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Homeownership Is Colorblind: The Role of African American Savings and Loans in Home Finance, 1880-1980

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Since the 1840s, African American men and women have used thrifts to achieve the goals of homeownership and financial security. These businesses appealed to blacks for many reasons, including their ease of formation, their reliance on mutual cooperation among the members, and their image as "self-help" institutions. During the early twentieth century, the number of African American–owned thrifts rose significantly, playing an important role in improving the level of black homeownership. In the late 1940s, these institutions formed their own trade association to advance solutions to the problems of discrimination that blacks faced in housing markets. They promoted the formation of minority-owned thrifts and the banning of race-based criteria in loan applications by lenders. Although regulators generally supported these goals, achieving them proved to be very difficult, and it was only in the late 1960s that legislation outlawing the worst abuses was put in place.

The American savings and loan industry (originally called building and loans [B&Ls] or thrifts) began as a way for people of modest means to achieve the goal of owning a home. Thrifts provided long-term mortgages that appealed to people from all walks of life, including African Americans, who often had to overcome racial as well as financial hurdles in order to own a home. As early as the 1860s, African Americans participated in the thrift movement, both as members and as organizers of associations. In this essay I will first examine the state of black homeownership in the early twentieth century, then discuss how and why thrifts appealed to African

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Americans. I then describe the efforts of thrift leaders to attract African Americans as members and the role that the associations played in serving the needs of the black community. I conclude with a review of the American Savings and Loan League, a trade association of minority-owned thrifts, and the outcome of its work with federal regulators to address the needs of African American home buyers.

Throughout the early twentieth century, the level of homeowner-ship among African Americans was nearly half that of white Americans. In 1900, less than 20 percent of all blacks owned homes, as compared to 45 percent for the nation as a whole. By 1930, this rate had risen to 28 percent, but it was still twenty percentage points below the national average. There are several explanations that account for this disparity, the first of which was that many African Americans lacked the financial resources required to buy a home. The first comprehensive federal study on minority homeownership in 1931 noted that 67 percent of all blacks earned less than $1,500 per year, the minimum considered necessary to buy a home that included the necessary conveniences for healthful living. That blacks earned such low incomes was not surprising, since many had seasonal employment in farming or held low-wage jobs in the industrial sector. A second impediment to black homeownership was racism by realtors and lenders. Examples include racial covenants in trust deeds that restricted the sale of homes to minorities and practices such as "red-lining," which prevented minority home buyers from acquiring houses in desirable neighborhoods.[1]

A third major barrier to African American homeownership at the turn of the century was lack of access to affordable mortgage financing. Traditional mortgage lenders often required potential borrowers (both black and white) to make down payments of up to 50 percent of a property's value, and the mortgages were repaid interest-only with the principal due in just three to five years. Such terms meant that borrowers had to refinance their loans often or lose their homes. Black borrowers faced the additional problem of loan fees and interest rates that were twice the level charged whites. Lenders justified this in part by the fact that loans to blacks were both riskier than loans to whites, given the lower income of most black borrowers, and harder to sell on the secondary market because such loans were smaller. A more affordable option for blacks was to buy a home through the "pay like rent" plan, which involved a small down payment and monthly payments that approximated regular rent. Although these loans were longer term and the payments were better suited to African American budgets, they still carried a number of

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[1] William J. Collins and Robert A. Margo, "Race and Home Ownership: A Century-Long View," Working Paper no. 00-W12 (May 2000, Department of Economics, Vanderbilt University), 39; Charles S. Johnson, *Negro Housing: Report of the Committee on Negro Housing* (Washington, D. C, 1932), 79.

problems. Not only were fees and interest rates higher than those for traditional mortgages, but the loan contracts typically contained clauses that made it easy for the lender to claim a default resulting in the loss of all the borrower's equity. Also, because these loans usually were not legally recorded, lenders often took out additional mortgages on the property. a practice that made it virtually impossible for the original borrower to prove ownership.[2]

B&Ls offered African Americans a home financing alternative that was in many ways well designed for their economic and social needs. B&Ls were member-owned businesses that people joined by subscribing to shares in the association. The number of shares each member took out often equaled the desired loan amount needed to buy a house, and were paid for in equal monthly installments of about $1-2 per month per $200 share. As share payments accumulated, the association lent the funds to the members with the ultimate goal of all members becoming home-owners. For this to happen, however, members had to develop the habit of systematic savings and agree to work together for this common purpose. To encourage the cooperative spirit, thrift managers (who were chosen by the shareholders and often served without pay) typically developed close personal ties with association members, and in some B&Ls members took it upon themselves to monitor each other's progress.[3]

Thrift loans also had superior terms and conditions as compared to other forms of financing. Because thrifts were not-for-profit businesses, fees and interest rates were less than those offered by other institutional lenders. Furthermore, since B&L mortgages were essentially advances on the value of the subscribed shares, they were both fully amortizing and had maturities of up to twelve years. Finally, thrifts lent up to 70 percent on home values, a situation made possible because managers often restricted lending to areas they knew first hand (which helped ensure accurate property valuations), and because the lending process included interviews of employers and neighbors to determine a borrower's "character" (which helped manage the risk of loan defaults). A final benefit for members was that when a thrift recorded a profit, the dividends were credited to their accounts and not paid in cash. Not only did this practice reduce the cash requirements of the association, but it allowed members to earn compound interest on their savings or to have their loans repaid faster.[4]

Another reason why thrifts appealed to African Americans as a source of home finance was their ease of formation. Because many states initially considered thrifts to be more like social organizations than like banks, they

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[2] Johnson, *Negro Housing,* 94-97.

[3] D. A. Tompkins, "Building and Loan Associations, the Means for Co-operative Savings by Southern Working People," *Manufacturers' Record* 46 (25 Aug. 1904): 124-25.

[4] F. D. Wheelock, "A Community Asset: People's Building and Loan Association of Hampton, VA," *Southern Workman* 30 (Dec. 1921), 349-50.

imposed few legal restrictions on who could organize an association and how it should operate. The most common requirement was that B&Ls had to file a charter and by-laws with the state, but there were virtually no capital requirements, and it was possible to get a charter with as few as ten members. Also, early thrifts tended to operate informally and often met in the home of one of the officers, which minimized operating expenses. These characteristics were well suited for African Americans, since they could use existing social institutions like churches as the basis for organizing thrifts and attracting members. In fact the largest African American thrift in Virginia, the People's Building and Loan, began in the basement of the First Baptist Church in Hampton in 1889, and over the course of thirty years financed more than four hundred homes in the community.[5]

Although the People's B&L was not the first minority-owned B&L in America (that honor goes to an association formed in 1865 in Kinston, North Carolina), its formation came during the first major involvement of blacks in the thrift movement. As the Second Industrial Revolution came to the South, the migration of African Americans from rural to urban areas led to increased demand for affordable home loans, and by 1900 seventeen black-owned thrifts were in operation helping to meet this need. The number of minority-owned thrifts grew significantly during World War I, when the First Great Migration caused thousands of blacks to move North. Cities like Philadelphia experienced a near doubling of their minority populations, and, since many of these migrants "brought a considerable sum of money with them and looked for an immediate investment," black-owned thrifts quickly formed. By 1930, seventy-three minority-owned thrifts with combined assets of more than $6.5 million were in operation across the country, and every major city with a sizable African American population had at least one such association. Philadelphia, where the thrift industry began and which was known as the "City of Homes," laid claim to nearly half of all minority-owned thrifts.[6]

Although the average size of these early African American thrifts was just a tenth of that in the industry as a whole, their success attracted the attention of many black leaders**.** Booker T. Washington, noting that half of the homes owned by blacks in Virginia were built using loans from minority-owned thrifts, claimed "the most numerous and popular form of cooperative business in which our people have engaged is that of the building and loan associations." Similarly, W. E. B. Du Bois commented on the success of black-owned B&Ls in Philadelphia and encouraged their continued expansion. Others noted the social and moral benefits of

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[5] Don A. Davis, "Using a Building and Loan Association," *Southern Workman* 36 (Nov. 1927): 493-97; Wheelock, "A Community Asset," 349.

[6] David L. Mason, *From Buildings and Loans to Bail-Outs: A History of the American Savings and Loan Industry* (New York, 2004), 164-66; I. Maximilian Martin, *Negro Managed Building and Loan Associations in Philadelphia: Their History and Present Status* (Philadelphia, 1936), 1-5, quotation at p. 3.

belonging to a thrift, pointing out that acquiring the habits of systematic saving and mutual cooperation produced strong communities, greater civic participation, and furthered an overall goal of "racial development." As one black thrift officer noted, "our success [as a people] means that extra effort must be made by all of us to cultivate better savings habits for each other's good."[7]

The attitude that blacks should be active in the thrift industry was also shared by many white Southerners. According to one advocate, a thrift is "like a church, a school, and a library. Everyone ought to belong to one." Significantly, in several Southern states it was possible for blacks to join white-owned associations, and it was claimed that in Louisiana B&Ls in the 1890s drew "no line of distinction on color" when making loans. White Southern B&L leaders often touted their success with African American shareholders as financial risks, with one boasting that he had not one foreclosure on a black borrower in nearly ten years. For many of these men, encouraging blacks to acquire homes through a B&L would end their "slavery to a system of paying tribute to a landlord." Others emphasized how increased black homeownership would strengthen personal character, citizenship, and could even improve racial relations. Said one Southern thrift executive rather floridly,

> show me a colored man in any of the Southern States who owns the roof which shelters is family, who picks the banjo on his own doorstep, whose pickaninnies dance and gambol in his own front yard and I will show you a colored man who has solved for himself at least the race question of the South.[8]

Following the growth of the 1920s, minority-owned thrifts (like all financial institutions) suffered in the 1930s, and by 1938 they numbered just forty-seven with assets under $3.5 million. This changed when the Second Great Migration of World War II led to a third wave of expansion

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[7] R. R. Moton, "Organized Negro Effort for Racial Progress," *Annals of the American Academy of Political and Social Science* 140 (*The American Negro*) (Nov. 1928): 259; Booker T. Washington, *Negro in Business* (Chicago, 1969), quotation at p. 161; W. E. B. Du Bois*, The Philadelphia Negro: A Social Study* (Philadelphia, 1899), 185, 226, 295; Wheelock, "A Community Asset," quotation at p. 351.

[8] D. A. Tompkins, "Building and Loan Associations, Opportunities and Benefits," *Manufacturers' Record* 46 (8 Sept. 1904): quotation at p. 177; John E. Huffman, "A Review of the Building and Loan Association Movement in the Southern States," *Proceedings of the Second Annual Meeting of the United States League of Local Building and Loan Associations* (Chicago, 1894), 134-39; George H. Kostmayer, "President's Address," *Proceedings of the Tenth Annual Meeting of the United States League of Local Building and Loan Associations* (Chicago, 1902), quotation at p. 7; J. H. Westover, "Building Associations in the South," *Proceedings of the Fourth Annual Meeting of the United States League of Local Building and Loan Associations* (Chicago, 1896), quotations at p. 70.

for minority-owned thrifts. Unlike the 1920s, however, growth came in size, not in the actual number of associations. In 1950, only twenty-nine minority-owned thrifts were in business, but they held more than $18 million in assets. By the mid-1960s this number had risen to just thirty-four, yet their combined assets had ballooned to more than $400 million. Some of these thrifts were industry leaders, including Carver Federal Savings and Loan in New York City, which formed in 1949 with $225,000 in capital, and had more than $24 million in assets by 1963. The four black-owned thrifts in Los Angeles had a combined $154 million in assets, while San Francisco was home to Trans-Bay Federal, the nation's largest minority-owned thrift, with assets exceeding $74 million.[9]

Black membership in thrifts was not confined to minority-owned associations, as the postwar years also saw blacks joining more white-owned associations. Industry leaders urged associations to lend to minorities, and articles in trade publications reported few differences between the performance of loans made to blacks and whites. Still, homeownership rates for blacks remained well below that of whites, and many African American thrift leaders believed that changing this situation required banning discriminatory lending practices, as well as making it easier to form minority-owned thrifts. In 1948, thirteen black-owned thrifts formed the American Savings and Loan League (AS&LL) and began lobbying regulators to achieve these goals.[10]

Although the records of the AS&LL no longer exist, the files of the Federal Home Loan Bank Board (FHLBB) provide some insight into how this group sought change and why regulators resisted. For example, in the early 1950s, the AS&LL wanted the FHLBB to relax the minimum capital requirements for minority-owned thrifts so they could qualify for deposit insurance easier. FHLBB chairman William Divers flatly rejected this, noting that only "strong groups [with] resources, strong community

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[9]William Bradford, "The Viability and Performance of Minority Controlled Savings and Loan Associations," Research Working Paper no. 62, Federal Home Loan Bank Board (Washington, D.C., 1975), 40-42; "Minority Associations Mix Success and Struggle with Moves to Adapt," *Savings and Loan News* 103 (May 1982): 40-46; Theresa Watson, "Minority Savings and Loan Industry," *Journal* [Federal Home Loan Bank Board] 17 (April 1984): 122-38.

[10]Edwin W. Zwergel, "Our Experience with Negro Loans Adds Up to Profitable Mortgage Lending," *Savings and Loan News* 75 (May 1955): 53-57; Johnson, *Negro Housing*, 103-5; Memorandum from Douglas Rosenbaum to William K. Divers, 3 September 1948, Correspondence of Chairman William K. Divers, 1948-1952, "R," Record Group 195, National Archives at College Park, Md. [hereafter, Divers Papers]; "Fourth Report of Savings and Loan Associations Operated by Negroes," January 1951, 2-3, Savings and Loan Associations, 1952-1953, Divers Papers; H. A. Howard, "The American Savings and Loan League: Its Founding, Its Future," Address before the Fourth Annual Conference on "The Negro in Business," Washington, D.C. 22 April 1949, 4-6, American Savings and Loan League, 1949, Divers Papers.

support [and] a reasonable likelihood of success" should form new thrifts. This position was sound in terms of protecting the integrity of the federal deposit insurance system and the thrift industry as a whole, but it also appeared insensitive to the very real problems faced by organizers of minority-owned thrifts in raising capital.[11]

Another possible reason why federal regulators did not actively support the formation of minority-owned thrifts in the 1940s and 1950s could be the belief that legal rulings and government programs had made it easier overall for African Americans to obtain a mortgage. In 1948, the Supreme Court ruled in *Shelley v. Kraemer* that restrictive deed of trust covenants barring the sale of property to blacks violated the Fourteenth Amendment. The GI Bill of Rights outlawed discrimination in making Veterans Administration mortgages, while the Voluntary Home Mortgage Credit Program, established in 1954, provided assistance to minorities and other applicants who had been rejected by two financial institutions. Unfortunately, the FHLBB was not required to apply the *Shelley* ruling in its supervision of thrifts, and it was under no obligation to urge thrifts to participate in minority lending programs.[12]

In 1961 the Commission on Civil Rights issued a report on discrimination in mortgage lending and recommended that all regulators direct the financial institutions they supervised to "conduct such business on a nondiscriminatory basis." The Commission in particular criticized the FHLBB for not doing more in this area, and thrift regulators were forced to concede that the past two decades were "not . . . a period of unusual encouragement" for African American thrifts. Although the FHLBB was among the first federal agencies to adopt the Commission's recommendations against discriminatory lending, its efforts to push thrifts in that direction were inconsistent, and covert lending discrimination continued

[11] Letter from William K. Divers to H. N. Faulkner, 25 April 1949, and handwritten notes "Chairman's Story" (?) (n.d.), quotes, American Savings and Loan League, 1949; Letter from Maurice E. Collette to William K. Divers, 8 October 1949, "Co"—all in Divers Papers; Letter from William R. Hudgins to Walter W. McAllister with attachment, 14 October 1954 and letter from H. Caulsen to William B.[sic] Hudgins, 29 October 1954, American Savings and Loan League, 1954, Correspondence of Chairman Walter W. McAllister, 1953-1956; Memorandum from Dan I. McKeithen to Ira Dixon, 28 April 1961, 2-4, quotation at p. 2, Civil Rights Commission, 1961- , Correspondence of Chairman James P. McMurray, 1961-1968—all in RG 195.

[12] *A Sheltered Crisis: The State of Fair Housing in the Eighties,* Presentations at a consultation sponsored by the United States Commission on Civil Rights Washington, D.C. September 26-27, 1983, 84-85, Internet Archive; 3 March 2010. URL: http://www.archive.org/stream/shelteredcrisis00wash/sheltered crisis00wash_djvu.txt .

even after passage of the 1968 National Fair Housing Act specifically banned all discrimination in the financing of housing.[13]

In the 1970s, the AS&LL's efforts to increase the availability of home financing for minorities met with greater success. The organization lobbied Congress for passage of additional housing laws, and regulators finally pledged real support for the formation of minority-owned institutions. In 1980, more than half of all black households owed their own homes, and the gap between the rates of ownership for whites and blacks had fallen from a high of 28 percent in 1960 to 18 percent. While this improvement can be attributed to a number of factors, including rising black incomes, expansions in mortgage assistance programs through the Federal Housing Administration, Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation, the role of minority-owned thrifts cannot be ignored. By then, the AS&LL had seventy-five members with more than $300 billion in assets, and in many urban communities these associations were the only local lenders. Unfortunately, the S&L crisis of the 1980s caused many AS&LL members to either fail or merge with other institutions, and by the end of the decade the AS&LL had merged with the main thrift trade group and was no longer an independent voice for minority home lenders.[14]

African Americans have faced many hurdles in their efforts to achieve the dream of homeownership, among which access to affordable financing was a major concern. Membership in a thrift institution offered an alternative. These institutions were specifically designed to help people of modest means acquire homes, and they offered mortgages that were both long-term and fully amortizing. Because there were few legal barriers to forming a thrift, minority-owned associations appeared in numbers by the 1880s, and in the 1920s could be found in virtually all cities with large African American populations. At the same time, white-owned thrifts encouraged blacks to become members in their associations and often treated them as equals. In 1948, a trade group representing minority-owned thrifts formed to advocate for increased minority homeownership; although the group recorded few tangible victories, its pressure on regulators and legislators contributed to the overall rise in black home-ownership that occurred in the second half of the twentieth century.

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[13] *A Sheltered Crisis*, 85; Memorandum from Dan I. McKeithen to Ira Dixon, 28 April 1961, 2-4, quotation at p. 2, Civil Rights Commission, 1961- , Correspondence of Chairman James P. McMurray, 1961-1968.

[14] "Minority Associations Urged to Grow, Show Way to Others," *Journal* [Federal Home Loan Bank Board] 9 (Dec. 1976): 5; "McKinney Addresses AS&LL," *Journal* [Federal Home Loan Bank Board] 11 (Dec. 1978): 5; Collins and Margo, "Race and Home Ownership," 40; Jessie Carney Smith, *Encyclopedia of African American Business: Volume 1, A-J* (New York, 2006), 23-24.