

## #6 Jack Blum: redlining

**Jack Blum:** I did a number of different things for Hart. And he called me and he said, I need to, I need to solve this problem. The city of Detroit is being destroyed. It doesn't make any sense. We don't know why or how. And it's something I have to figure out. What's going on underneath?

**Naomi Fowler:** One day while working for the Senate's antitrust subcommittee, Jack Blum was called in by Senator Philip Hart, a Democrat who came to be known as "the Conscience of the Senate." It was a conversation that turned into a big investigation.

**Jack Blum:** That led me into digging into the whole problem of inner city blight and destruction and, the, the failure of neighbourhoods and whatever.

**Naomi Fowler:** This is The Corruption Diaries from the Tax Justice Network. I'm Naomi Fowler.

**Jack Blum:** Until the time of Roosevelt and the reforms of the 1930s, all the mortgages were 10 year term and they were not amortizing, so they would roll over. Then it would be in a new interest rate and, yeah, that was a sort of standard way it worked, the houses being the security for the loan. The banks became terrified by the problem of mortgages, particularly conventional mortgages that were not government insured in the immediate post war period. The concern was that, that, now all of these new folks were coming in and neighborhoods were beginning to change, and the housing stock had suffered because during the war people hadn't been able to do repairs. And then the real killer was that interest rates, which had been, you know, like they've been recently, near zero, were beginning to climb. And the numbers are that when interest rates go up, the value of a mortgage goes down because everything depends on how much interest you're able to collect, but if the interest rate is low and it's not marketable, the value goes down and you're left holding the bag. And they were all terrified we're going to get stuck with aging housing stock as our security and declining value of the mortgage so we can't unload the mortgage on anybody. What are we going to do to get out from under all of this? And the answer they came up with was, block-busting.

Mortgage companies suddenly pop up. And they're offering FHA-insured mortgages. And they are going to now offer those mortgages up to new buyers. And that'll be perfect because every time a new buyer comes in, it shifts the burden from the bank to the government. So if the mortgage goes under, it's a government problem, not a bank problem. The bankers were able to provide what are called warehouse loans to the mortgage companies. And the way that would work is that the mortgage companies would assemble a package of ten mortgages, let's say, a million, two million, whatever the package was, of mortgages. And that was when they moved it into FHA financing. The mortgage money, of course would pay off the old loan, which is what the bankers really wanted. You know, dump it on the government and so be it. Yeah, pretty brazen. But again far enough removed from what you would think of as everyday crime, and complicated enough so it just doesn't, it doesn't turn up in routine conversation.

The question was how to get people to move out of the houses. And here the big banks that held a lot of the paper didn't pay, you know, they looked the other way. But the mortgage guys understood that if you had some unscrupulous real estate brokers, you could scare people into dumping their houses and moving out. And this meant getting some minorities of any kind to move into the neighborhood, and maybe even do some scary things. And immediately the families who were there would sort of pick up and move on and then the real estate people would get the listing, they'd pick up the house for a song because the people are fleeing, do some modest, minor repairs and now resell it to, let's say, an incoming black family on an FHA mortgage. And suddenly everybody's making money. The banks are out from under the conventional. The burden has been shifted to the government. And now we can say also we've helped 'these blacks' find housing. The problem, of course, was that the mortgages couldn't be serviced or handled by the families that came in. The houses were overpriced, the repairs weren't done, and very quickly a lot of these mortgages went into foreclosure. When that happened, the cities would turn into war scenes. You look at downtown Detroit, they're now dealing with acres and acres of destroyed housing and, and places that look like a wilderness instead of city. Well, this was essentially the, the set of facts that I stumbled into.

What happened to get into the discovery of, of the bankers and how they were planning these things was we were told there was a really serious problem in Boston. And I went up to Boston and I spent quite a bit of time investigating and sure enough, there was a banker's group called the Vault. The bankers at the Vault had come up with an idea and the idea was, again, to roll over these conventional mortgages, the idea was we're going to announce to the minority community that there will be FHA mortgages available within this area, and we're all gonna take part in that. And I had this actually explained to me by the then president of a bank called the Boston Five Cent Savings Bank. And he explained, he said, yeah, here, and here's the map. Right?! And they had a map with a big red line around it that was where they were going to give minorities mortgages. And it was an area that was rapidly becoming the worst slum in Boston. That's redlining.

What began to develop in the Boston story, and we later learned a lot about it in New York, which is where things got quite rancid was that there were people who discovered the laxity of FHA regulation who were taking enormous advantage of it. So the mortgage companies, which had these loans from the big banks, were discovering that it didn't matter what kind of mortgage paper they put together. With a little bit of effort, not much, they could actually underwrite anything. So it got to a point in New York where they were granting mortgages to non-existent houses for non-existent buyers where paperwork was completely falsified. Appraisers were bribed to say, yeah, I went to the house at 227 Blank Street and it's in great shape and let's grant the mortgage. But in truth, there was no house and there was no buyer. And that was pretty outrageous.

And we had hearings in Boston at the Boston City Hall that laid all of this out. I'm reasonably proud to say that the headquarters building of the Boston Five Cent Savings Bank, last I knew, was a bookstore. And we did actually zero in on the problem and, and get it taken care of. And a whole lot of these people got busted and went to jail.

There was also a minute where, in those hearings, where I was able to help one person in a way that I couldn't in most of the work I've ever done, came up with a woman whose

husband had been killed in Vietnam, who wanted desperately to get a V.A. mortgage on her house, and the V.A. in Boston saw someone of color coming, and they just went, oh no, no, no, we're not going to do that. And I got her to testify about the runaround she was getting from the V.A. on getting a mortgage. And Hart was chairing, and he then said, We're going to have those V.A. people in here tomorrow. And he had them in, and he reamed them out upside down and backwards, and by the time the hearing was over, they said, we'll take care of her, and they did. So, it was seeing a tangible result as opposed to seeing a theoretical or, you know, large scale systemic solution that was very gratifying.

Homeowners were terrified that if the neighborhoods became integrated, there would be flight and the value of their property would go straight down. And for most Americans, their entire net worth was the equity in their homes. So, with the equity in your home threatened, you're going to be out with a pitchfork going after any politician who thinks that's a good idea. Unfortunately, there were a lot of people who didn't understand that, and a lot of people who, not understanding the economics of the real world, were proposing solutions that sounded good, but in truth were catastrophic.

In the course of all of this, I had an informant. And the informant was a guy who was right on the fringe of serious criminality. He wanted to get paid to give me the information, and I'm thinking, the Senate doesn't have money to pay people. But one of my colleagues said, well, we could put him on as a consultant, and at least pay him for a couple of months and, and see how that goes. The hook in this, though, was that as a consultant, he had to get an FBI full field investigation security clearance. And I'm thinking, oh lordy, this ain't gonna work well! Well, it turned out that they were kind of lax and it takes months and months and months for these things to happen. So he gets on the payroll and he's telling me all about real estate operators who were also dealing in heroin and, you know, we're, we're getting into deep, serious underworld. He told me about a variety of things like a deacquisition program at the Brooklyn Museum where - he called it deacquisition, what he really meant was they were stealing art from the museum and reselling it. And he just had a whole stream of criminal things that he knew about.

Anyway, he's now no longer on the payroll. We've gotten most of the, the story out. We had the public hearing, got the story about these real estate guys out. And I get a call from the FBI in New York - will I come up and talk to the squad of agents that is now working on locking up the people who've taken bribes at FHA, the real estate companies, so forth and so on. So I go up to New York, go through the whole thing, explain how the system worked, you know, Q & A, all the rest of it. We're just about wrapping up and somebody in the back of the room said, by the way, have you run into a character named Taylor? We're trying to talk to him in connection with all of this. And I started to laugh. I said, yeah, I said. Well, do you know where we could find him? Well, I said, there's somebody a floor below who's probably doing a full field investigation on him right now because he was on the payroll as a consultant, you know, and the FBI is like, oh!! So, yeah, that was pretty funny.

**Jack** d and pled guilty and were about to go to jail. And they cut a deal with the U.S. Attorney who said, look, okay, this is reasonable. You're gonna just take the consequences, but you're saying you don't want us to charge your son, who wasn't really instrumental in what was going on. He was just a helper, and, on the side, and in exchange for that, we'll, you know, give him a break, and you're pleading guilty, and you'll go to jail. Okay, so they go

to jail. The son is given a pass. Almost 20 years later to the day, the son was controlling a national bank in New York on Long Island, and he was running exactly the same fraud his parents had run, only now an order of magnitude larger.

It's, it's 1970. Now we're, we're running up into, 1980s. And, and it's all, it's a replay. It's instant replay of the same old crap. Well, the second time was the most recent one in 2008. And you just wonder how many times the same game will be played. The significant difference was the first time they went to jail. The second time, nobody went to jail, but there were some significant financial penalties. And the third time, of course, it was a complete pass that allowed people to get the idea that if you're big enough and important enough, you can get away with anything. And that, I'm afraid, has permeated the society.

**Naomi Fowler:** The Corruption Diaries is a production of The Tax Justice Network, made by me, Naomi Fowler and Jo Barratt. Interviews with Jack Blum were recorded over several days at Jack's home in Maryland by Zoe Sullivan.