rank and census median income of families and unrelated individuals for 1949, 1959 and 1969 to be .39, .47 and .40, respectively.[17] While each coefficient is statistically significant at least at the 95 percent confidence level, the relationship does not appear particularly strong in any year. Thus our decile rank is not strictly comparable to census median family income.[18]

Although occupational earnings manifest only a part of family income, it is probably representative of the most stable component. Housing consumption is more a function of permanent than current income,[19] so the decile rank offers a better indicator of permanent income than gross family income. Statistical support for this assumption was obtained by relating the median property value of single-family housing for 35 census tracts in our study areas to median family and individual income and to our median decile rank for 1969. The R^2 for the relation between property value and census income was .061 and insignificant, whereas the R^2 between property value and our decile rank was .497 and highly significant. We chose, therefore, the decile rank as an indicator of permanent income in the housing market. The decile rank may also be described as an indicator of socio-economic status.

Next we needed data on age and race. The year of construction for each structure in our sample was obtained from records at the St. Louis City and County Assessors' offices. The median age for each study area is given in Table 1. It was not possible to find reliable and comparable information on racial composition in each community on a continuous basis. We had to rely on census data.

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17. For each of the simple correlation coefficients, a value of .34 or greater is significant at the 95% confidence level and a value of .44 or greater is significant at the 99% confidence level.

18. In other tests we found the correlation of the means of decile ranks with family and individual income were higher. A correlation coefficient of .65 was calculated for 1969 data.

19. M. Reid, Housing and Income 6-7, 37 (1962).

Table 2
PERCENTAGE OF POPULATION NON-WHITE
BY STUDY AREAS: 1940-70

	St. Louis City			
Area	*1940*	*1950*	*1960*	*1970*
Baden	*	1.18	*	5.86
The Hill	*	*	*	*
Soulard-Lafayette	8.99	10.65	11.47	28.76
Walnut Park-Riverview Gardens	*	*	*	34.53
	St. Louis County			
Affton	*	*	*	*
Clayton	3.63	2.84	1.20	1.46
Jennings	*	*	*	*
Maplewood	*	*	*	*
Normandy	*	*	*	15.19
Richmond Heights	7.11	6.97	6.81	12.82
University City	*	*	*	20.04
Webster Groves	13.12	14.33	8.15	10.17
Wellston	5.40	6.10	8.56	71.12

Source: Compiled from Census tract data contained in *U.S. Census of Population and Housing* for 1940, 1950, 1960 and 1970. Tracts were aggregated to most closely approximate the study areas.

*Less than 1%.

Table 2 shows the percentage of non-white population in each area in 1940, 1950, 1960 and 1970. In each instance non-white is virtually synonymous with black.

Finally data on property values were needed. The census provides an estimate, which we used, of the value of the single-family, owner-occupied homes made by the occupants themselves.[20] Several studies

20. Two sources for real estate price data were considered. One was an estimate of property value derived from the value of Federal Tax Stamps affixed to deed records. The tax was repealed in 1967 and Missouri, unlike many other states, did not continue it as a state transaction tax. Since the tax stamp data would not yield any information after the 1966 change in FHA policy, its use was abandoned. For a discussion of the use of this source see Nourse, *The Effect of Public Housing on Property Values in St. Louis,* in THE EFFECT OF PUBLIC POLICY ON HOUSING MARKETS 3, 8 (H. Nourse ed. 1973).

Another alternative was the comparable sales data bank from the St. Louis FHA Office. *See* HUD, GUIDE FOR THE RECORDING OF SINGLE FAMILY HOMES SALES FOR USE AS APPRAISAL DATA (1968). This source includes actual sales prices of a non-random sample of FHA-insured and conventionally financed transactions in St. Louis City and County between 1961 and 1971. Because of the sample's non-randomness, this source was not used either.

Table 3
HOUSING VALUE RELATIVES*
FOR STUDY AREAS: 1940-70

Area	*1940*	*1950*	*1960*	*1970*
	St. Louis City			
Baden	138	130	116	95
The Hill	64	76	89	80
Soulard-Lafayette	50	72	76	49
Walnut Park-Riverview Gardens	94	99	91	75
	St. Louis County			
Affton	110	136	124	109
Clayton	387	—	—	239
Jennings	84	106	98	85
Maplewood	105	108	93	79
Normandy	98	110	99	86
Richmond Heights	154	155	134	110
University City	221	—	143	114
Webster Groves	148	144	117	108
Wellston	65	63	59	47

Source: Compiled from Census tract data contained in *U.S. Census of Population and Housing* for 1940, 1950, 1960 and 1970. Tracts were aggregated to most closely approximate the study areas.

*Median for area relative to median for the entire metropolitan area.
—No median computed.

have indicated that these data are reasonably reliable for large groups of houses.[21] Census median value for each study area in 1940, 1950, 1960 and 1970 was divided by the median value for the entire Standard Metropolitan Statistical Area (SMSA) in each year. These ratios—value relatives—are shown in Table 3. The main difficulty is that these data are available only every decade. They do, however, show end points for trends.

We now have adequate housing market data for each study area to evaluate the impact of the change in FHA policy. Before doing so, however, we will describe the process of transition or succession that occurred in our study areas.

21. *See* Kain & Quigley, *Note on Owner's Estimate of Housing Value*, 67 J. AM. STATISTICAL ASS'N 803 (1972); Kish & Lansing, *Response Errors in Estimating the Value of Homes*, 49 J. AM. STATISTICAL ASS'N 520 (1954).

C. *The Process of Neighborhood Succession*[22]

Despite having been developed more recently than several other areas, University City and Normandy have exhibited a decline in median decile rank. Wellston, the suburb immediately to their east, declined several years before University City and Normandy. These areas were in the main thrust of transition in socio-economic status and race during the period 1950-1970.[23] As expected, housing values relative to the SMSA fell in each area. The nominal level of median housing values, however, increased in Normandy, while increasing up to 1960 and then leveling off in 1970 in both University City and Wellston.

The study areas adjacent on the north to these three communities are Baden and Walnut Park-Riverview Gardens in the City, and Jennings in the County. Walnut Park-Riverview Gardens showed a major increase in the proportion of blacks from 1960 to 1970; Baden went up slightly, while Jennings showed no change whatsoever. With some fluctuations the decile ranks in these areas were relatively stable in the range 5 to 7. While relative values in Baden dropped steadily between 1940 and 1970, relative values in the other

22. There is a long line of literature on neighborhood succession. R. HURD, PRINCIPLES OF CITY LAND VALUES 77-79 (1924), refers to the value of residential housing as being determined by socio-economic characteristics of the neighborhood rather than the structure. For a good survey of the literature see W. SMITH, FILTERING AND NEIGHBORHOOD CHANGE 1-16 (1964). The model that we have used as a framework for understanding neighborhood succession is a modification of W. Smith, *id.* at 17-33, and Bailey, *Note on the Economics of Zoning and Urban Renewal*, 35 LAND ECON. 288 (1959).

Our model divides the city into high- and low-income families in separate housing districts. Along the boundary, high-income families will only occupy housing at a discount over the amount the house would bring within an all high-income neighborhood, while low-income families would pay a premium over prices for the same structure in an all low-income area. Two or more poor families, as opposed to one high-income family, would have to occupy a structure in order for the housing cost to be greater for a low-income family than a high-income family. The boundary in such a model moves and causes housing occupied by higher-income families to be shifted to lower-income families if housing within the poorer district is demolished or if there is an increase in the number of low-income families. For more detailed discussion see R. BISH & H. NOURSE, URBAN ECONOMICS AND POLICY ANALYSIS 217-25 (1975); Nourse, *Economic Analysis of Standard Quality Housing* in THE EFFECT OF PUBLIC POLICY ON HOUSING MARKETS 121, 123-27 (H. Nourse ed. 1973).

For more detail on the St. Louis case see Nourse & Phares, *Socio-Economic Transition and Housing Values: A Comparative Analysis of Urban Neighborhoods*, in THE SOCIAL ECONOMY OF CITIES (G. Gappert & H. Rose eds. 1975).

23. *See* Nourse, Phares & Stevens, *supra* note 12, at 111-14.

two areas rose up to 1950 and then began to decline. The actual housing values in each area rose over the three decade period.

The second group of study areas was comprised of suburbs ringing the City to the south of University City—Clayton, Richmond Heights, Maplewood, Webster Groves and Affton. Decile ranks for Clayton, Webster Groves and Affton either remained stable or increased slightly. Although value relatives for these areas fell over the three decades, they did not drop nearly as rapidly as in those areas that experienced a declining income status. It appears that declines in decile rank affect values more than increases. Furthermore, Webster Groves and Clayton are both older communities than University City. These areas have been isolated from transition neighborhoods by distance and physical barriers (*e.g.*, Forest Park in the case of Clayton). University City had the same level decile rank until the succession of neighborhood change in St. Louis reached its border. It was not protected by distance or physical barriers.

The remaining two suburban areas—Maplewood and Richmond Heights—have shown declines in decile rank similar to those in University City and Wellston. In these instances, however, decline has not been associated with racial change. While there has been a small community of blacks within Richmond Heights for many years (and it has grown somewhat), it did not show the sharp change in racial composition found in University City and Wellston. Maplewood remains all white. As expected, housing values declined relative to the SMSA median.

The remaining study areas are The Hill and Soulard-Lafayette in the City. The Hill showed a phenomenal increase in decile rank from a level 1 to a 5 over the 40-year time span of the study. Housing values did indeed rise relative to the metropolitan median but not by as much as the decile rank. Once again we feel that increases in income are not as effective in changing values as decreases. A tight Italian community, The Hill did not undergo any racial change. Soulard-Lafayette was the oldest area in the study and the only one showing an absolute *and* relative loss in value. In 1940 about nine percent of the population was black. Over three decades the proportion of blacks increased to nearly 29 percent, neither a radical nor rapid change.

D. *Impact of FHA Policy on The Housing Market*

The first point indicated by the theory was that the percentage of transactions using insured FHA mortgages would be higher in

those areas where the percentage of blacks was increasing. This was found to be true for the areas examined. Table 4 shows the percentage of turnovers in each area between 1961 and 1971 that was made with FHA insured mortgages. Black occupancy was increasing in the Normandy School District, Soulard-Lafayette, University City, Wellston, and Walnut Park-Riverview Gardens. After the formal shift in FHA policy in 1966 there was a definite increase in the percentage of FHA insured mortgages in older areas in which the percentage of black occupancy was increasing. Activity in other areas remained about the same, with the exception of Soulard-Lafayette. The reason was probably that Soulard was the only study area in which income status had fallen well below the median and was so low, on the average, that FHA insured mortgages were generally not feasible. Baden showed a disproportionate increase in FHA-

Table 4
FHA INSURED MORTGAGES AS A PERCENT OF TURNOVERS*
(1961-1971)

	1961	*1962*	*1963*	*1964*	*1965*	*1966*	*1967*	*1968*	*1969*	*1970*	*1971*
					St. Louis City						
Baden	2.3	8.3	8.0	12.5	15.6	15.2	14.1	12.3	9.6	26.2	30.3
The Hill	0.0	1.7	2.8	0.0	0.0	0.0	0.0	0.0	2.5	0.0	0.0
Soulard-Lafayette	0.0	0.4	0.9	0.6	1.6	0.4	0.9	1.4	10.7	11.7	2.1
Walnut Park-Riverview Gardens	4.8	12.4	9.4	13.0	19.2	18.0	41.3	16.1	29.5	35.9	22.2
					St. Louis County						
Affton	6.0	18.6	12.5	22.0	25.9	18.0	19.5	4.4	5.1	5.8	6.4
Clayton	4.2	1.7	7.2	4.3	5.9	1.8	3.8	0.0	0.0	0.0	0.0
Jennings	5.1	17.6	14.2	23.2	22.9	16.3	22.1	8.7	10.6	21.0	10.7
Maplewood	10.1	30.4	8.1	23.3	21.2	29.8	25.0	15.8	5.8	20.8	7.8
Normandy	6.3	17.2	17.9	23.0	33.1	24.6	46.0	22.0	37.5	49.8	28.0
Richmond Heights	5.8	19.4	14.0	19.0	22.6	16.4	28.6	8.5	15.6	12.0	9.4
University City	5.3	14.8	15.9	20.2	23.4	24.7	56.7	20.3	25.3	39.8	20.3
Webster Groves					NOT AVAILABLE						
Wellston					NOT AVAILABLE						

Source: Data compiled for study at FHA Regional Office in St. Louis.
*transactions

insured mortgages in 1970. This occurred since the census measure of racial occupancy in 1970 that showed an increase over 1960 from no blacks to about six percent. The rise in FHA-insured mortgages may be an indication of sales to blacks in the years since 1970. This would be anticipated, since it is adjacent to the Walnut Park-Riverview Gardens area within the City.

The second point indicated by the theory was that relative housing prices would decline as income of residents in the neighborhood fell. We have already shown this to be true. Furthermore, in none of the racially changing areas in which the use of FHA insured mortgages increased did the value relatives seem out of line with respect to socio-economic status. The range of changes in relatives in racially changing areas does not appear much different from those of Maplewood and Richmond Heights, which showed similar changes in median decile rank but relatively little change in black occupancy. In fact, Maplewood and Walnut Park-Riverview Gardens would appear to be approximately the same except for the racial change and use of FHA mortgages in Walnut Park. Indeed the value relatives are about the same in both areas and changed by about the same amount. A similar comparison can be made for Richmond Heights and University City. In spite of the decline in median decile rank for Normandy, values were approximately the same in both Jennings and Normandy, and showed the same change from 1960 to 1970, although FHA insured mortgages were used far more in Normandy and black occupancy increased more in Normandy.

The third indicator of the impact of the policy shift on these housing markets is the level of mortgage delinquencies and repossessions. We do not have any data on delinquencies,[24] but we do have data on repossessions of FHA insured mortgages. Table 5 shows the number of repossessions in each area between 1965 and 1973 as a percent of the total number of FHA insured mortgages made from 1961 to 1972.

Since houses did not decline in absolute value in any area except Soulard-Lafayette, in which FHA activity was slight, it is difficult to see why the market process described in the theoretical section should result in an increase in delinquencies and repossessions.

24. Delinquency data are much harder to obtain because each lender keeps his own records and often may help a delinquent to refinance and keep his home. A repossession by FHA, however, is recorded with FHA from whom it is easier to obtain statistics because it is a central source.

Table 5
REPOSSESSION OF FHA MORTGAGES, 1965-1973
AS A PERCENT OF FHA ACTIVITY, 1961-1972

Study Area	*Repossessions*	*FHA Activity*	*Percent*
	St. Louis City		
Baden	4	235	1.7
The Hill	1	6	16.7
Soulard-Lafayette	51	144	35.4
Walnut Park-Riverview Gardens	325	2,177	14.9
	St. Louis County		
Affton	5	473	1.0
Clayton	2	36	5.6
Jennings	37	576	6.4
Maplewood	15	177	8.5
Normandy	314	2,771	11.3
Richmond Heights	12	278	4.3
University City	223	2,177	10.2
Webster Groves	31	688	4.5
Wellston	92	174	52.9
ST. LOUIS CITY AND COUNTY	2,716	31,970	8.5

Remember that the relative values that we have discussed as declining are the median values for each neighborhood divided by the median for the whole metropolitan area in the same year. Given inflation, all values, with the exception of those for Soulard, have been rising if not divided by the SMSA average. Value relatives declined in all areas. As income also rose in nominal terms, lower relative values reflected occupancy by lower income families. But repossessions should not increase as long as the actual property values remain constant or increase, which they did. Nonetheless, we do observe in Table 5 that those areas in which FHA activity increased because of the shift in FHA policy in 1966 show a higher experience of repossessions than other areas.

One possible explanation is that the level of unemployment increased and the total number of jobs in the metropolitan area decreased since 1969. The timing is simultaneous with the increase in repossessions. Unemployment among blacks is always higher

than among whites,[25] so more delinquencies and repossessions might be expected in areas occupied by black families than in those occupied by whites. This seems to be the case.

As the head of a household loses his or her job, or as the second earner in a family loses his or her job, less income is available to pay for all items in the family budget. As a result, mortgage payments may become delinquent. If prices are steady or rising slightly, it seems logical that the family would sell the house, obtain its equity, and move elsewhere. The problem is that transaction costs on housing sales are high.[26] First, the agent's fee is six percent of the sales price. Secondly, the possibility exists that the seller must pay points if the house is to be resold under FHA insurance in a tight money market. Lastly, repairs on the house may be needed to meet FHA or building code standards. These transaction costs may be so high that the owner's equity is lost even with rising prices. Furthermore, even if the general price level is rising, it may be impossible to obtain a "good" price within the time period the seller is willing to wait. Thus the owner prefers to have the house repossessed by the lender. This is the least costly alternative.

The lender, of course, does not have to give the property back to FHA. He could try to sell the property for enough to cover the outstanding mortgage debt. To do so, however, would require transaction costs similar to those of the owner. While in other neighborhoods lenders do not so readily turn houses back to FHA, in transition neighborhoods lenders seem to have decided not to retain these loans in their portfolio once they become delinquent. Even if costs were insufficient to cause lenders to turn the houses over to FHA, expectations that market prices would fall below outstanding mortgage debt within a few years would be sufficient to cause lenders to yield properties to FHA.

Conclusion

Analysis of the St. Louis experience with housing markets changing in socio-economic status and race supports the following hypotheses. First, the age of a structure does not necessarily indicate a change in value. Proximity to other areas undergoing change is a much more

25. E. Kalachek, Transportation and Central City Unemployment 1-2 (1970).

26. W. Grigsby, Housing Markets and Public Policy 78-79 (1963).

important factor. The shift in FHA policy in 1966 to an explicit disregard of neighborhood conditions and trends in establishing credit worthiness caused FHA-insured mortgages to be increasingly employed in areas shifting from white to black occupancy. No indication exists that price variations differed in these neighborhoods as a result of the added financial assistance. Nevertheless, the burden of subsequent drops in value may have fallen on middle-income black families first integrating a neighborhood rather than on the prior white residents, as was previously the case. Finally, although the relative value of houses in these areas did decline, their actual (nominal) values did not. This leads to a dilemma.

Since nominal values did not decline, one would not expect repossessions to increase. They did, however, and they increased in those areas where racial occupancy was shifting and FHA activity had risen as a result of the 1966 change in policy. Furthermore, the change was an increase in the rate of repossessions, not just absolute numbers. So far the only explanation that fits the facts is that unemployment climbed in St. Louis about the same time the repossession rate increased. This is not a completely satisfactory answer and suggests a need for further research, rather than a conclusion.

NOTES