

1963

BLOCKBUSTING

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The Report on Blockbusting by the New York City

COMMISSION ON HUMAN RIGHTS

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A REPORT ON AN UNETHICAL PRACTICE

New York City Commission on Human Rights

by CCHR



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SUMMARY

In the fall of 1962 the New York City Commission on Human Rights initiated an extensive investigation of real estate practices and property transactions in the East New York section of Brooklyn. This investigation was undertaken in response to a substantial volume of inquiries and complaints from individuals and organizations in the neighborhood, who were distressed by a pattern of operations and activities commonly described as blockbusting.

In the words of a national official of the NAACP, persons who engage in blockbusting seek . . . "by deception, manipulation and the instilling of fear and anxiety, to induce white people to sell out at the lowest possible price in order to exploit the desperate need of colored people for a place to live and charge them exorbitant prices."

This investigation, which led to a series of public hearings on blockbusting, the first ever held by any governmental body in the nation, revealed sordid patterns of racial and economic exploitation of New York City families desperately seeking decent places in which to live. The information developed from this investigation and public hearing, and which this condensed report presents, is vital to the determined effort of the City of New York to achieve a truly open housing market free of artificial barriers based on race, color, creed or national origin. The Commission's findings and recommendations which comprise the major portion of this report must also, in addition to their import for governmental action, be regarded as having serious implications for responsible leadership in the real estate industry and in the banking and lending community which engages in mortgage financing.

The East New York section of Brooklyn has been described as one of the most improved areas in that borough. The area, consistent with patterns that have characterized the residential growth of many neighborhoods in New York City, has experienced many changes in population. Originally settled by families of Italian descent, it progressively has been occupied by Jewish, Polish and Greek Orthodox Russian families. During the past decade a small number of Negro families also has been attracted to this predominantly white community and the neighborhood has enjoyed this pattern of racially integrated living in peace and quiet.

According to the testimony of residents, the East New York Section has many attractions that make its inhabitants reluctant to move elsewhere. Although many houses are 40 to 50 years old, the community

as a whole was described by residents as "very desirable." It was reported to have new schools, new Y's, a new library, new parks, new shopping centers, a new street lighting system and excellent transportation. Many of the residents who appeared as witnesses in the public hearings had lived in the East New York Section from 9 to 20 years. Several others who filed complaints had resided in the community for periods ranging up to 38 years.

The crux of the complaints registered by these families was that over a span of two years, their previously stable, integrated community had become a target of intense speculation by real estate operators whose practices and procedures were not only disrespectful and exploitative, but also induced racial tension and disorder.

The testimony presented at the hearing revealed a clear-cut pattern of sales practices and procedures designed to panic white home owners into selling their properties and then to resell these homes exclusively to Negro and Puerto Rican families at prices consistently far above market value. These practices ranged from the saturation of the neighborhood with postcards and flyers stressing the availability of ready cash for those inclined to negotiate a quick sale, to a barrage of telephone calls by day and night warning that Negroes were moving into the area, and that property values would soon collapse. Aggressively insistent home calls were made on busy housewives. At least one such caller warned a housewife that her daughters might no longer be safe on the street.

One dramatic technique reported by several witnesses was the deliberate parading of groups of Negroes, presumably prospective buyers, up and down a block to look at houses. These, and several other approaches calculated to panic white home owners into selling their properties in a hurry and at prices lower than the current market value, achieved the desired effect over a span of months. There was a record of extensive turnover in home ownership in the East New York Section and, in each transaction investigated by the City Commission, title always passed from white to Negro or Puerto Rican ownership.

This trend persisted despite the individual and organized opposition of leadership elements in the community. Signs reading, "This House Not for Sale" were placed in many windows but failed to discourage speculative operators. A Council for a Better East New York, comprising nearly 30 neighborhood and block organizations, also was created and worked in close cooperation with staff persons from the City Commission on Human Rights. It should be noted, however, that

while this cooperative effort utilizing the Commission's services and professional assistance did have a marked effect, it was not until the entire situation was exposed to public view and public criticism that the speculative activity in the area appeared to end.

The East New York section of Brooklyn is only one of several areas of New York City where the changing racial patterns of residency hold attractive potentiality for unscrupulous profiteers. This circumstance, coupled with the fact that Negro and Puerto Rican families in their desperate search for decent housing continue to encounter obstacles which make them easy prey for speculators, sharpens the Commission's hope that this report may lead to corrective action and constructive change.

In this regard, it may be helpful as well as enlightening to cite the pattern of stages which the Commission found to prevail in the real estate transactions it studied:

- (1) Panic selling by the white home-owner. This took the form of willingness to accept a speculator's cash offer, which amounted to substantially less than the current market value of the property.
- (2) Resale of the property, after only a short time lapse, to a Negro or Puerto Rican purchaser at an exorbitant markup.
- (3) Resort by the minority buyer to the high cost of secondary financing with two or more mortgages, such mortgages being obtained for him by the speculator.
- (4) After years of paying the high premiums required to carry the second, non-liquidating mortgage, the new home owner finds himself faced with a large sum due and payable immediately. His alternatives are to borrow a large sum of money to pay off a second mortgage, or attempt to obtain refinancing, or to face foreclosure.
- (5) In order to save his home he attempts, whenever possible, to refinance the sum due. To do this, he again assumes the burden of high premiums because the same conditions that saddled him with heavy mortgage payments at the start still exist—lack of cash, the absence of substantial savings and the inability to obtain a loan through conventional channels. He is on a debtor's treadmill.

A detailed analysis of 11 specific property transactions in the subject area, selected at random, revealed additional facts. This information dramatized the fact that blockbusting activities are as exploitative of the economic interests of white home owners as they are of the economic disadvantages of Negro and Puerto Rican home buyers.

These financial transactions show that:

- (1) Although the average price paid by a speculator to a white owner was just under \$12,000, the average resale price paid by a Negro purchaser was \$20,000.
- (2) The assessed valuation of all but four of the eleven properties was less than \$10,000, the highest was assessed at \$14,000.
- (3) The estimated fair market value of the eleven properties ranged from \$8,125 to \$13,125.
- (4) Prices paid by Negro purchasers exceeded fair market value anywhere from 28.5 percent to 118 percent. The average markup was 73 percent.
- (5) The interest rates paid by the Negro home owner for mortgages on his property were spectacularly higher than they would have been if he had been able to finance the purchase of his home through an FHA or VA loan or through conventional lending channels.

FINDINGS AND RECOMMENDATIONS

The information developed by the City Commission on Human Rights in conducting its investigation and public hearing of blockbusting activities, presents an unsavory picture of exploitation of racial prejudice for private profit.

The hearing provided insight into the conditions under which blockbusting thrives. It spotlighted the ignorance and latent prejudices of many white residents of a once stable community that made them easy prey to panic when the neighborhood began to change. It highlighted the desperation of minority group families whose difficulties in finding homes at prices they could afford were compounded by a prejudice that made them unwelcome neighbors and forced them to pay exorbitant prices for property that was worth substantially less.

While it is true that sellers and buyers both were victims of unscrupulous real estate operators, the fact remains that these operators, in turn, could not have flourished without the benefit of the adverse set of social and economic circumstances, which still plague most minority families in their efforts to obtain decent housing. These social conditions are represented in the continued prejudice and intolerance which denies the right of Negro and Puerto Rican families to bargain freely in an open housing market. The economic conditions, no less difficult to overcome, are the end result of inequality of opportunity in employment and restricted access to normal mortgage financing resources.

It also should be noted that the blockbusting studies undertaken by the City Commission on Human Rights clearly revealed that real estate operators and not state licensed brokers predominate in this shady market. While the incidence of involvement by licensed real estate brokers in the subject area was noticeably limited, the impression emerged with equal clarity that the real estate profession generally is equated by the public with all who deal in the purchase and sale of homes. This interpretation on the part of the general public has serious implications for the image and prestige of the real estate industry and it would seem to indicate that the profession must share an interest with the City Commission in the prompt correction of the problem of blockbusting.

The same reasoning applies with equal validity to the banking and lending industry in the City of New York. The image of the entire industry, which has the obligation to serve the whole market in com-

pliance with law, is affected by the malpractice of a substantial portion of it which declines to make available adequate mortgage financing to Negro and Puerto Rican families.

The issue of mortgage financing, and its availability to moderate income minority families bent upon purchasing their own homes is central to the whole problem of blockbusting. An appeal to the ignorance and prejudice of white home owners was the key factor in obtaining homes for speculation. The unavailability of normal bank financing was the contributing factor in their resale to Negro and Puerto Rican families. While it is true, of course, that no prudent institution should be expected to mortgage properties which have been priced high above their actual market value, the fact remains that Negro and Puerto Rican families would be far less likely to enter into such deals if they knew that adequate mortgage financing would be available to them on their own application. The families who purchased homes from speculators in East New York did so with a conviction that there probably were no other financial arrangements available to them.

The abusive practice of blockbusting as exposed by the City Commission on Human Rights clearly indicates a need for prompt and vigorous corrective action. Program efforts to eliminate this intolerable activity must be multi-faceted, reaching out not only to assist those families who are being exploited, and to restrict those operators engaged in such exploitation, but also, and perhaps more importantly, to promote with the support of responsible leadership in industry, a climate of business morality that rejects racial prejudice and racial exploitation, as both undemocratic and unprofessional.

Finding Re Legislation

There is a complete absence of professional standards and ethics among those real estate operators who, for reasons of financial gain, continue to exploit the racial and economic disadvantage of Negro and Puerto Rican families. The Commission's studies revealed that these speculators operated largely as principals. Since they were not required to carry brokerage licenses, they were able to operate outside the pale of existing City and State Laws and appropriate regulatory agencies.

Recommendation

The Commission's studies clearly indicate a need for the extension of existing City and State laws and appropriate regulatory agencies. Legislation should be passed to curb racial exploitation by real estate

operators who function outside the purview of existing licensing and regulatory agencies. The Commission is aware that such proposals are being worked on by interested parties for consideration and recommendation by the City Commission on Human Rights. These proposals will be given prompt and serious review.

Finding Re Housing and Home Finance Industry

There is an inability of minority families to obtain on the free market adequate first mortgage financing which would bring moderate priced existing housing within their reach. This exclusion from normal mortgage finance channels, coupled with a complex pattern of mortgage placement practices and the easy availability of second and third mortgages at exorbitant cost, make minority families easy prey for speculators.

Recommendation

Banks and lending institutions, including the FHA and VA agencies of government, play a pivotal role in the local private real estate market. These institutions and agencies serve the best interest of the general public when they serve the maximum number of families.

- I. We strongly urge that banks and lending institutions thoroughly re-evaluate and examine the entire scope of their operations with an eye toward extending their mortgage finance services to a larger segment of the home buying public. Foremost among these considerations should be a review of criteria which are employed in the determination of property values and credit eligibility for mortgage financing.
- II. Because minority families of moderate income have been found to encounter undue difficulty in procuring mortgage financing, the City Commission further recommends that responsible leadership in the lending industry make an affirmative and special effort to extend mortgage financing to them.
- III. The brokers, managers, institutional and insurance investors in housing also have a role. We call upon these interests to take the initiative in a special effort to encourage the voluntary opening of neighborhoods presently characterized by an absence or paucity of minority families. Such an effort would complement the positive programs of various municipal housing agencies

which, in cooperation with the City Commission on Human Rights, are working aggressively to advance a democratic pattern of residency in New York City.

Finding Re Housing Supply

There is a continuing shortage of an adequate housing supply for families of low and moderate income levels in the City of New York. Speculation on any basis, racial, economic, or otherwise, trades on imbalance between supply and demand. In the face of this shortage, many families who have been able to improve their economic circumstances, have not been able to enjoy residential mobility from low to moderate to middle income housing within the city. For minority families the problem is compounded by their continued racial exclusion from neighborhoods of certain economic levels.

Recommendation

There must be vigorous support of all responsible leadership in New York City for the City program to expand the low and moderate priced housing supply. The struggle to balance housing needs with the construction of an adequate volume of units, however, necessitates support and cooperation from every segment of government. In this regard the need for an increased allocation of public housing funds from the State of New York and renewed federal assistance is imperative.

Finding Re Educational Programming

There is a lack of complete knowledge and understanding on the part of the minority community in New York City of the security and coverage of the City's fair housing laws. The Commission on Human Rights is expanding its educational program effort to meet this challenge. Making certain that the general public understands the City's laws against discrimination in housing, may not, however, be sufficient. There are indications that broader, more comprehensive information, including the basic fundamentals of sound real estate and mortgage financing transactions, may be necessary.

Recommendation

There must be a vigorously accelerated educational campaign to make known to the entire public, particularly the minority community, the right of all families to enjoy equality of opportunity in the rental or purchase of housing in New York City without regard to race,

creed, color or national origin. Such an effort, asserting the scope and power of the City's fair housing laws should be coupled with informational material and services designed to advise all families on sound principles and fundamentals involved in the purchase and sale of real property.

This latter type of educational effort, however, requires the services and counsel of the real estate profession. The City Commission on Human Rights calls upon local representatives of the National Association of Real Estate Boards and the National Association of Real Estate Brokers to join in the formation and presentation of an educational program designed to meet this need.

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