

Separate and Unequal: The Housing Act of 1968 and the Section 235 Program¹

Kevin Fox Gotham²

In recent years scholars have identified racial disparities in wealth and home ownership as crucial factors underlying patterns of racial inequality and residential segregation in American metropolitan housing markets. While numerous federal housing policies have been identified as responsible for reinforcing residential segregation and racial inequalities in home ownership, little research has focused on the segregative effects of the Section 235 program. As one component of the 1968 Housing Act, Section 235 was designed to shift the focus of federal housing policy away from dispensing aid to local housing authorities for building public housing to providing direct supply-side subsidies to the private sector to stimulate home ownership for nonwhites and the poor. Archival and census data, government reports and housing analyses, and oral histories and interviews are used to examine the segregative effects of the Section 235 program in Kansas City, Missouri from 1969 through the early 1970s. Findings indicate that while the housing subsidy program allowed a vast majority of participating white families to purchase "new" housing in suburban areas, most participating African American families purchased "existing" homes located in racially transitional neighborhoods in the inner city. These findings corroborate recent research showing how the market-centered focus of federal housing policy has impaired the ability of African Americans to accumulate wealth through home ownership and reinforced racially segregative housing patterns.

KEY WORDS: racial disparities; wealth; home ownership; racial inequality; residential segregation; housing market; federal housing policies.

¹An earlier draft of this paper was presented at the American Sociological Association annual meeting, San Francisco, August 1998.

²Department of Sociology, Tulane University, 220 Newcomb Hall, New Orleans, Louisiana 70118; e-mail: kgotham@mailhost.tcs.tulane.edu

INTRODUCTION

This paper examines the segregative effects of the Section 235 housing program initiated by the Department of Housing and Urban Development (HUD) during the late 1960s and early 1970s. As one component of the 1968 Housing Act, Section 235 was designed to shift the focus of federal housing policy away from dispensing aid to local housing authorities for building public housing to providing direct supply-side subsidies to the private sector to stimulate home ownership for nonwhites and the poor. Many scholars, government officials and agencies have argued that HUD's housing subsidy programs failed to achieve the intended goal of stimulating home ownership for low-income people and reviving inner cities because of "abuses" by unscrupulous private real estate agents and lenders (U.S. House of Representatives, 1970; Schafer and Field, 1973; Lief and Goering, 1987; Quadagno, 1994). While the pattern of abuse and scandal in the Section 235 program has been well documented and understood by scholars, no one has detailed the actual segregative effects of the program on a local level. This research examines the local operation and implementation of the Section 235 program to determine how this federal housing program reinforced patterns of racial residential segregation despite the passage of federal and local fair housing statutes and antidiscrimination acts. I focus on the racial dynamic of this federal housing program to illustrate the connection between white wealth accumulation, African-American poverty, and federal policy.

My research draws on archival and census data, government reports and housing analyses, and oral histories and interviews with local residents who had firsthand knowledge and experience with the local implementation of the Section 235 program during the 1970s. I argue that the discriminatory operation and implementation of this housing subsidy program is an example of the "racialization of state policy." Oliver and Shapiro (1995) use the concept "racialization of state policy" to refer to how federal policies have historically impaired the ability of African Americans to acquire land and generate wealth (see also Bonilla-Silva, 1996; Winant, 1994:58–59; Omi and Winant, 1986). Specifically, Oliver and Shapiro argue that the policies and actions of the U.S. government, including housing subsidy and finance programs, have promoted home ownership, land acquisition, and asset accumulation for whites but not for African Americans. Others have documented the racially unequal distribution of government resources including the segregative intents and effects of public housing site selection and tenant selection (Massey and Kanaiupuni, 1993; Keating, 1994; Bratt, 1986), federal urban renewal clearance activities (Weiss, 1980; Kleniewski, 1984), large-scale highway building (Mohl, 1993), and the home mortgage pro-

grams of the Federal Housing Administration (FHA) and the Veterans Administration (VA) (Massey and Denton, 1993; Squires, 1993; Feagin, 1994). Thus, a vast array of scholarly research indicates that whites are the overwhelming beneficiaries of federal programs and policies while non-whites, especially African Americans, generally have been excluded from participation in state sponsored housing, finance, and education opportunities.

Racial residential segregation and discrimination have been sources of concern to scholars and public officials in cities throughout the United States. These issues are particularly salient in Kansas City, which has been identified as one of the nation's *hypersegregated* metropolitan areas due to the high degree of segregation in housing patterns on a range of indices (Massey and Denton, 1993:75–77). While Kansas City's urban core has less than 25% of the region's population, it is home to over 60% of the region's African American residents (Mid-American Regional Council, 1993). According to 1990 census data, almost four out of every ten core residents are African American compared with less than one in ten in the suburbs. More importantly, more than 70% of Kansas City's poor African Americans live in areas where at least 20% of the population live in poverty (Mid-American Regional Council, 1993). In 1992, the ratio of black to white rejection rates for home mortgages was found to be the second highest in the nation, behind Chicago, and ahead of Philadelphia, Atlanta, and Detroit (*Wall Street Journal*, 11/30/92). Local public officials and journalists have acknowledged the deleterious effects of the racial segregation in area schools and housing, the loss of manufacturing jobs, and increasing blight and rising poverty, while downtown redevelopment and suburban growth have been taking place (Abouhalkah, 1994a, 1994b; Katerndahl, 1992; Thomas, 1990; Stephens, 1985). As in other U.S. metropolitan areas, the problems of racial inequality in employment, education, and housing are linked to a complex web of factors including large-scale economic change, federal housing policies, and discriminatory real estate practices.

In this paper, I use the concept "racialization of state policy" to examine the local implementation and segregative effects of HUD's Section 235 housing subsidy program. I begin by discussing the role of the FHA in developing the modern home mortgage system, which enabled middle-income white families to become homeowners while segregating African Americans in deteriorating inner cities. Next, I examine the significance of the 1968 Housing Act, which served as a powerful catalyst for the development of federal housing subsidy programs to stimulate home ownership for low-income people and to ameliorate the deleterious effects of residential segregation. I then discuss the local operation of the Section 235 program in Kansas City, Missouri. Drawing upon archival and census data, government

reports and housing analyses, and oral histories and interviews,³ I show how the housing subsidy program reinforced patterns of residential segregation and contributed to racial turnover and disinvestment in city neighborhoods from 1969 through the early 1970s. Finally, I connect empirical findings with recent scholarly debates surrounding the interconnectedness and mutually reinforcing character of federal housing policy, racial inequality in home ownership, and racial residential segregation.

RACIAL RESIDENTIAL SEGREGATION AND THE DUAL HOUSING MARKET

In the last decade or so, a number of scholars have turned their attention to explaining the magnitude and tenacity of racial residential segregation and discrimination in U.S. metropolitan housing markets (Massey and Denton, 1993; Oliver and Shapiro, 1995; Feagin, 1994). While various demographic forces and urban structural characteristics have been identified as responsible for the persistence of segregation, very little attention has been devoted to exploring the segregative effects of federal housing policies and programs, and private real estate activity. Both Squires (1993) and Hutchison (1993) note that the institutional structure of housing and its relationships with broad economic and political forces is an under-researched area of sociological inquiry. This is a significant omission given the fact that housing not only provides social status, access to jobs, education, and other resources, but is an important factor structuring market relations, public policy, and spatial patterns of investment and disinvestment (Squires, 1993; Achtenberg and Marcuse, 1986; Bratt *et al.*, 1986). In addition to schools and jobs, housing also affects the quality of public services one has access to, such as fire and police protection, parks and recreation, and transportation.

As a number of scholars have asserted, all housing-related activity has been conducted principally through a free-market vision of neoclassical economics (Florida and Feldman, 1988; Hays, 1985; Bratt *et al.*, 1986; Squires, 1993; Feagin and Parker, 1990). Traditionally, housing and real estate practices have praised the merits of rugged individualism and private entrepreneurship, but in effect, have reinforced and perpetuated elite corporate interests and social inequalities. Hays (1985:16–18) and Squires (1993) identify three major ideological assumptions that dominate the production, distribution, and consumption of housing in the United States.

³To protect the confidentiality of interviewees, pseudonyms are used for nonpublic persons quoted in the paper.

First, because the desire for material well-being drives human productivity, the housing market must encourage and reward acquisitiveness and competitiveness. Second, "the free market is the most effective and least coercive mechanism for allocating goods and services since it harmonizes individual self interest with society's collective development." Third, "government's role is to reinforce and supplement the market in regulating exchange in a manner that maximizes individual freedom and choice" (Squires, 1993:136). Taken together, these beliefs form the dominant housing market ideology in the United States.

In addition to a free-market ideology and a state policy of *laissez faire*, the various economic and political dimensions of housing-related activities have been conducted through an organized and interconnected system of racial discrimination. As decades of research on housing and real estate have revealed, racial discrimination has been, and continues to be, an institutionalized and persistent feature of the housing industry that cuts across a variety of public agencies, private firms, and includes landlords, homeowners, bankers, real estate agents, and government officials (Weaver, 1948; Abrams, 1955, 1965; Helper, 1969; Orfield, 1975; Massey and Denton, 1993; Feagin, 1994; Yinger, 1995). Racial discrimination in housing today is somewhat different than it was decades ago. State and federal laws make official discrimination illegal and a few African American families now live, or have tried to reside, in historically white neighborhoods in almost all U.S. cities (Keating, 1994; Darden, 1987; James, 1994; Grigsby, 1994). However, informal patterns and institutionalized mechanisms of housing discrimination remain a persistent and undeniable characteristic of American society (Feagin, 1994; Goering, 1986).

Given the widely shared and entrenched market-centered ideology and racist assumptions governing housing, it is not surprising that the result has been a series of housing-related policies and practices that reflect and reinforce residential segregation. A number of scholars have identified the existence of a *dual housing market* in U.S. cities where racial minorities (especially African Americans) are served by a different set of housing and real estate practices than are whites (Bullard and Feagin, 1991; Molotch, 1972; Bullard *et al.*, 1994). Much research has examined how this dual housing market has reinforced and perpetuated racial segregation and inequality through the use and enforcement of restrictive covenants, racial steering, blockbusting, and the redlining activities of private and public mortgage lending agencies and real estate firms. Moreover, it has been found that housing prices and rents are generally higher for African Americans than whites (even when income is controlled for), and that conventional loans for home purchases and remodeling are available to whites while African Americans are forced to buy with cash, on contract, or

through federal loan programs (Squires, 1993; Squires *et al.*, 1991; Squires and Velez, 1987; Helper, 1969). Similarly, a vast array of housing data indicates that whites are the overwhelming beneficiaries of single-family suburban housing, while African Americans and other racial minorities are likely to be restricted to multifamily projects, conventional public housing units, and deteriorating and substandard housing in inner cities (Massey and Kanaiaupuni, 1993; Keating, 1994; Bratt, 1986).

One result of the racially unequal housing market is that African Americans and whites face different structures of investment opportunity, and educational and employment opportunities—all of which have been affected historically by federal housing policies and tax subsidies. A core argument of this paper is that while private land-use actors such as builders and developers, real estate brokers, and mortgage lenders make crucial decisions regarding where housing will be built and for whom, it is state activity at all levels that circumscribes and conditions private land-use actions and decisions, as well as channeling urban investment and disinvestment into some areas rather than others. The actions of builders and developers are conditioned by zoning laws, building codes, and other local building ordinances. Banks and other mortgage lending and insurance agencies are regulated by one or more state government or federal agencies. The real estate broker and agent are required to be licensed by the state and are tied to an ethical code in business transactions with home buyers and seekers. Finally, the courts are sanctioned to enforce all contractual agreements and arrangements in the sale or leasing of housing and real estate (Feagin and Parker, 1990). By focusing on the historical development of federal housing policy in general, and the Section 235 program in particular, I intend to examine and explain how racial inequalities in housing have been, and continue to be, reinforced by the market-centered orientation of federal housing policy.

BACKGROUND

The FHA and Racial Residential Segregation

The creation of the FHA through the Housing Act of 1934 marked the beginnings of federal involvement in housing and finance markets and subsidizing suburban development. Designed and run by representatives of the real estate and banking industries, the FHA was created for the purpose of salvaging the home building and finance industries that had collapsed during the Great Depression (Weiss, 1987: ch. 6; Jackson, 1980; Bradford, 1979; Keith, 1973). The FHA, and later the VA, lowered home down payments from 30% to less than 10%, established minimum standards

for home construction, and eliminated lending institutions' risk in providing mortgage financing by lowering interest rates (Federal Housing Administration, 1958; Radford, 1996:179–180). This federally guaranteed, low down payment program favored the building of single-family housing, new construction in the suburbs, home ownership, and the preservation of racially homogenous neighborhoods (Jackson, 1985: ch. 11; Gelfand, 1975: ch. 6; Orfield, 1975; Grier, and Grier, 1971; Abrams, 1965; McEntire, 1957). According to the FHA's *Underwriting Manual*, Agency personnel were warned not to insure mortgages on homes unless they were located in "racially homogenous" white neighborhoods, and removed from blighting influences such as poor schools and older housing (Federal Housing Administration, 1936, 1938, 1946, 1952). Neighborhoods most likely to be insured were those in which local laws and land-use regulations would guarantee "relative economic stability," "adequacy of transportation," and "protection against adverse influences" including "inharmonious racial groups" (Weiss, 1987; Radford, 1996; Jackson, 1985: ch. 11).

More importantly, the FHA helped institutionalize a racially separate and unequal system of home financing that favored suburban building for whites while precluding insurance for homes in racially mixed and nonwhite neighborhoods in the inner city. The FHA alerted land developers and realtors that "[i]f a neighborhood is to retain stability it is necessary that properties shall continue to be occupied by the same social and racial classes. A change in social or racial occupancy generally leads to instability and a reduction in values" (FHA, 1936:233). Local and national real estate boards followed the lead of the FHA in adopting a code of ethics stating that "a Realtor should never be instrumental in introducing into a neighborhood . . . members of any race or nationality . . . whose presence will clearly be detrimental to property values in that neighborhood" (Helper, 1969:201). Agency officials, realtors, land developers, banks, and appraisers all embraced the belief that the highest appraisal value goes to homes in all-white neighborhoods, with descending values to homes in racially mixed neighborhoods, with all-black neighborhoods being at the bottom. Although the FHA removed explicitly racist language from its manuals in the 1950s, private appraisal associations continued to use such language through the 1970s.⁴ As a result, the housing policies and practices of the

⁴As late as 1977, private appraising manuals still contained listing of ethnic groups ranked in descending order from those who are most desirable to those who have the most adverse effect on property values. Whites were ranked at the top of the list while African Americans and Mexican Americans were ranked at the very bottom (Missouri Housing Development Commission. August 1977. *Housing and Neighborhood Investment*. Part VI. An Analysis of Underwriting and Appraisal Practices and Their Impact on Credit Availability. Prepared by Ochsner and Associates. X1458. Box 206. Arthur A. Benson. Legal Papers. KC 250. Western Historical Manuscript Collection—Kansas City [WHMC]).

FHA influenced lending and home mortgage financing decades after World War II, thus subsidizing suburban housing construction, contributing to and exacerbating neighborhood deterioration in inner cities, and institutionalizing the segregative and discriminatory housing market on a national scale (Massey and Denton, 1993; Weiss, 1987:59; Checkoway, 1984:162; Abrams, 1965:61; Oliver and Shapiro, 1995:39–41).

HOUSING ACT OF 1968 AND HUD'S SECTION 235 PROGRAM

By the late 1960s, it was clear to housing activists and civil rights groups around the nation that the federal housing programs of the FHA were major causes of inner city disinvestment, suburbanization, and residential segregation (Grier and Grier, 1971; Denton, 1967; National Committee Against Discrimination in Housing, 1968; Abrams, 1965: ch. 14). A number of governmental commissions investigating the social problems of urban disinvestment and racial polarization in cities, including the National Commission on Urban Problems, the President's Committee on Urban Housing, and the U.S. Commission on Civil Rights, agreed that the nation's housing woes were either directly or indirectly linked to the market-centered policies and practices of the FHA (Mitchell, 1985:12). Throughout the previous decades, FHA officials and private real estate agents, brokers, appraisers, and lenders throughout the nation repeatedly denied that racist intent or motivation shaped their decisions and actions (Helper, 1969). The U.S. Supreme Court had outlawed the enforcement of racially restrictive covenants in 1948, and fair housing and civil rights legislation passed during the 1960s required the FHA to cease its discriminatory practices. Although the FHA had supposedly adopted "racial neutral" policies during the 1950s and later, the agency continued to stress the value of racially homogenous neighborhoods and refused to take affirmative steps to ameliorate residential segregation (Quadagno, 1994:23; Massey and Denton, 1993: ch. 2; Hirsch, 1993; Squires, 1993). By the late 1960s, the FHA was under attack by civil rights groups, housing activists, and elected officials, who demanded that the federal government take action to revive the inner city housing stock and aid poor people and nonwhites in their search for quality housing (Quadagno, 1994: ch. 4; Denton, 1967; Abrams, 1965: ch. 14). While the FHA acknowledged that new approaches and policies were needed to address the housing problems of nonwhites and the poor, the agency continued to adhere to the long-standing belief that the private sector should be responsible for the control and implementation of federal housing policies (Hays, 1985:85–89).

The 1968 Housing Act shifted the focus of federal housing policy away

from dispensing aid to local housing authorities for building public housing to providing direct supply-side subsidies to the private sector to stimulate home ownership for the poor (Schafer and Field, 1973; Hays 1985: ch. 5; Mitchell, 1985). After years of underwriting mortgages for middle-income, mostly white, families in the suburbs, the 1968 Act required the FHA to shoulder the risk of making loans to moneylenders in inner city areas. Proposed and written by a coalition of real estate and banking officials, the Housing Act of 1968 initiated two new housing subsidy programs—Section 235 and 236—to attract private lenders and developers to participate in supplying low-cost housing for poor people. The 1968 Act directed the FHA to relax standards so that the poor could obtain mortgages for home ownership (Section 235) or rent subsidies (Section 236) to move into affordable apartments rather than public housing.

The specific intent of Section 235 was to assist low- and moderate-income families with an annual income between \$3000 and \$5000. Eighty percent of federal funding for the program was authorized for families earning less than 135% of the local maximum limit for admission to public housing. Maximum mortgage amounts under the program were \$15,000 (\$17,500 in high-cost areas) for single-family units and \$17,500 (\$20,000 in high-cost areas) for single family units where the family receiving the mortgage contained five or more members. Mortgage payments were available to new or substantially rehabilitated housing, but restricted to one- and two-family houses, and single units in a condominium. Eligible low- and moderate-income families were to pay at least 3% of the cost of acquisition and contribute a specified amount of income toward servicing the mortgage debt. If a family's income rose about \$5000, the housing subsidy would be gradually readjusted downward until the until the family could assume responsibility for the full mortgage payment. These federal guidelines allowed families to remain within the program as their incomes rose above \$5000. Subsidy payments would terminate if the family's income reached the \$7200 level.

In addition, the Section 235 program provided lending institutions with mortgage insurance and reduced the homeowner's housing costs by making payments directly to the lenders on behalf of the owners. By substituting an "acceptable risk" requirement for the "economic soundness" requirement in previous FHA loan policies, the new legislation was supposed to eliminate the financial barriers that had locked poor people out of the housing market. According to Hays (1985:113), supporters of the Section 235 program "were concerned that the economic soundness criterion erected an arbitrary barrier around inner city areas, since it was based as much on the location of a house as its physical condition." Backers of the program intended for the FHA "to remove this barrier and bring its exper-

tise to bear on inner city problems, with a reasonable relaxation of standards to reflect inner city conditions” (see also pp. 112–120). Home mortgages were insured by the FHA through a special risk insurance fund that was intended to protect the lending institution against foreclosures. Thus, the program was to “encourage private money sources to extend mortgage funds rather than have the government do so as it did under the below market interest programs” (Schafer and Field, 1973:460). The significance of the 1968 Housing Act was that it “allowed private capital to transfer the risk of financing inner city housing to the FHA, in the process creating a lucrative new market that was almost totally unregulated” (Quadagno, 1994:106).

LOCAL IMPLEMENTATION AND SEGREGATIVE EFFECTS

Between 1969 and 1974, HUD administered its Section 235 program in the Kansas City metropolitan area, combining single-family mortgage insurance and mortgage subsidies to lenders to enable low-income families to purchase homes. Section 235's two component programs involved “existing” (usually foreclosed) and “new” homes built by HUD-subsidized developers. Table I shows Section 235 housing by location and type of housing in metropolitan Kansas City.

According to this table, the vast majority of new construction financed through Section 235 was in the suburban areas (72.4%) while only 27.6% of new housing was located in central city Kansas City, Missouri. Only 6.5% of housing located in the suburbs was existing housing while 93.5% of existing housing was located in Kansas City, Missouri. The lack of new housing in the central city may be explained by a lack of available land.

Table I. Section 235 New Construction, Existing Units, and Substantial Rehabilitation in Metropolitan Kansas City, 1969–1972^a

	KCMO	Suburbs	Total
New construction	361 (27.6%)	945 (72.4%)	1306
Existing housing	861 (93.5%)	60 (6.5%)	921
Subst. rehabilitation	52 (89.7%)	6 (10.3%)	58
Total	1274	1011	2285

^aSource: Department of Housing and Urban Development (HUD). Cleaver, William A., and Jan Alspaugh. 5/31/72. “A Statistical Study of the FHA 235(i) Program in the Kansas City Metropolitan Area.” Unpublished Manuscript. X1281; Box 334. KC 250, Arthur A. Benson, II. Legal Papers. Western Historical Manuscript Collection-Kansas City. KCMO stands for Kansas City, Missouri.

However, there is no apparent reason why more existing housing was not financed through the program or located in suburban areas.

A 1971 study of the Section 235 program by the U.S. Commission on Civil Rights found that the program perpetuated racial residential segregation in St. Louis, Philadelphia, Denver, and Little Rock (U.S. Commission on Civil Rights, 1971). The study found that most new Section 235 units were being built in the suburbs and were being purchased by white buyers, while most existing and substantially rehabilitated units located in racially transitional areas were being purchased by minority buyers. HUD data on the Section 235 program in Kansas City corroborates the findings from other cities. Table II shows Section 235 housing by race of purchasers in metropolitan Kansas City from August 1971 through March 15, 1972.

According to this table, 80.1% of the participating white families, typically young couples with children, bought new homes, the majority of which were in suburban areas. In contrast, 90.4% of participating African Americans families (typically single females with children) purchased existing homes, the vast majority of which were located in central city Kansas City, Missouri. Only 19.9% of participating African American purchasers bought new housing, while only 9.6% of participating white families purchased existing housing under the Section 235 program. HUD began to include race of purchaser on Section 235 application forms in August 1971 and this information was reported on only 398 cases out of 642 (62%). Although HUD did not keep systematic data on the race of Section 235 participants, addresses of where participants located show that almost all of the existing homes in Kansas City, Missouri, purchased through the housing subsidy program were in virtually all-black census tracts. In contrast, addresses of almost all new homes in the suburbs purchased through the Section 235 program were in virtually all-white census tracts.

Figure 1 shows the dramatic focus and concentration of Section 235 homes in several city neighborhoods that underwent rapid racial transition from almost all-white to predominantly African American during the 1960s

Table II. Section 235 Housing by Race of Purchasers in Metropolitan Kansas City, 1971-1972^a

	African American	White	Total
New construction	56 (19.9%)	225 (80.1%)	281
Existing housing	104 (90.4%)	11 (9.6%)	115
Subst. rehabilitation	2 (100.0%)	0 (0.0%)	2
Total	162	236	398

^aSource: Same as Table I. Information on race of purchaser is available on only 398 cases out of a total of 642 for the period from August 1971 through March 15, 1972.

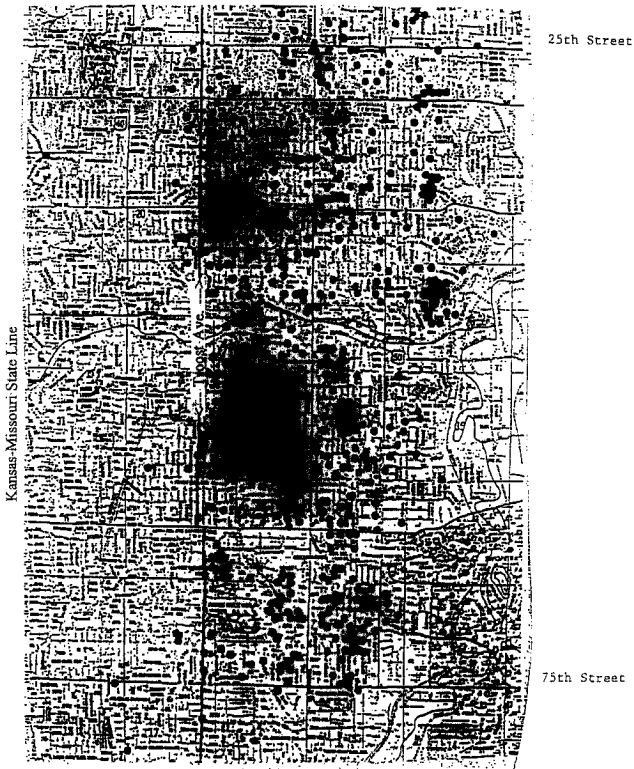


Fig. 1. Location of Section 235 families.

and 1970s. This map is bounded by the Kansas–Missouri state line on the west, 25th street to 75th street on the north and south, and the Blue River on the east. HUD data indicate that from 1969 through mid-1972, the Section 235 program introduced 475 low-income families into existing housing located in a mere eight square mile area east of Troost Avenue on Map 1 (*Kansas City Star*, 8/28/72:1). HUD data do not indicate the race of Section 235 families who moved into this eight square mile area, but addresses of where participants located indicate that this area underwent rapid racial transition at the height of the Section 235 program. Census data indicate that in 1950 only 3 out of 33 census tracts in the area bounded by Troost Avenue, 25th street to 75th street, and the Blue River had a population of 50% or more African American. This number increased to 13 census tracts in 1960, 28 by 1970, and all 33 census tracts by 1980. By 1980, 20 out of 33 census tracts within the area east of Troost Avenue were over 90% African American.

Table III. Racial Makeup of Kansas City, Missouri, School District Elementary Schools Located in Area Bounded by Troost Avenue on the West, 25th Street to 75th Street on the North and South, and the Blue River on the East^a

School	1965-66 Percent black	1970-71 Percent black	1974-75 Percent black
Kumpf	96.8	99.4 ^b	100.0
Moore	72.1	92.6	93.2
Faxon	54.6 ^b	92.5	95.6
Meservey	76.7	98.2	97.5
Graceland	89.6	99.0	99.6
Chick	51.2	83.6	90.8
Melcher	38.6	89.9	96.7
Bancroft	28.5	66.6	84.4
Willard	7.3	92.2	98.7
Pershing	42.7	99.5	98.7
Twain	33.3	85.0	93.7
Pinkerton	18.0	84.3	94.9
Blenheim	20.9	53.9	92.3
Troost	3.3	42.2	93.3
Marlborough	30.6 ^b	21.6	73.8

^aSource: Kansas City, Missouri, School District (KCMSD).

^bBoundary change occurred within the noted five-year interval.

School enrollment data reveal rapid racial change in schools within neighborhoods east of Troost Avenue in Fig. 1. Table III shows the racial makeup of selected Kansas City, Missouri, School District Elementary Schools at five-year intervals between 1965-66 and 1974-75.

As Table III shows, numerous elementary schools within area bounded by Fig. 1, east of Troost Avenue, experienced racial turnover at the height of the implementation of the Section 235 program. Melcher, Willard, Pershing, Twain, Pinkerton, Blenheim, and Troost elementary schools all went from less than 50% African American in 1965-66 to over 90% by 1974-75. Other school enrollment data indicate that the Marlborough elementary school turned from 30 to 54% African American during 1971-72 school year while the nearby Troost elementary school changed from 32 to 87% the same year. Blenheim elementary school went from 31.2% African American during the 1967-68 school year to over 87% by 1973.⁵ As a result, Southeast High School, Southeast Junior High School, Paseo High School, and Paseo Junior High School, and their feeder elementary schools all underwent dramatic racial change during the late 1960s and early 1970s.

⁵Kansas City, Missouri School District Enrollment by School, 1954-55 to 1983-84. Kansas City Missouri School District Annual Fall Membership Report 1954-55 and Annual Desegregation Reports, 1955-56 to 1983-84. XK2. Box 213. KC 250. Arthur A. Benson II Legal Papers. WHMC-KC.

One key factor stimulating racial turnover in city neighborhoods burdened by the Section 235 program was the presence of numerous real estate speculators who profited enormously from the housing program by selling rehabilitated, government-insured properties with only cosmetic improvements to unsuspecting poor people. For example, speculators would purchase a house from a white family in a racially mixed neighborhood for a low price, secure an FHA guarantee through the Section 235 program, and then resell it to an African American family at an inflated price. Prior to the late 1960s, speculation and panic selling were unsuccessful in areas that lacked available credit for African Americans (e.g., areas where most banks would either not lend to African Americans or lend only on the most unfavorable terms) (Hays, 1985:112–120). The effect of the new Section 235 program was to relax mortgage lending standards and open a flood of credit to neighborhoods susceptible to panic selling and racial turnover. The Section 235 program made lending in these areas a risk-free venture for lenders who could get FHA approval on almost any dwelling, service the loan for a lucrative fee, and then sell the mortgage back to the federal government. If the homeowner defaulted on the mortgage, the FHA covered the loss and acquired the home (Quadagno, 1994:111). One local resident recalled how the FHA program operated in Kansas City neighborhoods, “very poor families were directed into the area by unscrupulous real estate brokers, who used to the program to make money. They sold homes that were in bad repair. They dropped poor people in there without guidance. . . . Some of the homes deteriorated, and the remaining whites moved out. We’re ending up with a new ghetto” (*Kansas City Star*, 8/28/72:1).

The Section 235 program not only helped foster a climate conducive to panic selling, but the program also encouraged white flight from city neighborhoods. For example, one neighborhood east of Troost Avenue, the Blue Hills neighborhood (47th–63rd), underwent dramatic racial transition, going from about half white, half African American, at the time of 1970 Census to about 80% African American four years later (*Kansas City Star*, 12/16/74:30). The congregation of Saint Therese Little Flower Catholic Church in the Blue Hills neighborhood plummeted from 800 to 200 families between 1969 to 1973. “After the program began in 1969, Blue Hills residents began to think almost every new black neighbor was a ‘235 family,’” remembered Alvin Brooks, Assistant City Manager at the time, “Every black family that moved in became a 235er” (*Kansas City Star*, 2/16/75:1, 2/17/75:1).

One Blue Hills resident remembered the effect of the Section 235 program in his neighborhood:

People would call you on the phone and indicate that everyone was moving, were

you interested in selling your home? As a matter of fact, you would get several calls that wouldn't identify themselves . . . ask if you were interested, and talk about selling houses and how many houses they had. The move in of neighbors under the [Section 235] policy of selling without commissions was . . . effective to set up panic. Later on, as there were foreclosure signs put and signs going up in windows showing "Government Property, Protected by the FBI" and so on, these are things that caused some panic, and so on.⁶

Part of the motivation behind the formation of the Blue Hills Home Corporation was to stem panic selling in the area fostered by the Section 235 program. As one Blue Hills resident and founder of the Home Corporation recalled in 1974, "The [corporation] has but one goal—the renewal of the Blue Hills area. The physical condition of our neighborhood has suffered greatly from an over-concentration of federal Section 235 housing and from actions of speculator types" (*Kansas City Star*, 12/16/74:30).

In effort to halt white flight and panic selling, a number of interracial neighborhood coalitions such as the Forty Nine-Sixty Three Neighborhood Coalition and the Marlborough Heights Neighbor Association launched door-to-door campaigns to prevent fear of rapid racial change and persuade people not to sell to profiteering real estate agents (Freilich, 1971:92–93; *Kansas City Star*, 8/14/70, 1/24/71:1, 1/25/71:20, 1/26/71:6A). In July 1970, the Marlborough Heights Neighborhood Association circulated a letter to all neighbors warning them of the following:

It has come to the attention of a group of your neighbors that a crisis of confidence may soon develop among homeowners in the Marlborough Heights area. We are persuaded, as your neighbor, that such a crisis has arisen in the past in other areas of the city for two reasons: A fear that their neighborhood will experience a rapid turnover in home ownership once a single Negro family moves nearby, and the failure of neighbors to talk together soon enough to work in common cause against unscrupulous real estate brokers who sometimes play one neighbor against the other. (*Kansas City Star*, 7/30/70)

A month later the neighborhood coalition sent a letter to HUD and a number of local and state elected officials asking for assistance in halting the Section 235 program and stabilizing the neighborhood.

Marlborough Heights Neighbors is a newly formed group whose goal is to establish a viable multiracial neighborhood. Our group is composed of black and white neighbors who are working together to minimize the possibility of panic and to preserve the comfortable character of our residential area. The FHA 235 program as it exists today is a major stumbling block to our efforts to stabilize our neighborhood [and] could alter the middle class nature of the neighborhood by precipitating outward movement of middle-class home owners, both black and white. We believe our neighborhood has absorbed, under the existing program, as many FHA 235(i)

⁶Testimony of Cleo H. Muller. Joint Addendum A (Excerpts from Record) of *Kalima Jenkins, et al., Appellants, vs. the School District of Kansas City, Missouri (KCMSD), Appellees*. pp. A65-61. Folder 13. KC 250, Arthur A. Benson, II. Legal Papers. WHMC-KC.

Table IV. Section 235 Foreclosures and Total Loans Metropolitan Kansas City^a

	Foreclosures	Total loans	Foreclosures as a percent of total mortgages
Kansas City, MO	182 (99.0%)	1274 (55.7%)	14.2%
Suburban areas	2 (1.1%)	1011 (44.2%)	0.2%
Metropolitan total	184	2285	8.1%

^aSource for Table IV: same as Table I.

buyers as it can without crippling our efforts; the prospect of a greater influx of FHA 235(i) buyers will create panic here that may doom our effort.⁷

As a result of a numerous informal meetings, the Forty Nine-Sixty Three Neighborhood Coalition held its first organizational meeting in 1971 in an effort to halt the tide of panic selling that was plaguing the neighborhood as a result of the Section 235 program. As one resident recalled, “the idea was that there were realtors that were calling white residents . . . trying to scare people to leave the neighborhood so that they could sell the houses cheaply. . . . There were people setting up meetings with residents all over the neighborhood to calm people down so that they weren’t affected by these realtors” (Interview with Ken Monroe, 2/22/96). Other residents remembered that “[u]nscrupulous realtors were trying to scare our residents with racial fear in order to buy houses cheaply and make big profits. Phone calls were often made to white home owners and told that their property values were dropping and they had better move quick and get as much money as they could before ‘they’ move in.” One resident remembered that “you would have people coming in saying that your house is worth so and so, but are you interested in selling? You know that black people are moving into the area, and we can’t guarantee that we would be able to get you that amount of money next year or two years from now, but we could get you that amount of money now.”⁸

The Section 235 program not only helped stimulate white flight and racial turnover, but the program also fostered housing abandonment and deterioration in city neighborhoods. Table IV shows Section 235 foreclo-

⁷Letter from Marlborough Heights Neighbors to Representative Joe L. Evans, Chairman of HUD Sub-Committee, House Appropriations Committee, and John O. Pastore, Chairman of HUD Sub-Committee, Senate Appropriations Committee. 8/28/70. X363. Letter from Sidney L. Willens to Honorable George Romney, HUD. 1/29/71. RE: Marlborough Heights; Letter from Sidney L. Willens to Mr. Harry Morley, Regional Administrator, HUD, 7/27/71. RE: 235 Exterior Maintenance Fund; Box 343. KC 250, Arthur A. Benson, II. Legal Papers. WHMC-KC.

⁸Deposition of Richard Dawson. 2/9/83. *Erica Black, et al., Plaintiffs, v. State of Missouri, et al., Defendants*. United States District Court. Western District of Missouri. Western Division. No. 77-0420-CV-W-3.

tures, total loans, and foreclosures as a percentage of total mortgages in Kansas City from 1969 to 1972.

According to this table, there was a 8.1% foreclosure rate on all Section 235 homes in the entire metropolitan area. However, 99.0% of these foreclosures were in central city Kansas City, Missouri, which had 55.7% of the 2285 homes insured under the program. As Table II shows, only two Section 235 homes in suburban areas were foreclosed upon while 182 were foreclosed upon in inner city Kansas City, Missouri, neighborhoods.

The rate of housing foreclosures in the inner city compared to the suburbs summarized in Table IV can be explained with reference to the implementation of the Section 235 program. In a typical case, a real estate agent would purchase a number of vacant or dilapidated dwellings in a deteriorating section of the inner city. The agent would then make sufficient cosmetic repairs to make the building appear habitable and obtain an inflated appraisal from an unscrupulous FHA appraiser, occasionally for a kickback. Next, the real estate agent would find a low-income family with little knowledge of the responsibilities of homeownership. The bank would service the risk-free, federally insured loan and sell the home to the aspiring low-income family generating a huge profit for the real estate agent. Later, the unsuspecting low-income homeowner would discover that the home had many substandard conditions that the family could not afford to pay. As the housing repairs and expenses mounted, the homeowner would abandon the home and the dwelling would become the property of the FHA.

During the tenure of the Section 235 program in 1960s and 1970s, FHA guidelines required that dwellings remain vacant during the foreclosure period, despite the omnipresent threat of abandonment and vandalism upon the unit. One long-term resident and journalist reported in 1972 that the Blue Hills neighborhood was littered with dilapidated FHA-owned dwellings that had been abandoned by families who gave up trying to maintain the poor houses or who were victims of foreclosure. "Most of the homes are attractive and well-kept, but on nearly every block one or two stand vacant, repossessed by the FHA. Some have been boarded up. Some have been damaged by vandals" (*Kansas City Star*, 8/28/72:1). In this same neighborhood, FHA-held homes remained vacant through the 1970s and into the 1980s. During this time, HUD attempted to sell many of the foreclosed homes on an "as-is" basis but with little success because of the dilapidated condition of the homes. "Things are bad, and then you got one of those HUD as-is houses in there and that's the end of the line for a block," recalled Paul K. Whitmer, vice-president of the Blue Hills Homes Corporation in 1974 (*Kansas City Star*, 12/16/74:30). By the late 1970s, the FHA consistently had an inventory of almost a thousand dilapidated homes

located in Kansas City, Missouri, city neighborhoods (Freilich, 1983:138; *Kansas City Star*, 10/7/75:1).

A number of local residents who had firsthand knowledge and experience with the Section 235 program remembered the segregative and destabilizing effects of the program on city neighborhoods. As one longtime journalist remembered,

I wrote dozens of articles on that subject, I talked to lots and lots of people and I remember . . . the basic structure was set up to turn [neighborhoods] over and in my opinion it was the real estate industry that had more or less done this, with the concurrence of government. I mean real estate brokers and I mean the Real Estate Board and mortgage bankers, the respectable people of town, had decided that this was a good way to operate. . . . And actually this had been decided long before and I think some of them may have had doubts but they continued to do so, so long as opposition did not arise, they continued to follow this practice. (Interview with Harold Christine, 12/20/96)

Another longtime resident recalled his experience with the exodus of white families and the influx of African American families into neighborhoods as a result of the Section 235 program.

When black folks moved into the neighborhood white folks fled. I think there was several kinds of feelings. . . . The first black family on the block then the white families would leave. In some occasions the white people got real angry with the black residents that moved in. I remember one incident out where I was pastor . . . a [black] family moved in and [white residents were] very hostile to that family. (Interview with Mark Sampson, 2/20/96)

Three lifelong African American residents recalled how both whites and African Americans reacted to the tide of panic selling set in motion by the Section 235 program.

In some neighborhoods there were some whites that responded by making a public stand by saying that "my house is not for sale nor is my conscience for sale." But then on the other hand, there were those when one black moved in it wasn't long before the whole neighborhood became black. I bought a duplex in [one neighborhood], I was the first black there, I mean I was looking for a place. I wasn't looking to integrate a neighborhood, I was just wanted a house. But then when that took place well then it wasn't long before the whole neighborhood was a black neighborhood. (Interview with Brian Charles, 8/1/96)

Black people really weren't aware with what was going on, white people probably weren't either. But there has been such a taboo with the races coming together, [real estate agents] would just say that "we got a black person moving into the neighborhood," and so one real estate company could sell the house that white folks were leaving to a black person, and steer the white folks to another area. You had a double-deal going on. (Interview with Cynthia Kaskins, 5/1/96)

When you got out to 40th street further south the houses weren't in bad condition. They were small but not in too bad a condition, you would find one or two bad ones in a three to four block radius. By and large they were not badly taken care of. . . . And a lot of people—white people who bought those houses got up and left, and here was FHA holding these houses, and they were in bad shape, and they were reselling them to minorities. (Interview with Jon Herman, 3/19/96)

These interviews show that local residents were well aware of the segregative and destabilizing effects of the Section 235 program. Many interviewees recalled intense organization efforts including letter writing to state representatives, lobbying of local government leaders, and attempts to persuade fellow neighbors not to succumb to panic selling. By November 1971, the deleterious effects of Section 235 had become sufficiently widespread to elicit official condemnation from Kansas City, Missouri, city council members. In a letter to the HUD area office, City Councilman Joseph Shaughnessy requested that HUD meet with city's new Housing Advisory Commission to discuss dispersal of Section 235 Housing, advising the agency that "I am deeply concerned about the impact of the recently released funding for Section 235 existing housing program is having on the southeast part of Kansas City. Real estate people are using this program to exploit homeowner's fears in targeted areas, and are creating instability and turnover.⁹ In 1972, the Forty Nine-Sixty Three Neighborhood Coalition, the Blue Hills Community Association, and the Marlborough Heights Neighbors had joined together in filing a lawsuit to compel HUD to halt further 235 loans in their neighborhoods.¹⁰ HUD's suspension of the program later that year effectively ended the lawsuit as reports from around the nation poured into Washington detailing the scandalous ripoffs, and exploitative and victimizing character of the housing subsidy program (National Center for Housing Management, 1972: ch. 3, pp. 1-2; U.S. Commission on Civil Rights, 1971; U.S. House of Representatives, 1970; Quadagno, 1994:111-113; Hays, 1985:112).

By January 1973, President Nixon had imposed a moratorium on all public and subsidized housing programs aimed at halting the flood of scandals throughout the nation on the part of private real estate brokers, home builders, mortgage lenders, and FHA appraisers. HUD's discontinuation of the Section 235 program had the practical effect of redlining the inner city as private interests and banks refused to invest in city neighborhoods without the backing of governmental support or subsidies. Based on data gathered by the Society of Real Estate Appraisers (SREA), the *Kansas City Star* charted nearly 1000 home sales made in Kansas City, Missouri, in 1974 and 1975. Of the 717 home sales east of Troost Avenue reported to the SREA during that period, 16 were financed with conventional loans,

⁹Letter from Joseph Shaughnessy, Jr., Councilman at Large, 2nd District, Kansas City, Missouri, to William Southerland, Director, HUD Area Office. 11/29/71. X1596AAA-4. Box 206. KC 250, Arthur A. Benson, II. Legal Papers. WHMC-KC.

¹⁰Forty Nine-Sixty Three Neighborhood Coalition. April 1973. "Status Report as of April 1973." Prepared by the Planning Group of the Forty Nine-Sixty Three Neighborhood Coalition. Box 3, Folder 123. KC 61. Forty Nine-Sixty Three Neighborhood Coalition Inventory of Records and Information. WHMC-KC.

241 financed through the VA or FHA, and 459 housing units were government repossessed (*Kansas City Star*, 7/20/75, 7/21/75). FHA and VA mortgages made up the bulk of housing sales within this area and was an indication that the area had been written off by lending agencies and financial institutions. Other data gathered by the *Kansas City Star* through the 1977 Home Mortgage Disclosure Act (HMDA) indicate that of the \$642 million in home mortgages lent by local savings and loans in the metropolitan area that year, less than one percent (only 140 loans, for \$3.2 million) went into areas east of Troost Avenue. Each of the thirteen census tracts west of Troost Avenue, south of 47th street, received over \$600,000 in total loans for 1977. Interestingly, three of these census tracts each received more mortgage loan dollars than all thirty-three census tracts east of Troost combined (*Kansas City Star*, 4/16/78:1). Terminating the housing subsidy program helped speed the deterioration of the inner city as prospective buyers, sellers, and private investors simply disappeared when the FHA stopped insuring inner city loans. As private lending agencies withdrew from the inner city, whole neighborhoods were redlined thus reinforcing a vicious cycle of disinvestment and decay that continues to plague neighborhoods east of Troost Avenue to this day.

CONCLUSION

This paper has examined the segregative effects of HUD's Section 235 program in Kansas City from the late 1960s through the 1970s. I have focused on the local implementation of the housing subsidy program to illustrate how the housing subsidy program reinforced patterns of racial residential segregation, fostered home ownership for poor white residents, and impaired the ability of poor African Americans to accumulate wealth through home ownership. Although the Section 235 program was designed to ameliorate racial residential segregation, the program in fact reinforced segregation by concentrating poor African American families in racially transitional inner city neighborhoods while subsidizing the movement of many white families into new homes in the suburbs. The segregative effects of the federal program, however, go far beyond the mere restriction of African Americans to inner city housing. All of the FHA's Section 235 homes in the Kansas City area were marketed by private realtors who worked to unleash a destructive wave of panic selling, housing foreclosures, and abandonment that contributed to racial turnover and deterioration in city neighborhoods from 1969 through the early 1970s. While the program enabled many participating poor white families to become new suburban homeowners, the majority of participating African American families

moved into existing homes that needed substantial repairs not covered by the federal subsidy and not within their financial means to repair. As a result, numerous abandonments and eventual foreclosures destabilized city neighborhoods and their schools giving impetus to white flight.

The role that the Section 235 housing program played in reinforcing racial residential segregation corroborates recent empirical research showing the reflexive relationship between federal housing policy, white wealth accumulation, and African American urban poverty. Squires (1993), Feagin (1994), and Quadagno, (1994), for example, have shown how FHA and VA policies encouraged suburban home ownership for whites and impaired the ability of African Americans to accumulate wealth through home ownership. My analysis shows how the Section 235 program helped foster home ownership for poor whites while denying it to poor African Americans, thus reinforcing prevailing patterns of racial inequality, poverty, and residential segregation in Kansas City. A number of scholars have pointed out that low rates of home ownership play a key role in limiting the wealth-accumulating ability of African Americans (Squires, 1993; Franklin, 1991:124–127). As Oliver and Shapiro (1995:8) have recognized, “home ownership is without question the single most important means of accumulating assets. The lower values of African American homes adversely affect the ability of African Americans to use their residences as collateral for obtaining personal, business, or educational loans.” Thus, the negative effects of residential segregation go far beyond the lack of access to quality jobs and schooling to connect with racial inequalities in wealth and home ownership rates that have been perpetuated for decades through the market-centered orientation of federal housing policy. Indeed, according to 1990 census data, homeownership rates by race for metropolitan Kansas City residents indicate that whites have the highest rate of homeownership of any racial group (68.3) while African Americans have the lowest rate (46.7), behind American Indians (54.9), Hispanics (56.2), and Asians (50.2).

While the Section 235 program had numerous shortcomings and negative consequences, a number of administrative and procedural changes could have improved the program. First, counseling of potential buyers as to the responsibility of homeownership could have lessened buyer ignorance and minimized the rates of default. Interesting, during the late 1960s and early 1970s, HUD repeatedly requested funding for a counseling program for Section 235 home buyers, but Congress refused to grant it until 1972, after the abuses and scandals of the program had become apparent (Hays, 1985:115). Second, the creation of a maintenance reserve fund to cover the cost of labor or materials on major housing repairs could have reduced rates of foreclosure, abandonment, and neighborhood deterioration. Indeed, during 1971, neighborhood groups in Kansas City repeatedly lobbied

HUD to establish a financial reserve fund to help poor people maintain their homes in the event of a major repair (*Kansas City Star*, 7/26/71:4, 7/27/71:4, 8/4/71:14C). Third, a conscious effort by the federal government to involve homeowner associations and neighborhood groups in the design and implementation of the program might have reduced blockbusting and rapid racial turnover in city neighborhoods. These programmatic alternatives suggest that the Section 235 program could have been substantially improved through changes in design and administration. Such efforts would have brought the program closer to meeting the housing needs of the poor as well as challenging the market-centered orientation and racial biases of the private housing industry. The experience of the Section 235 program and its alternatives suggests that housing programs cannot be successful unless there is a careful articulation of objectives from the start, a system of program evaluation for monitoring progress toward these objectives, and a sustained effort toward enforcing fair housing statutes in the implementation of the program.

ACKNOWLEDGMENTS

I wish to thank Joel Devine, Beth A. Rubin, James D. Wright, and three anonymous reviewers of *Sociological Forum* for comments on earlier drafts.

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