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Articles

Race, Gender, Power, and the US Subprime Mortgage and Foreclosure Crisis: A Meso Analysis

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Abstract

This study addresses two largely unanswered questions about the United States subprime crisis: why were minority applicants, who had been excluded from equal access to mortgage credit prior to the spread of subprime loans, superincluded in subprime mortgage lending? And why didn't the flood of mortgage credit in the 2000s housing boom – an oversupply of credit suggesting supercompetition – reduce the proportion of minority and women borrowers burdened with unpayable subprime mortgages? This contribution develops a meso analysis showing how banking strategies were shaped by and reinforced patterns of racial and gender inequality, permitting lenders in evolving financial markets to offer new loan instruments to previously excluded loan applicants, and to exercise social power over – and thus extract rent from – these borrowers.

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Notes

Only two of these references mention racial or gender discrimination per se; and these papers caution that definitive evidence of this sort of discrimination has not been shown.

Further, the terms "subprime" and "crisis" appeared jointly in 272 NBER working papers; only ten of these (3.7 percent) also used the word "discrimination" at least once. The terms "foreclosure" and "crisis" appeared jointly in 103 papers, with only seven (6.8 percent) also using the word "discrimination" at least once.

This argument has been forcefully debunked – see, for example, Elizabeth Laderman and Carolina Reid (2008) – and is not discussed further here. Nonetheless, Levine (2010) makes an argument about the influence of the CRA that is very similar to Wallison's (2009).

The term "segregation" is used here to denote geographic areas in which a disproportionate percentage of residents are racial minorities.

California Reinvestment Coalition [CRC], Community Reinvestment Association of North Carolina, Empire Justice Center, Massachusetts Affordable Housing Alliance, Neighborhood Economic Development Advocacy Project, Ohio Fair Lending Coalition, and Woodstock Institute (2010).

For 1998–2002 loans, these authors found that a 1 percent decrease in housing price appreciation was associated with a 7 percent increase in foreclosures and a 3 percent decrease in distressed prepaid loans.

For further elaboration on the legal context of discrimination law, and for summaries of empirical research on credit market and housing market discrimination, see Gary A. Dymski (2006) and Devah Pager and Hana Shepherd (2008).

Joseph E. Stiglitz and Andrew Weiss (1981) show how banks might rationally redline minority neighborhoods if race is correlated with repayment risk.

Goolsbee (2007) describes the positive social and economic impacts of subprime lending.

Carolyn B. Aldana and Gary A. Dymski (2004) illustrate these patterns for Los Angeles County, California, in the 1990s.

HMDA data are used. Figure 1 presents an interrupted time-series because HMDA data are not available as continuous time-series. Raw HMDA data require “scrubbing” before they can be reliably reported, and different analysts use different conventions when scrubbing. Figure 1 uses exclusively data reported in Glenn B. Canner and Wayne Passmore (1994), Robert B. Avery, Kenneth P. Brevoort, and Glenn B. Canner (2006, 2008), and Robert B. Avery, Neil Bhutta, Kenneth P. Brevoort, and Glenn B. Canner (2010).

This structural situation virtually invites fraud; and according to the FCIC's (2010) thorough report, fraud permeated many aspects of the subprime lending and securitization process.

Several rate sheets used by large California mortgage companies in 2006 show the incentives at work. For example, raising the initial start rate by 0.5 percent would result in a 1 percent “rebate” to the loan broker – on a $ 300,000 loan, this would work out to a bonus of $ 3,000.

Avis Jones-DeWeever (2009) presents race and gender disparities for 2007 subprime loan ratios very similar to those shown here for 2005.

Note that applicants' average income levels are relatively flat by race and ethnicity across racial and ethnic residential concentration categories. That is, statistics shown in Figures 3 and 4 are not proxying for income differentials.

This near-unanimity of view may be changing. A recent Federal Reserve Bank of St. Louis working paper concludes that "despite decades of policies to eliminate racial discrimination and redlining, minorities are paying more for their loans and borrowers in historically credit-disadvantaged neighborhoods still do not have equal access to credit markets" (Andra C. Ghent, Rubén Hernández-Murillo, and Michael T. Owyang 2011: 32).
