THE
SAMUEL DUBOIS COOK
CENTER ON SOCIAL EQUITY
AT DUKE UNIVERSITY

The Plunder of Black Wealth in Chicago:

New Findings on the Lasting Toll of Predatory Housing Contracts

THE Chicago Courier

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LAW BACKS HOUSING 'RACKET'

Contract Buyers at Mercy of Sharpies

By L. F. PALMER JR. and PAUL HUNTER

Not all "rackets" are illegal. Ask Mrs. Frances Dixon.

Mrs. Dixon was a widow when she bought her home at 4228 S. Oakenwald St. She paid $750 down on an asking price of $14,900. Her notes were set at $125 per month, plus taxes and insurance, which she has met religiously since she signed the agreement in January 1956.

She bought the house on contract from one of the biggest real estate speculators in the city.

Today, after paying in almost $10,500, plus taxes and interest, plus making some $3,000 in improvements, Mrs Dixon has learned that she still owes $9,000 before the property will be completely paid for.

But here's the kicker. The house is located near the Oakenwald School, which needs room to expand, and the Board of Education needs the land on which her house stands.

Appraisers have advised her that the house is worth exactly $5,500.

SQUEEZE PLAY

So Mrs. Dixon is caught in the well-known squeeze play. She's stuck with a contract in which she agreed to pay $14,900 for a house which, after improvements, is valued at $5,500. She still owes $9,000 after paying in more than $10,000. And the contract holder will get the $5,500 from the Board of Education, leaving Mrs. Dixon still owing $3,500—and out in the street.

And it's all legal.

"I don't know what I'm going to do," Mrs. Dixon told The Courier. "I've always been a property owner, even when I lived in Vicksburg, Miss. I've put the whole thing in the hands of a lawyer—and I'm praying"

This is an example of the hideous exploitation of Negroes in Chicago who lose enormous sums of money every day when they buy or rent property.

MILLION A DAY

Disturbed by these practices for many years has been Atty. Mark Satter, who contends that Negroes throw a million dollars a day down the drain because they refuse to resist the lure of housing speculators, unscrupulous landlords, money-hungry 'credit' firms and lawyers who talk them into bankruptcy.

"There is a total absence of protection given by the courts

(Continued on Page 3)

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Executive Summary

"The Plunder of Black Wealth in Chicago: New Findings on the Lasting Toll of Predatory Housing Contracts," set out to calculate the amount of money extracted from Chicago's black communities in the 1950s and 60s through the practice of what was commonly referred to as home contract sales (also referred to as home installment contracts, contract for deed, or land sale contracts).

This common but little-known practice took root in the period of the housing boom that followed World War II, and grew out of federally endorsed redlining policies that denied most black homebuyers access to the conventional mortgage loans enjoyed by their white counterparts.

Home sale contracts were the creation of speculators who saw an unusually profitable market among African American families whose housing choices were hemmed in by racial segregation and redlining, yet eager to escape substandard rental housing and purchase homes for their families. These contracts offered black buyers the illusion of a mortgage without the protections of a mortgage. Buyers scraped together excessive down payments and made monthly installments at high interest rates toward inflated purchase prices, but never gained ownership – if at all – until the contract was paid in full and all conditions met. (Immergluck, 2018; Way, 2010) In the interim, contract sellers reaped all the benefits of holding the deed; they were free to evict the buyers for even minor missed payments as well as to burden the title with liens unrelated to the buyer's possession. (Immergluck, 2018)

Unlike those who enjoyed mortgages, contract buyers accumulated no equity in their homes. Should a buyer want to sell before the contract concluded, they would lose their entire investment. Should they miss even one payment, there were no laws or regulations to protect them against eviction, and the loss of every dollar they invested in their home.

"Far from being the marginal economic activity of a few bad apples" (Satter, 2009), contract selling enjoyed the backing of the very banks that turned down black homebuyers and of investment syndicates comprised of white Chicago lawyers, doctors, downtown business leaders, and city government officials, all of whom profited handsomely by exploiting a separate and unequal housing market to the profound disadvantage of black families. (McPherson, 1972)

What happened during this crucial era, that of the making of America's mass white middle class during the long postwar economic boom, was a systematic, legally sanctioned plunder of black wealth. The curse of contract sales still reverberates through Chicago's black neighborhoods (and their urban counterparts nationwide) and helps explain the vast wealth divide between blacks and whites.

Because most of the existing literature concerning land sale contracts in black communities is qualitative, our research team set to undertake a quantitative study, as encompassing as the surviving data allow, to determine the extent of contract selling to black buyers in communities such as Chicago's West and South Sides and calculate the wealth lost in real dollars as a result of that predatory housing practice.

With a view towards identifying the largest possible universe of land sale contracts entered into by black buyers in Chicago's South and West Sides during that time, our research team undertook a painstakingly thorough review of land titles at the Cook County Recorder of Deeds and of court records and documents compiled for two federal lawsuits, and now maintained at the National Archives in Chicago.

Researchers reviewed over 50,000 documents from those files, reading deposition transcripts and pleadings and examining property records to create a database for analysis.

Findings from the study include:

- On average, the price markup on homes sold on contract was 84 percent. For example, homes in racially changing neighborhoods purchased by a speculator for $12,000, would be resold days or weeks later on contract to a black buyer, for $22,000.
- We found that African Americans purchasing on contract, paid, on average, an additional $587 (April 2019 dollars) more each month compared to what they would have if they paid the fair price for their home and had a conventional or FHA mortgage.
- Between 75 percent and 95 percent of the homes sold to black families during the 1950s and 60s were sold on contract.
- The average black buyer paid several points more in interest on their contract loan than the average white buyer paid on a conventional or Federal Housing Authority (FHA) backed mortgage.
- Over the two decades studied, the amount of wealth land sales contracts expropriated from Chicago's black community was between 3.2 and 4.0 billion dollars.

Owing to gaps in the surviving data, these numbers are conservative. Indeed, information collected during our study suggests that the losses were greater. For example, we did not tally the toll of the higher premiums black homeowners paid for homeowners insurance compared to white homeowners, owing to insurance redlining. Nor could we tally accurate losses due to evictions, since the courts did not preserve those records. Yet, according to newspaper accounts it was common practice for sellers to evict buyers for any missed payment, keep their down payments and all that they had paid towards the contract, and then resell the property on contract to another buyer.

Top slumlords unmasked

Phony names, land trusts used to profit from squalor

Task Force report

Linked to Chicago's slums

Chicago Tribune, 1973. From the Mark Satter Collection at the Newberry Library.

We hope that by documenting how much money was plundered from aspiring black homeowners and their communities over these decades, our study can:

- Inform policy makers as to the scale of proactive "reinvestment" that would begin to redress the losses redlining and contract selling inflicted on Chicago's black communities;
- Help educate the public to how even black families with the same relative earning power and savings as white families ended up with far less in asset wealth generations later, with snowballing consequences;
- Encourage policy initiatives to fight contract sales and other forms of predatory lending, which have reappeared in Chicago's housing market in the aftermath of the Great Recession;
- And stimulate a fresh narrative in the public discussion of racial inequality to educate Chicagoans about the ruinous monetary impact of redlining and contract selling. Together these practices impoverished the city's main black communities, leaving them vulnerable to ills of all kinds--for which generations of whites then blamed the victims, not recognizing that the true culprits were other whites.

Introduction

Economic expansion in the United States after World War II has often been credited with giving birth to a mass middle class. Federal policies assisted this "age of affluence," as textbooks sometimes refer to it. They included a G.I. Bill that helped millions of veterans returning from war to secure higher education, jobs and healthcare, and a government-backed, low-interest, low-payment home financing system that set vast numbers of Americans on a path to the financial security that came with owning a home.

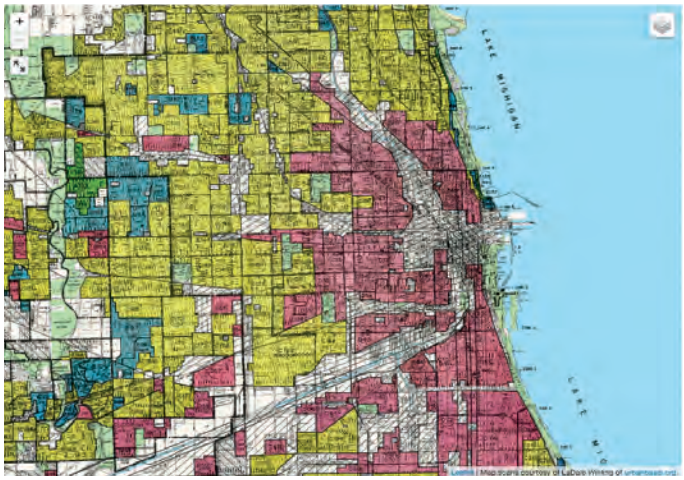
The housing boom that followed provided one of the largest wealth accumulating opportunities in this nation's history. Over the two decades from 1940 to 1960, the proportion of households that owned the home they lived in grew from 43 percent to 62 percent. Young first-time homeowners particularly benefited, because "during this period, the real value of homes had a stable appreciation that increased property values by 35 percent." (Chambers, *et al*., 2013)

This matters not least because, as the journalist and author Ta-Nehisi Coates has said, housing is key to everything in our lives: "Housing determines access to transportation, green spaces, decent schools, decent food, decent jobs, and decent services." (Coates, May 2014)

But while white Americans had a government-assisted path to that dream of home ownership, black Americans had a far different experience.

Even though the U.S. Supreme Court sought in 1948 to temper housing discrimination, ruling in *Shelly v. Kraemer* that racially restrictive covenants violated the constitutional right to equal protection and were judicially unenforceable, discrimination continued.

Banks, realtors, investors and government agencies had decades earlier developed policies and practices that institutionalized segregation in the housing market to the distinct disadvantage of black homebuyers.
The Federal Housing Administration (FHA), for example, adopted procedures that were developed by the same real estate industry that designed restrictive covenants and which effectively excluded black homebuyers from the mortgage market subsidized and insured by the federal government. The agency drew up maps that



A 1939 Home Owners' Loan Corporation "Residential Security Map" of Chicago shows discrimination against low-income and monority neighborhoods. The residents of the areas marked in red (representing "hazardous" real-estate markets) were denied FHA-backed mortgages. (Map development by Frankie Dintino)

graded areas by alleged lending risk, shading black or racially changing neighborhoods in red to identify them as prima facie "high risk" – a practice that came to be known as "redlining." The FHA thus made clear to lenders where it would not provide mortgage backing. (Aaronson *et al*., 2019; McPherson, 1972)

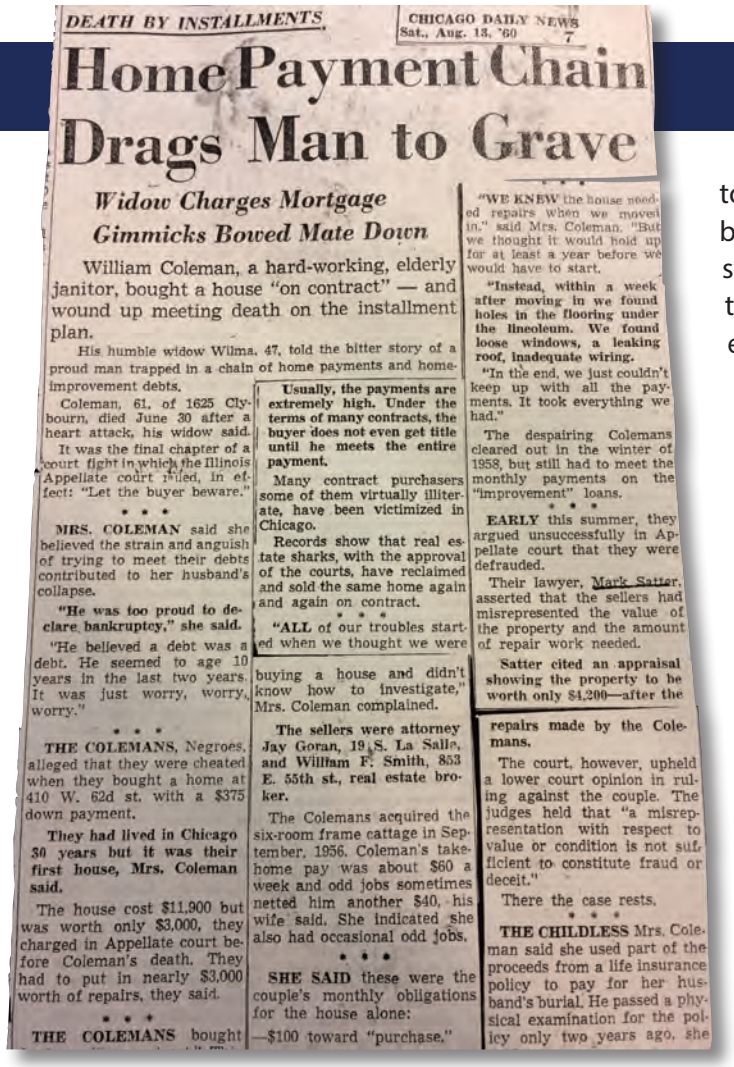
As a report by the FHA in 2017 suggests, redlined maps had a "meaningful negative effect on homeownership, house values, rents, and vacancy rates with comparable time patterns to the effects on racial segregation. This suggests that there was significant housing disinvestment in the wake of restricted credit access." (Aaronson, *et al*., 2019)

So while white Americans were buying homes financed with bank loans insured by the federal government and protected by regulation, with equity building as they paid down mortgages and title passing at purchase, federal policy and banking practices pushed black Americans into a secondary, unregulated market that very often left them stripped of any wealth they had accumulated, or hoped to accumulate, through home ownership.

In this policy context, sellers and speculators in local housing markets exploited black families eager to buy homes, but left with few options other than to purchase their home through a contract, a sale product that cleverly offered the illusion of buying a home, but as

Coates has said, "combine[d] all the responsibilities of homeownership with all the disadvantages of renting – while offering the benefits of neither" (Coates, June 2014)

Such sale contracts go by a few names (home installment contract, contract for deed, and contract buying), but the hallmarks are the same. The buyer makes a down payment and then monthly installment payments, but accrues no equity along the way, and title does not pass, if ever, until the last payment stipulated in the contract is made. The seller holds the deed and retains the equity while the buyer remains responsible for the monthly payments as well as the payment of taxes, insurance and repairs. (Immergluck, 2018)



DEATH BY INSTALLMENTS

CHICAGO DAILY NEWS Sat., Aug. 13, '60 7

Home Payment Chain Drags Man to Grave

Widow Charges Mortgage Gimmicks Bowed Mate Down

William Coleman, a hard-working, elderly janitor, bought a house "on contract" — and wound up meeting death on the installment plan.

His humble widow Wilma, 47, told the bitter story of a proud man trapped in a chain of home payments and home-improvement debts.

Coleman, 61, of 1625 Clybourn, died June 30 after a heart attack, his widow said.

It was the final chapter of a court fight in which the Illinois Appellate court ruled, in effect: "Let the buyer beware."

* * *

MRS. COLEMAN said she believed the strain and anguish of trying to meet their debts contributed to her husband's collapse.

"He was too proud to declare bankruptcy," she said.

"He believed a debt was a debt. He seemed to age 10 years in the last two years. It was just worry, worry, worry."

* * *

THE COLEMANS, Negroes, alleged that they were cheated when they bought a home at 410 W. 62d st. with a $375 down payment.

They had lived in Chicago 30 years but it was their first house, Mrs. Coleman said.

The house cost $11,900 but was worth only $3,000, they charged in Appellate court before Coleman's death. They had to put in nearly $3,000 worth of repairs, they said.

* * *

THE COLEMANS bought

Usually, the payments are extremely high. Under the terms of many contracts, the buyer does not even get title until he meets the entire payment.

Many contract purchasers some of them virtually illiterate, have been victimized in Chicago.

Records show that real estate sharks, with the approval of the courts, have reclaimed and sold the same home again and again on contract.

* * *

"ALL of our troubles started when we thought we were buying a house and didn't know how to investigate," Mrs. Coleman complained.

The sellers were attorney Jay Goran, 19 S. La Salle, and William F. Smith, 853 E. 55th st., real estate broker.

The Colemans acquired the six-room frame cottage in September, 1956. Coleman's take-home pay was about $60 a week and odd jobs sometimes netted him another $40, his wife said. She indicated she also had occasional odd jobs.

* * *

SHE SAID these were the couple's monthly obligations for the house alone:

—$100 toward "purchase."

* * *

"WE KNEW the house needed repairs when we moved in," said Mrs. Coleman. "But we thought it would hold up for at least a year before we would have to start.

"Instead, within a week after moving in we found holes in the flooring under the linoleum. We found loose windows, a leaking roof, inadequate wiring.

"In the end, we just couldn't keep up with all the payments. It took everything we had."

The despairing Colemans cleared out in the winter of 1958, but still had to meet the monthly payments on the "improvement" loans.

* * *

EARLY this summer, they argued unsuccessfully in Appellate court that they were defrauded.

Their lawyer, Mark Satter, asserted that the sellers had misrepresented the value of the property and the amount of repair work needed.

Satter cited an appraisal showing the property to be worth only $4,200—after the repairs made by the Colemans.

The court, however, upheld a lower court opinion in ruling against the couple. The judges held that "a misrepresentation with respect to value or condition is not sufficient to constitute fraud or deceit."

There the case rests.

* * *

THE CHILDLESS Mrs. Coleman said she used part of the proceeds from a life insurance policy to pay for her husband's burial. He passed a physical examination for the policy only two years ago, she

The Chicago Daily News, 1960. From the Mark Satter Collection and the Newberry Library.

Because the land sale contract market operated completely outside of the regulated housing and mortgage markets, the contract sellers were free to control the terms of the "purchase" as they wished, knowing they had a captive market due to segregation. They could inflate purchase prices and interest rates exempt from the usual oversight. And they often set up transactions doomed to fail, because the buyers could not afford the c osts o f repairs t hat came w ith unappraised, uninspected homes and/or meet the monthly payments. (Battle, *et al*., 2019)

All the while, the courts were quick to evict. Housing laws and the law of contract favored the sellers, who held title, and filing for eviction was cheap and easy. Failure to make even one payment on time could result in a buyer's eviction and loss of any money paid up to that point, allowing the seller to retake possession and then "resell" to another unsuspecting buyer. (McPherson, 1972) The system thus incentivized the turnover of homes, which enabled the sellers to collect multiple downpayments and monthly installments.

Even in the absence of eviction, because the seller held title and had no obligation to record the transaction, the seller remained free to continually encumber the property with additional mortgage liens, clouding title for those buyers who managed to complete the contract. (Immergluck, 2019)

Contract sellers in Chicago in the 1950s and 1960s, especially on the city's West and South Sides, were often realtors who financed their own purchase of homes from white families from the same savings and loans that turned down black buyers. These realtors took advantage of white owners frightened by a contrived threat of a vast influx of blacks into their neighborhoods and determined to flee and sell while they could. The purchaser-sellers also accumulated capital by creating syndicates or investor groups comprised of Chicago's downtown lawyers, doctors, dentists, politicians, and others. The contract sellers pressured white owners into quick sales at below market prices and then turned around and contracted to sell the homes at markedly inflated prices, with significantly higher interest rates, to black buyers. (McPherson, 1972)

This was a win-win for the sellers, who effectively arbitraged the difference while maintaining title to property they were free to borrow against. It was just the opposite for black buyers. Having no idea of the true value or condition of the property they were buying because of the lack of inspection and appraisal, they

unwittingly became "buyer-rehabbers" with no equity to borrow against for repairs (Immergluck, 2018). Those buyers who lost possession never recovered the money they paid up to that point. Those who maintained possession and gained title – years if not decades later – found themselves holding an asset worth far less than what they had paid over the term of the contract and that appreciated far less than the homes purchased by economically comparable whites who had access to normal mortgages.

Multiply those losses over the number of black buyers entering white-flight neighborhoods through land sale contracts – buyers depleted financially from predatory contracts, who never had the chance to grow their wealth or access the credit needed to keep their homes in good repair and updated – and you have neighborhoods already FHA-redlined as high risk becoming a reality. The combination of redlining and contract buying made neighborhood deterioration a self-fulfilling prophecy.

A recent study by The Federal Reserve Bank of Chicago confirmed as much: redlining reduced access to credit and enabled higher borrowing costs, leading to "disinvestment in poor urban American neighborhoods with long-run repercussions." (Aaronson, *et al*., 2019)

As the authors of a groundbreaking study of the overarching significance of the racial wealth gap to the persistence of inequality explain:

"Locked out of the greatest mass based opportunity for wealth accumulation in American history, African Americans who desired and were able to afford home ownership, found themselves consigned to central city communities where their investments were affected by the self-fulfilling prophecies of the FHA appraisers." (Oliver and Shapiro, 1997)

The scope of contract selling to blacks has been difficult to document because the transactions did not have to be documented or recorded, but in Chicago's South and West Sides they happened enough to attract the concern of watchful black buyers and community organizers who formed what came to be known as the Contract Buyers League. The League organized contract installment strikes and, with the help of some local Catholic priests and a few prominent law firms, m ost notably Jenner & Block, the League filed two federal lawsuits, *Contract Buyers League v. F&F Investment and Clark v. Universal Builders.* (Immergluck, 2018)

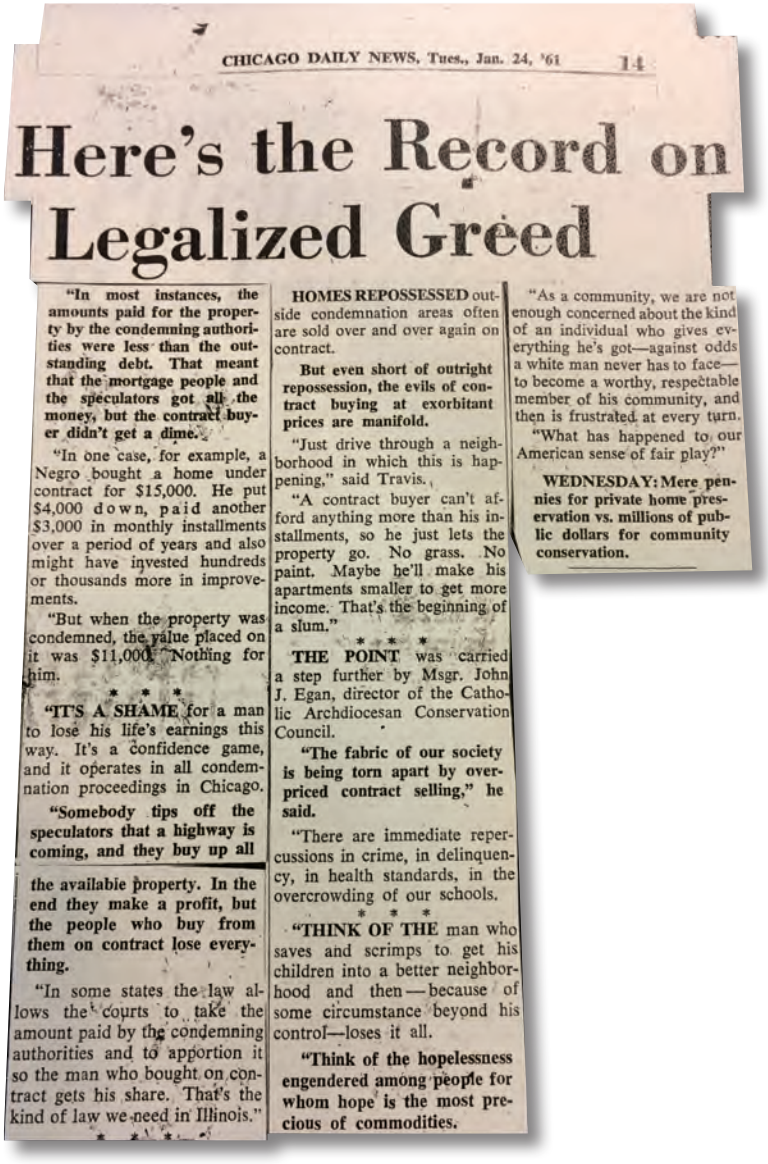
Relying on the Civil Rights Act of 1866, which the U.S. Supreme Court in 1968 extended to prohibit racial discrimination in the sale or rental of property, the League sought relief from onerous contract provisions. Although the two lawsuits ultimately failed, and the contract installment payment strikes led to the eviction of 50 contract buyers, the struggle prompted the renegotiation of over 400 land sale contracts on fairer terms. It also encouraged activists to push for new housing and mortgage protections, and targeted reinvestment in affected Chicago neighborhoods. (Macnamara, *et ano*, 1971)

Among the best researched and most illuminating accounts of this history is a book by the Rutgers University historian Beryl Satter, *Family Properties: How the Struggle Over Race and Real Estate Transformed Chicago and Urban America*, which also recounts her father's efforts to stop the installment contract system. (Satter, 2009) "While contract sellers became millionaires," Satter explains, "their harsh terms and inflated prices destroyed whole communities. Because black contract buyers knew how easily they could lose their homes, they struggled to make their inflated monthly payments. Husbands and wives both worked double shifts. They neglected basic maintenance. They subdivided their apartments, crammed in extra tenants, and, when possible, charged their tenants hefty rents. Indeed, the genius of this system was that it forced black contract buyers to be their own exploiters. As my father explained, 'the black contract buyer was forced to defraud his own people in order to feed the hungry mouth of the speculator.'" (Satter, 2009) Then, in a cruel twist of perception, whites blamed the black victims for the declining conditions, never seeing the coercive arm of the contract lenders.

Contract loan home sales, in short, were a ruthlessly exploitative means of extracting capital from those with no better alternatives.

The history of this practice illuminates, as perhaps nothing else does so well, how Chicago's minority communities were impoverished by discriminatory institutional structures and practices over the very decades that their white counterparts were accruing wealth to pass on to future generations.

We hope this report deepens understanding of the sources and impact of the racial wealth gap, by illustrating how much housing discrimination—in particular, redlining and contract land sales--contributed to the financial burden of tens of thousands of Chicago's black families, decimating the collective well-being of their communities.



CHICAGO DAILY NEWS, Tues., Jan. 24, '61 14

Here's the Record on Legalized Greed

"In most instances, the amounts paid for the property by the condemning authorities were less than the outstanding debt. That meant that the mortgage people and the speculators got all the money, but the contract buyer didn't get a dime.

"In one case, for example, a Negro bought a home under contract for $15,000. He put $4,000 down, paid another $3,000 in monthly installments over a period of years and also might have invested hundreds or thousands more in improvements.

"But when the property was condemned, the value placed on it was $11,000. Nothing for him.

* * *

"IT'S A SHAME for a man to lose his life's earnings this way. It's a confidence game, and it operates in all condemnation proceedings in Chicago.

"Somebody tips off the speculators that a highway is coming, and they buy up all the availabie property. In the end they make a profit, but the people who buy from them on contract lose everything.

"In some states the law allows the courts to take the amount paid by the condemning authorities and to apportion it so the man who bought on contract gets his share. That's the kind of law we need in Illinois."

* * *

HOMES REPOSSESSED outside condemnation areas often are sold over and over again on contract.

But even short of outright repossession, the evils of contract buying at exorbitant prices are manifold.

"Just drive through a neighborhood in which this is happening," said Travis.

"A contract buyer can't afford anything more than his installments, so he just lets the property go. No grass. No paint. Maybe he'll make his apartments smaller to get more income. That's the beginning of a slum."

* * *

THE POINT was carried a step further by Msgr. John J. Egan, director of the Catholic Archdiocesan Conservation Council.

"The fabric of our society is being torn apart by overpriced contract selling," he said.

"There are immediate repercussions in crime, in delinquency, in health standards, in the overcrowding of our schools.

* * *

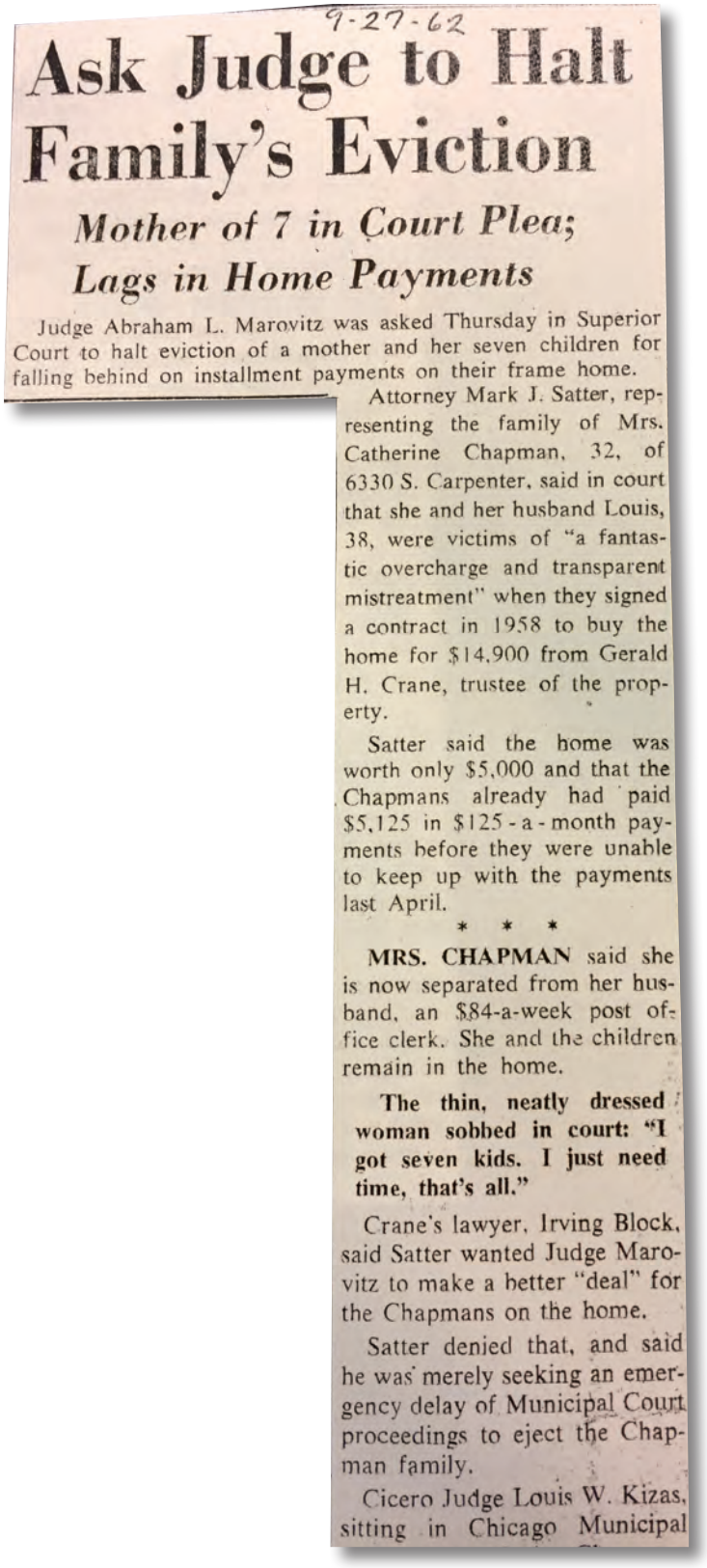
"THINK OF THE man who saves and scrimps to get his children into a better neighborhood and then—because of some circumstance beyond his control—loses it all.

"Think of the hopelessness engendered among people for whom hope is the most precious of commodities.

"As a community, we are not enough concerned about the kind of an individual who gives everything he's got—against odds a white man never has to face—to become a worthy, respectable member of his community, and then is frustrated at every turn.

"What has happened to our American sense of fair play?"

WEDNESDAY: Mere pennies for private home preservation vs. millions of public dollars for community conservation.



9-27-62

Ask Judge to Halt Family's Eviction

Mother of 7 in Court Plea; Lags in Home Payments

Judge Abraham L. Marovitz was asked Thursday in Superior Court to halt eviction of a mother and her seven children for falling behind on installment payments on their frame home.

Attorney Mark J. Satter, representing the family of Mrs. Catherine Chapman, 32, of 6330 S. Carpenter, said in court that she and her husband Louis, 38, were victims of "a fantastic overcharge and transparent mistreatment" when they signed a contract in 1958 to buy the home for $14,900 from Gerald H. Crane, trustee of the property.

Satter said the home was worth only $5,000 and that the Chapmans already had paid $5,125 in $125-a-month payments before they were unable to keep up with the payments last April.

* * *

MRS. CHAPMAN said she is now separated from her husband, an $84-a-week post office clerk. She and the children remain in the home.

The thin, neatly dressed woman sobbed in court: "I got seven kids. I just need time, that's all."

Crane's lawyer, Irving Block, said Satter wanted Judge Marovitz to make a better "deal" for the Chapmans on the home.

Satter denied that, and said he was merely seeking an emergency delay of Municipal Court proceedings to eject the Chapman family.

Cicero Judge Louis W. Kizas, sitting in Chicago Municipal

Narratives of Contract Selling

Most of the existing literature concerning land sale contracts in black communities is qualitative, surveying the history of these transactions in connection with racially predatory real estate practices such as redlining while narrating their impact on black families. Our study builds on past scholarship and reporting with new archival research to quantify the community-wide toll of these practices.

We are especially indebted to several landmark works for our understanding of the history and human impact of contract home sales. They include a contemporary account by a member of our research team, John R. Macnamara, then a young priest who in 1971 published "The Contract Buyers League: A View from the Inside," and Beryl Satter's 2009 landmark book, Family Properties: Race, Real Estate, and the Exploitation of Black Urban America. Her richly researched and widely praised work combined family history and political-economic analysis and legal history narrated so powerfully that it made the near-forgotten practice of contract selling come alive to a new generation of readers.

Since the release of Satter's work, several powerful journalistic accounts have expanded our knowledge. Ta-Nehisi Coates's influential "The Case for Reparations" provided a bracing explication of this history that drew large numbers into discussion of its import for today. Because of their powerful analysis, storytelling gifts, and outsized impact, all three of these authors are featured in The Shame of Chicago, the documentary beingscreened with the report's release. James Alan McPherson's "The Story of the Contract Buyers League," and Mary Lou Finley's "Inside the Contract Buyers League Fight Against Housing Discrimination," each detail the land sale contract experience and its impact on black communities in historical and legal context.

Missing, however, have been quantitative studies to determine how many land sale contracts were entered into by black buyers, and calculate how much wealth was lost due to that predatory housing sale practice. That work has largely been hampered by the lack of available and complete records of such transactions, given the absence of any requirement that they be filed or recorded with a government agency.

Yet, there were some notable efforts, on which our report builds. In 1962, the Chicago Human Rights Commission undertook a study of black property purchases from 1953 to 1961 on four blocks in the Englewood neighborhood, comprised of 33 properties. The Commission found that installment contracts were the principal means of purchase by black homebuyers (88 percent), and that on average those buyers paid the sellers a 73 percent markup for their properties.

Joseph Nowicki, the President of the Society of Appraisers and onetime chairman of the Appraiser's Division of the Chicago Real Estate Board, looked at nearly 50 properties in Chicago's racially changing community of Lawndale for his 1969 article, "Appraising in the Ghetto." He found that the sellers charged black buyers markups of between 116 and 175 percent for their properties, at interest rates of 6.5 to 7 percent, at a time when rates on conventional mortgage loans were between 5 and 5.5 percent. Nowicki concluded: "The Lawndale Area, on Chicago's southwest side became a speculator's paradise, an appraiser's nightmare, and a graveyard of mounting rubble which covered the remains of personal respect and dignity."

Lynne Beyer Sagalyn, in her 1983 "Mortgage Lending in Older Urban Neighborhood: Lessons from the Past Experience," conducted a more in-depth study of 300 land sale contracts entered into in Chicago from 1956 to 1968. Sagalyn found that on average sellers sold properties for 69 percent above their own purchase price and added repair costs; buyers, she found, paid effective interest rates of between 13 and 15 percent.

Our study, "The Plunder of Black Wealth in Chicago: New Findings on the Lasting Toll of Predatory Housing Contracts," expands upon the previous research to calculate monies lost by the black community of Chicago from land sale contracts in the 1950s and 1960s. Moving beyond Sagalyn's important and extensive quantitative work, our research presents a descriptive statistical analysis of a much larger set of contracts sold to black homebuyers in the 1950s and 1960s to reveal, with new specificity, how the practice blocked the accumulation of wealth among black Chicagoans, with devastating consequences that reverberate to this day.

Methods and Findings

Our research team set out to determine, as nearly as we could with extant data, exactly how much wealth the black community in Chicago lost in the 1950s and 1960s as the result of land sale contracts.

We reviewed surviving documents and compiled data with a view towards quantifying that loss based on the price differential between the amount a buyer would have paid over the term of the contract and what that buyer would have paid if they had access to an FHA insured-mortgage or a conventional mortgage from one of Chicago's banks or savings and loans.

Because land sale contracts and related documents were not required to be publicly recorded, our first step was to search though voluminous public records at the Cook County Recorder of Deeds Office to identify the largest possible universe of such sales.

Additionally, we gleaned information from a pivotal contemporary lawsuit. Through an ad placed at the time in the *Chicago Tribune* and the *Chicago Sun-Times*, the law firm Jenner & Block asked contract buyers to come forward with their property information and join the lawsuits they had launched in 1969, *Contract Buyers League v. F&F Investment* and *Clark v. Universal Builders.* With that information and other facts gathered during the cases, the firm was able to gather what we understand today to be the most extensive records documenting land sale contracts.

Researchers at the Cook County Recorder of Deeds Office examining a property title that was held in a trust, the preferred method that contract sellers used to obscure their identity.

Data Collection and Analysis

Our research team culled through 73 boxes of court records from the Jenner and Block Contract Buyers League case that are housed at the National Archives in Chicago. Researchers also painstakingly examined hundreds of title transactions and deeds at the Cook County Recorders of Deeds.

By reviewing over 50,000 documents from those files, reading deposition transcripts and pleadings, and examining property records, the researchers were able to identify 3,027 properties that were the subject of land sale contracts during the period in question. (This is not the total number of properties sold by contract, but rather those for which some information survives.)

For each of those properties, the researchers recorded the following information, where available.

(1) Contract buyer name(s)
(2) Contract property address
(3) Contract seller names(s)
(4) Contract seller trust numbers
(5) Contract buyer purchase date (1950 – 1970)
(6) Contract seller purchase date (1950 – 1970)
(7) Contract buyer property purchase price ($15,000 – $80,000)
(8) Contract seller property purchase price ($1,600 – $38,728)
(9) Contract buyer down payment ($100 – $7,500)
(10) Contract seller down payment ($0 – $6,000)
(11) Contract seller mortgage amount
(12) Contract seller mortgage date
(13) Contract buyer monthly housing payment to contract seller ($70 – $535)
(14) Contract seller monthly mortgage payment ($15 – $309)
(15) Contract buyer payment interest rate (5% – 7%)
(16) Contract seller mortgage interest rate (4% – 7%)
(17) Length of contract payment terms outlined in Articles for Agreement
(18) Length of mortgage contract secured by seller
(19) Repairs paid by contract buyer
(20) Any additional relevant information useful in understanding the contact and process.

Using the addresses found in the National Archives, researchers retrieved the Property Identification Numbers (PINS) associated with the contract properties.

With those PINs in hand, researchers next went to the Cook County Recorder of Deeds, where we were able to glean missing or additional information, contract prices, trust numbers, mortgage values, and sometimes Articles for Agreement. The team identified and recorded information including legal descriptions, community area and property characteristics, and examined the appropriate tract books. We recorded information found about the transactions listed for individual properties from the 1950s through 1970.

After identifying documents of interest, we obtained images of the actual documents from the Microfilm Department. For each document, we recorded the following:

(1) Document Number
(2) Property PIN
(3) Document Type
(4) Date of Document
(5) Grantor and Grantee

Researchers then transcribed information gathered from these primary source documents from the National Archives and the Recorder of Deeds into a single database.

Property that our researchers identified as being on contract in a section of North Lawndale. Despite incomplete historical data, (contract selling was unregulated) researchers inferred that anywhere from 75% to 95% of the homes in North Lawndale were sold to black buyers on contract.

We deemed a contract complete for purposes of our study if we had, at a minimum, the following information:

(1) Buyer's purchase price;
(2) Buyer's date of purchase, seller's date of purchase (only 2 observations with only seller's date), or mortgage date (only 1 observation with only mortgage date);
(3) Seller's purchase price or the seller's mortgage amount; and
(4) The first contract buyer of the home. (Subsequent sales of the same home were removed because we could not ascertain the fair price at the time of the second or subsequent sales. We could adjust the initial seller's price for inflation, but decided against that, given that home values do not change at the same rate as monetary inflation.)

From this process, we managed to gather complete information on 662 properties from the Contract Buyers League v. F&F Investment lawsuit and 761 properties from the Clark v. Universal Builders, and moved forward with our analysis of this data.

In carrying out this study we took an at-least analysis approach in which we used as many conservative figures as possible so that our results depict a certain level of underestimation. When we lacked additional information – such as interest rates, down payments, term limits – for any of these properties, we compensated as explained in the Appendix.

Findings

In order to assess the individual household loss due to contract sales, we calculated the cost of the contract through completion of the terms, including stated price, interest rate, term length and down payment. We then calculated what the cost would have been to the buyer at the seller's cost had he or she received an FHA mortgage, which had a statutory interest rate limit of 5.75 percent (Sagalyn 1980, p. 218-219), and down payment requirements and terms consistent with research on FHA mortgage terms and requirements during this time frame. The difference between these two amounts constituted the "average real markup."

We combined these values to capture the loss incurred by the buyers, after having adjusted the average real markup for inflation.

- We found that at the point of sale, on average, sellers marked up the cost of contract homes 84 percent over what they themselves had paid. For example, homes purchased by speculators from white families for $12,000 would be sold weeks later for $22,000. In its far smaller sampling in 1962, the Chicago Commission found the average markup to be 73 percent.

Monthly Impact	
Average Monthly Race Tax (%)	**Average Monthly Race Tax ($)**
141.8%	$587

- We found that African Americans purchasing on contract, paid, on average, an additional $587 (April 2019 dollars) more each month compared to what they would have if they paid the fair price under an FHA mortgage.
- From 1950-1970 there were 60,100 homes purchased by black buyers (Chicago Fact Book, 1970). As mentioned earlier, the Chicago Commission on Human Relations study reported that roughly 88 percent of such purchases in their sampling were on contract. Some of those involved in the Contract Buyers' League estimated the figure to be above 90 percent. Dempsey Travis, the founder of the Dearborn Real Estate Board, an association of black realtors, estimated that 75% of black buyers purchased on contract. Informed by our archival research, extant scholarship, and anecdotal information, we conducted this report's analysis using estimates of 75 percent, 85 percent, and 95 percent for black homebuyers purchasing on contract.
- From this analysis, which likely underestimates the toll owing to the exclusions as described above and in the appendix, we estimate that the total amount expropriated from Chicago's black community due to land sales contracts to be between 3.2 billion and 4.0 billion dollars (April 2019 dollars).
- In concluding, we should note that the losses from buying on contract were far greater than we have been able to calculate with the extant data. For example, losses from insurance overcharges owing to redlining were not examined nor were property taxes that some scholars suggest were inflated. As well, losses occasioned by foreclosure and eviction were difficult to quantify. In our sample, sellers turned over 5.43 percent of homes due to missed payment, but other data, press accounts, and contemporary testimony lead us to suspect that the forfeiture rate was much higher.

Researchers examining title records at the Cook County Recorders of Deeds

Total Race Tax				
Average Race Tax	**# of Homes**	**75%**	**85%**	**95%**
$71,727	60,100	$3,233,101,797	$3,664,182,037	$4,095,262,276

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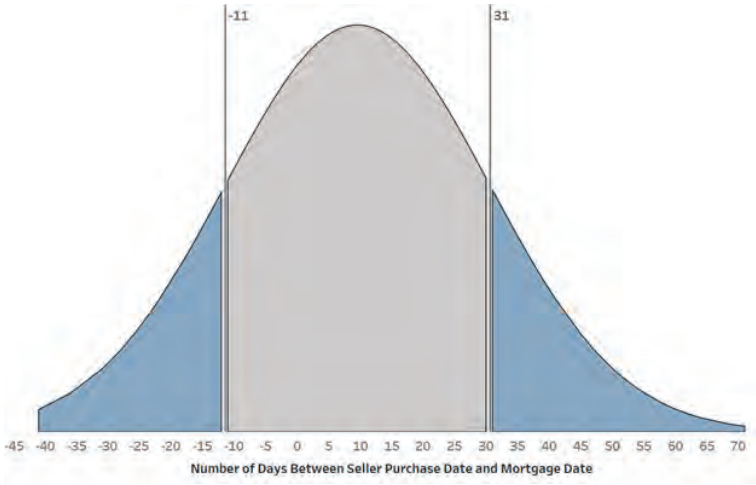
Appendix

In carrying out this study we took an at-least analysis approach; we used as many conservative figures as possible so that our results depict a certain level of underestimation.

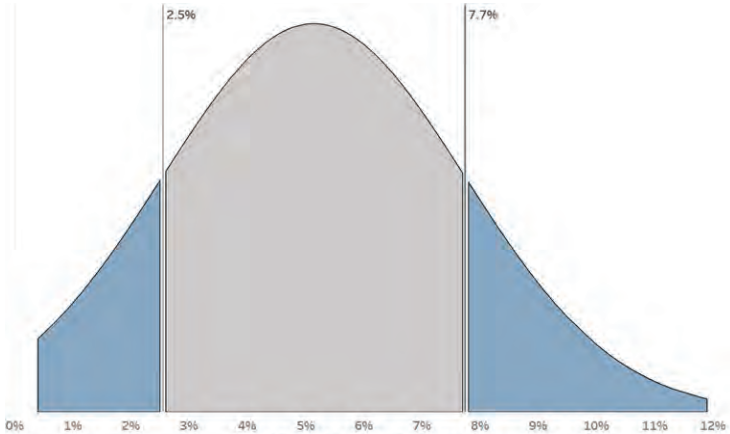
We were careful to group data points that were relational to one another. For example, the contract buyer's purchase price and the contract's down payment. We then calculated the percentage or difference between the set of numbers to determine their relationship. In doing so, we can uncover that missing data by either subtracting or multiplying the mean value of using a similar relationship. This process relates back to the our requirements for a home to be included in the data set. By determining these relationships, we will be able to estimate the missing data to increase the number of viable data points.

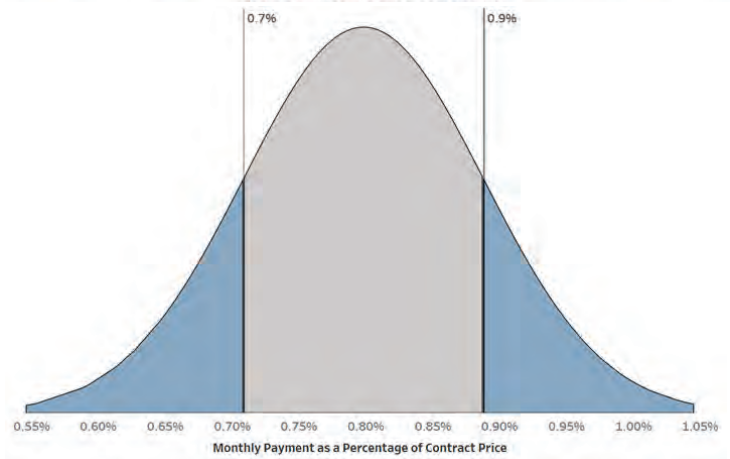
After determining the relationship, whether a percentage or a difference, we looked at the distribution and removed any outliers. We then calculated the descriptive statistics, especially the mean and standard deviation of this sample. We then used the mean, plus or minus one standard deviation, to estimate the missing data points based on whichever deviation yielded the most conservative figure.

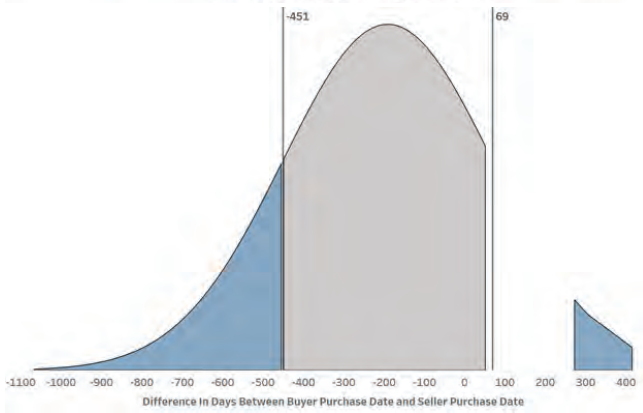
The contract's down payment is a percentage of the buyers purchase price, which follows a similar pattern across contracts. We determined the percentage distribution using all entries that have both a contract purchasing price and a down payment price. In order to adhere to our "at-least analysis," we used the most conservative percentage from one standard deviation above or below the mean to determine the missing down payments for those contracts in which we only had the purchase price. For example, missing down payments were estimated to be 7.7% of the contract purchase price. We followed a similar procedure for other missing contract values. The below charts and tables below depict the standard deviations used to determine the conservative estimates.



Variable	Mean (μ)	Standard Deviation (σ)	Lower Bound (μ-σ)	Upper Bound (μ+σ)
Difference In Days Between Seller's Purchase Date and Mortgage Date	10	21	-11	31
Difference In Days Between Seller's Purchase Date and Buyer's Purchase Date	-191	260	-451	69
Contract Monthly Payment as a Percentage of the Contract Purchase Price	0.0080	0.0009	0.0071	0.0089
Contract Down Payment as a Percentage of the Contract Purchase Price	0.0514	0.0260	0.0254	0.0774
Seller's Mortgage as a Percentage of the Seller's Purchasing Price	0.8450	0.1708	0.6742	1.0158
Contract Interest Rate	0.0675	0.0035	0.0640	0.0710







After all of these missing data are estimated, we had a complete dataset with 1,422 entries. With the complete dataset, we built three models, two of which used a hypothetical FHA mortgage as a counterfactual. For each of our models we hold the following assumptions.

- We assume that there was only one contract buyer per home
- We assume that each contract buyer finished paying their contract
- We assume that their self-reported monthly payment does not include taxes and insurance premiums
- We assume that the seller's purchase price was an accurate proxy for each home's fair market value

Total Race Tax Model

We built a hypothetical FHA mortgage using the fair home price, the original contract's interest rate. For down payments, we used the following formula as described by Dr. Sagalyn (1980, p. 218-219) based on home values:

"FHA regulations permitted mortgages of up to 97 percent of appraised value on the first $15,000, 90 percent on the next $5,000, and 75 percent on any remaining value up to a maximum loan of $22,500."

Therefore, our calculation for down payments is:

3% for the first 15,000 of home value plus

10% for the next 5,000 of home value plus

25% for the next 2,500 of home value plus

any additional home value over $22,500

Sagalyn (1980, p. 219) presents a table with ranges of average FHA mortgage terms by years 1956: 22.5 years, 1958: 24.2 years, 1960: 25.8 years, and 1964: 28.4. To maximize the total cost of the counterfactual homes, and thus minimize the total race tax, we used a 30 year term.

For the contracts, we calculated the number of payments based on the principal, interest, and monthly payments. For the counterfactual FHA mortgages, we calculated the monthly payments based on the principal, interest, and 360 payments (30 years). We adjusted each down payment for inflation (April 2019). We also adjusted

every monthly payment for inflation on a month to month basis (April 2019).

We calculated a race tax for every home by subtracting total cost of home (principal and interest) under a fair price and an FHA mortgage from total cost of a home (principal and interest) under a contract. Because we knew that Universal Builders homes were sold under substantially different contract terms, we calculated a separate average for existing homes and newly built homes.

We used the Local Community Factbook of Chicago for the years 1950 and 1960 as well as the 1970 Community Area Data Book for the City of Chicago to calculate the number of new African American homeowners between 1950 and 1970. The 1950 and 1960 Local Community Factbook of Chicago only showcase the total number of non-white owner occupied homes per community area--non-white populations are mostly African American (97% in 1960). In 1950, the number of nonwhite homeowners totaled 15,928. In 1970, there were 72,574 African American owner occupied homes. The 1970 Community Area Data Book breaks down the number of African American owner occupied homes by the year the structure was built. We defined as new homes any home built from 1950 to 1968. The data for the years 1969 and 1970 were dropped because mortgages were starting to be extended to African Americans by then. For each community area, we subtracted the number of nonwhite owner occupied homes in 1950 from the total number of African American owner occupied homes in 1970. We only use positive net changes; in other words, new African American homeowners, which totals to 60,100. Because Universal Builders' contracts were substantially different from other contracts, we calculated their portfolio (n=1277, rounded to 1,300) separately. We assume that the other 58,800 new African American homeowners were sold on contract similar to those on existing homes. In order to calculate a total number for the entire city of Chicago, we look at different percentages of these homes that were sold under contract. If, for example, 85% of the African American owner occupied homes were sold under contract, the total race is $3.66 billion (April 2019 dollars).

Monthly Race Tax Model

Using the same counterfactual FHA mortgage as above, we calculated the month-to-month impact of the race tax. Although the total race tax for the city of Chicago is large, it was the month-to-month experience where the strain was truly felt. For this analysis, we mostly kept the data as above the same, but changed the estimated monthly payments of the contract to more conservative figures (by using the lower bound estimate, one standard deviation below the mean) as well as the number of the counterfactual FHA mortgage terms from 30 years to 25 years so as to increase the counterfactual monthly payment.

Extra Years Of Payments Model

For our third model, we used the same terms as stated in the original contracts--that is, same down payment, monthly payment, and interest rate, and calculated the differences of using the contract buyer's purchase price and the fair market value of the home. We find that on average, African Americans paid an additional 8.8 years or a term 49% longer for their newly constructed homes than what they would have if they paid the same terms under the market price. Similarly, African Americans paid, on average, an additional 9.1 years or 141% more time for an existing home compared to the time it would have taken them to pay off a market-priced home.

The Duke Samuel DuBois Cook Center on Social Equity is a scholarly collaborative engaged in the study of the causes and consequences of inequality and in the assessment and redesign of remedies for inequality and its adverse effects. Concerned with the economic, political, social and cultural dimensions of uneven and inequitable access to resources, opportunity and capabilities, Cook Center researchers take a cross-national comparative approach to the study of human difference and disparity. Ranging from the global to the local, Cook Center scholars not only address the overarching social problem of general inequality, but they also explore social problems associated with gender, race, ethnicity and religious affiliation.

The Nathalie Voorhees Center for Neighborhood and Community Improvement is a unit of the College of Urban Planning and Public Affairs at the University of Illinois at Chicago. Its mission is to improve the quality of life for all residents of the City of Chicago and the metropolitan area. While rooted in Chicago, the center's community-driven and interdisciplinary approach has connected it with communities across the region, nation, and abroad.

The Policy Research Collaborative at Roosevelt University is an interdisciplinary, applied research and technical assistance center at Roosevelt University working with community partners to address social inequities and strengthen communities through transformative policy research and advocacy.

The Plunder of Black Wealth in Chicago: New Findings on the Lasting Toll of Predatory Housing Contracts is a companion study to Episode III of the Shame of Chicago Documentary Series **www.shameofchicago.org**

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