

Cartographies of Race and Class: Mapping the Class-Monopoly Rents of American Subprime Mortgage Capital

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Abstract

The worst global financial crisis since the Great Depression has drawn worldwide attention to America's subprime mortgage sector and its linkages with predatory exploitation in working-class and racially marginalized communities. During nearly two decades of expansion, agents of subprime capital fought regulation and reform by (1) using the doctrine of risk-based pricing to equate financial innovation with democratized access to capital, (2) appealing to the cultural myths of the 'American Dream' of homeownership, and (3) dismissing well-documented cases of racial discrimination and predatory abuse as anecdotal evidence of rare problems confined to a few lost-cause places in what is otherwise a benevolent free-market landscape. In this article, we challenge these three tactics. Properly adapted and updated, Harvey's (1974) theory of class-monopoly rent allows us to map and interpret the localized, neighborhood exploitations of class and race in several hundred US metropolitan areas as they were woven through Wall Street securitization conduits into global networks of debt and investment. Understanding the structural inequalities of class-monopoly rent is essential for analysis, organizing, and policy responses to the crisis.

Subprime goes prime time

It is universally recognized, by analysts across the political spectrum, that subprime lending is disproportionately concentrated among racial and ethnic minority *individuals* and *neighborhoods*. For more than a decade, progressives have documented the proliferation of ever more aggressive tactics of deception, fraud and legal-yet-abusive practices in the subprime market, and advocates have sought regulatory reforms to combat the syndrome of racially discriminatory and 'predatory' lending (HUD–Treasury Joint Task Force, 2000; Engel and McCoy, 2002). Yet conservatives have applauded subprime lending as a case of benevolent, risk-based pricing, and have subverted nearly all reform efforts by appealing to the American ideology of consumer sovereignty. Progressives' answers to this argument were detailed, rigorous, precise and thus easily ignored amidst a national credit binge fueled by falling interest rates and rising home prices.

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But if it was easy to ignore the complaints of scholars and advocates for working-class families and communities of color, it would prove more difficult to brush aside the concerns of the armada of securities analysts and bond traders working to protect the interests of capital. Most American home loans are securitized almost immediately: banks and mortgage companies make loans, and then sell the obligations to investors in return for a fresh infusion of capital that can be used to make more loans. In the conventional prime market, loans are typically sold to one of the giant Government Sponsored Enterprises (GSEs), Fannie Mae or Freddie Mac; but the subprime market is dominated by private trusts and Special-Purpose Vehicles (SPVs) that acquire loans and pool them into Collateralized Debt Obligations (CDOs) and Mortgage-Backed Securities (MBSs) underwritten by Wall Street investment banks. MBS and CDO shares are often held by national banks' off-balance-sheet Structured Investment Vehicles (SIVs), and are also traded in various risk categories ('tranches') to individual and institutional investors on global financial markets. Since the mid-1990s, the specialized field that spawned all these acronyms — structured finance — seemed to have achieved financial alchemy, packaging individually risky subprime loans into high-yield MBSs that received (for the top tranches) the highest, triple-A grades from bond-rating agencies (Fabozzi, 2001; Dymski, 2007; Engel and McCoy, 2007; Peterson, 2007).

In a climate of steadily rising home values, even the most egregious predatory schemes involved surprisingly low risks for investors, since borrowers who fell behind on their payments could be forced into a quick refinance — generating new up-front fees charged against the borrower's home equity — or into a quick distress sale to pay off the debt without entering foreclosure. Brokers and bankers continued to enjoy healthy profits from up-front fees and charges, lenders earned healthy margins on sales to the secondary market, and once borrowers' repayment capacity or home equity was stripped bare, loan servicers would force sales to protect MBS investors from losses. The only consistent losers were the homeowners stripped of their assets and forced into the rental market.

Initially, this system worked well for brokers, lenders, investment banks, bond-rating analysts and investors. Subprime originations mushroomed from \$65 billion in 1995 to \$332 billion in 2003 (Chomsisengphet and Pennington-Cross, 2006: 37), and then to \$625 billion in 2006 (Andrews, 2007) even as national home prices crested. But in early 2007 financial analysts began to see trouble as the speed of delinquencies, defaults and foreclosures on the last cohort of loans made in 2006 accelerated dramatically. A proliferation of banner headlines chronicled the credit crunch, mortgage meltdown, subprime slide and scores of other alliterative announcements as it became clear that subprime losses that had devastated marginalized borrowers might eventually take a toll on investors too. First the riskiest subprime originators filed for bankruptcy protection. Over the next year the time bombs of default risk in MBS shares exploded in investment portfolios around the world, devastating the investor confidence that had sustained the optimistic market values attached to simple bank stocks as well as more complex MBS issues, derivatives and credit default swaps. The fearful response of investors and lenders began to shut down activity in key arteries of the global credit markets, forcing a series of government interventions unprecedented since the Great Depression: low-interest, short-term Federal Reserve loans to banks, eventually totaling more than \$200 billion, a takeover of Fannie Mae and Freddie Mac along with liabilities for their \$5.2 trillion of insured mortgages, a \$700 billion plan to buy mortgage assets of unknown value in an attempt to purge the balance sheet of troubled institutions, and eventually (with the US reluctantly following the lead of European officials) direct government ownership stakes in banks along with increased guarantees for deposits, money-market mutual funds, and other instruments once regarded as safe as cash.

Market imperfections and the flat subprime world

Amidst the disorienting worldwide maelstrom of business-press coverage, it is easy to overlook two foundational axioms that have framed mainstream discussion and public

policy; these assumptions are the focus of our analysis. First, the collapse of subprime securitization is assumed to result from regrettable but unpredictable mistakes and ‘market imperfections’ (Federal Reserve, 2007: 14). Bankrupt mortgage companies and inner-city homeowners facing foreclosure are the result of unusual circumstances, but there is nothing fundamentally wrong with the innovations of subprime ‘risk-based pricing’ (*c.f.* Litan, 2001). The subprime boom just went too far, the industry’s defenders claim, because brokers and lenders tried to help too many consumers who were more than willing to borrow beyond their means. Put simply: mistakes were made, borrowers must accept their share of responsibility, and the market must be allowed to adjust with the absolute minimum degree of public intervention.

The second axiom holds that geography is empirically interesting but theoretically irrelevant. To be sure, the subprime boom has etched out intricate urban and regional patterns; even the most conservative major newspaper in America, the *Wall Street Journal*, compiled detailed rankings and maps of ‘The United States of Subprime’ (Brooks and Ford, 2007). But these patterns are almost always understood as nothing more than the result of demand-side factors — the needs, preferences, qualifications or education of homeowners and homebuyers, or the distinctive circumstances of particular places. From day to day, the geographical details of this narrative change, but the logic remains the same. The spatiality of subprime credit is assumed to be a Pareto-optimal response to the geography of demand among consumers unable or unwilling to meet the standards for the prime market. Put simply, after controlling for consumer qualifications, the subprime world is flat (Berkovec *et al.*, 1994; Ambrose *et al.*, 2000; Chomsisengphet and Pennington-Cross 2006; *c.f.* Friedman, 2007).

In the rest of this article, we provide a challenge and an alternative to these two foundational axioms. Subprime lending exploits the legal and regulatory loopholes justified by risk-based pricing in order to provide opportunities to realize class-monopoly rent. Even after accounting for the qualifications and risk profiles of borrowers, subprime America is anything but flat: credit flows etch out intricate urban and regional geographies of class-monopoly rent that are rooted in generations of racialized inequalities. Our story unfolds in four parts. First, we review the theories of credit rationing and risk-based pricing, which provide the dominant economic and policy explanations for the subprime boom and its associated racial–geographical disparities. Second, we explain how contemporary inequalities in the subprime market should be understood not as market ‘imperfections’, but as latter-day incarnations of Harvey’s (1974) class-monopoly rent. Third, we describe a simple protocol for measuring and mapping the racial and class dimensions of class-monopoly rent. Finally, we use this protocol to map the geography of the subprime boom at its peak (2004–6) across several hundred metropolitan areas in the US. We use several approaches to test whether variations in market penetration simply mirror borrower qualifications (as predicted by risk-based pricing), or reflect more systematic inequalities (as suggested by class-monopoly rent).

Rationing, risk and race

Credit is fascinating for economists (and especially neo-classical economists), because it is vulnerable to a dilemma first identified by Adam Smith. If the interest rate is set too high, ‘the greater part of the money to be lent, would be lent to prodigals and profectors’ (*Wealth of Nations*, 1776, cited in Stiglitz and Weiss, 1992: 694). Two centuries on, ‘The fundamental problem facing capital markets can be put starkly: there is an infinite supply of charlatans in the market’ (Greenwald and Stiglitz, 1991: 8). Charlatans disrupt the entire system, because credit is not like other commodities. Money circulates not for current goods and services, but in exchange for contingent promises about the future (*ibid.*). The dilemma becomes intractable under conditions of asymmetric information,

when lenders do not have enough information to know borrowers' true abilities or intentions to honor their debts. In this situation, a perverse problem of adverse selection sets in when lenders raise the cost of credit to cover the expected losses on borrowers who appear to be more risky. The higher price will deter the prudent borrowers who will work hard to honor the debt, but it will not discourage the charlatans who have no intention of repaying. If lenders do not have enough information to distinguish between these good and bad risks, they will overreact by setting qualification standards too high, they will resort to idiosyncratic or irrational criteria in attempts to avoid the charlatans and they will ration credit on supply rather than price. The result is a systemic credit shortage for many qualified borrowers (Stiglitz and Weiss, 1981).

Credit rationing is the dominant neoclassical explanation for the racial redlining and discrimination that plagued American cities for generations, through the 1980s (Stiglitz and Weiss, 1981; Vandell, 1984; Berkovec *et al.*, 1994). If the ontological appeal of the theory for conservatives is obvious, so is the solution: get more and better information on consumers to eliminate information asymmetries. As lenders are able to acquire more relevant and reliable information to help distinguish borrowers with good and bad intentions, they will once again be able to use the price mechanism to allocate credit more efficiently to more people. This expanded screening capacity arrived in the 1990s, with a revolution in consumer credit reporting and surveillance systems (Saunders and Allen, 2002; White, 2002; Miller, 2003).

For at least two decades, risk-based pricing has been the central doctrine of America's deregulatory policy stance on financial services. There is now a compelling body of evidence that contradicts the rosy predictions of the theory. Most of this evidence comes from specialized empirical and legal analysis of actual industry practices (for reviews, see Engel and McCoy, 2002; 2007; White, 2004). Unfortunately, much of this research challenges only the empirical predictions of risk-based pricing — not its underlying philosophy. Risk-based pricing thus retains enormous popular acceptance. It seems only logical and reasonable that lenders should be encouraged to serve people in need, and be allowed to charge rates tailored to the risk of consumer default. Even in the midst of the current catastrophe, many progressives fall into the trap set by conservative advocates of risk-based pricing — accepting the presumptions that subprime lenders got into trouble because they were too generous with risky borrowers, and that attempts to regulate the industry will discourage lenders from serving low-income and minority consumers, thus hurting those we wish to help. Beneath these assumptions lies the bedrock, bipartisan policy consensus that deregulated financial markets are the only way to allow all households an opportunity to achieve the 'American Dream' of homeownership.

Renting capital

If risk-based pricing and credit rationing boast a genealogy to the great Adam Smith himself, so does the theory of class-monopoly rent:

The rent of land, considered as a price paid for the use of the land, is naturally a monopoly price. It is not at all proportioned to what the landlord may have laid out upon the improvement of the land, or to what he can afford to take; but to what the farmer can afford to give. (*Wealth of Nations*, 1776, cited in Evans, 1991: 2).

For unimproved land, the cost of 'production' for the landowner is zero, and yet still the owner receives a price for its use; the class of landowners, by definition, enjoy a monopoly that commands rent. This insight was 'a feature of classical economics' (Evans, 1991: 4) in the eras of Ricardo, Smith, Mill and Marx. But it 'virtually disappears from the literature' (*ibid.*: 3) in the twentieth century, and 'class' was virtually erased from the literature on rent until Harvey's (1974: 240) reminder of the inescapably social relations of tenure:

Tenants are not easily convinced that the rent collector merely represents a scarce factor of production. The social consequences of rent are important and cannot be ignored simply because rent appears so innocently in the neoclassical doctrine of social harmony through competition.

Through the 1960s, considerable attention focused on the adaptation of agricultural land-rent theory — especially differential land rent — to understand the spatial structure of cities. Harvey, however, understood class-monopoly rent as conceptually distinct from differential rent. Each element of class-monopoly rent is crucial. *Class* matters because, in all capitalist societies, the rights and privileges of ownership are central to power relations, political conflict and social inequality. *Monopoly* matters not primarily because, as Marx suggests, the supply of land is limited, nor because landowners can become price-makers, but rather because of the inherent monopoly associated with the legal status of ownership. Owners enjoy a collective power in the marketplace by virtue of the fact that they are not renters. Owners' rights are codified in law and backed up by state protection and, if necessary, armed police force; owners' protection is by no means absolute nor unconditional, but it is much more than the security given to renters. Finally, *rent* is the simple yet crucial economic measure enabling owners' claims on the use of any capitalizable asset with return subject to the 'outcome of a conflict with a class of consumers of that resource' (*ibid.*: 239).

These conflicts are mediated by various financial institutions providing credit for those who can only become owners through mortgage debt: 'All of these institutions . . . operate together to relate national policies to local and individual decisions and, in the process, create localized structures within which class-monopoly rents can be realized' (*ibid.*: 245). For empirical illustration, Harvey mapped the anatomy of class-monopoly rent in neighborhood submarkets of Baltimore, Maryland. Although part of his analysis dealt with conflicts between speculator-developers and suburban middle- and upper-income homebuyers, the most shocking exploitation was apparent in the urban core, where urban and regional context inscribed localized variations on the deeply entrenched and fundamental American dilemma of white racism against African Americans. In one inner-city submarket, home and land sales were 'dominated by cash and private loan transactions with scarcely a vestige of institutional or government involvement in the used housing market' (*ibid.*: 245). The most severe class-monopoly rent inequalities in this submarket follow the landlord-tenant binary, as mediated by American urban racism. 'Professional landlords are anxious to disinvest' from real estate so they can earn higher returns in the financial markets,

but they still manage to get a rate of return around 13 percent . . . The tenants are low-income and for the most part black. They are poorly organized, exercise little political control and are effectively trapped in this sub-market. Class-monopoly rents are here realized by professional landlords who calculate their rate of return to match the opportunity cost of capital (*ibid.*: 245).

In a separate submarket of West Baltimore, by contrast, lower-middle-class blacks had sufficient incomes to consider homeownership. Yet they faced discrimination from mainstream financial institutions, and could only access ownership through the land-installment contract, a usurious and risk-filled path to homeownership. Only if this course was successfully navigated for several years could a 'buyer' reduce the principal enough to obtain conventional financing and achieve 'true' ownership. These types of schemes were common in US cities through the 1960s, and allowed speculators to charge steep premiums to African Americans excluded from mainstream credit flows. Most of these 'owners' were really the tenants of capital.

Subprime lending as class-monopoly rent

The fundamental essence of the subprime lending boom involves the use of highly mortgaged 'homeownership' to connect national and transnational capital markets to the

lucrative profit margins of local class-monopoly rents. Two long-term shifts established and strengthened these connections. First, a durable bipartisan Washington consensus on the virtues of homeownership has steadily undermined rental housing markets, especially for low-cost units. Second, deregulated financial innovation and creative debt management became key instruments of privatized public policy. Especially in housing, spending and redistribution policies were downplayed in favor of a new emphasis on tax credits and other incentives to encourage market-based solutions. This shift was bipartisan, too: Reagan championed regressive tax cuts, while Clinton permitted unprecedented banking-sector consolidation while using a combination of deregulatory carrots and fair-lending enforcement sticks to encourage private market solutions to problems (like redlining, urban disinvestment and discrimination) that had insufficient public support for direct government intervention (Listokin and Wyly, 2000). The financial services industry had already begun searching for new market opportunities as growth rates moderated among its traditional demand base, and Wall Street was creating an ever-broader array of new kinds of credit default swaps and asset-backed securities markets for every conceivable debt instrument (Fabozzi, 2001). After the landmark deficit-taming budget deals of the first year of the Clinton administration in 1993 reduced long-term interest rates amidst a climate of expanded free trade and transnational investment, the mortgage industry began to accelerate its reorientation away from a business model premised on long-term repayments to a pass-through model earning up-front fees on mortgages quickly sold in the secondary market. Through most of the 1990s, the Federal Housing Administration (FHA) and the GSEs Fannie Mae and Freddie Mac led the effort to encourage traditional but flexible lending to underserved markets — a record that conservatives are now working to distort with claims that the worldwide financial crisis resulted from misguided government efforts to encourage easy credit for minorities. In fact, the subprime boom was in direct competition with publicly subsidized affordable lending, and most subprime lenders preferred to avoid the rules and regulations of FHA insurance and the loan-screening policies of the GSEs in favor of unregulated private securitization through Wall Street investment banks. Thanks to a series of 1980s laws that had exempted certain types of lenders and certain kinds of loans from state usury limits (Engel and McCoy, 2007), and after the Bush administration began to fight state-level efforts to crack down on predatory practices, more and more institutions and investors began to pursue the higher up-front fees of subprime lending.

The combined effects of state and federal regulatory structures and competition in the lending industry brought an institutional transformation in the 1990s. Many large lenders had maintained affordable lending divisions that bolstered public relations with traditional loans made to underserved markets; but, beginning around 2000, more and more banks faced competitive threats from thinly capitalized, non-bank mortgage companies that were exempt from most state interest rate caps and had direct sources of capital from Wall Street investment banks. A growing number of large banks bought up existing subprime firms and organized them as national subsidiaries exempt from state regulation; other banks created their own subsidiaries to cash in on the boom. Kathe Newman (2009, this issue) astutely analyzes the effects of this transformation: communities that had struggled for years to gain access to (traditional, safe, sustainable) mortgage credit were soon devastated by high-risk, predatory capital aggressively seeking access to communities where a history of financial exclusion had made it easy to deceive consumers into expensive debt obligations. Steadily rising home values allowed predators to refinance borrowers who fell behind, earning more fees and hiding abusive practices behind artificially low default rates. Together, these changes propelled an unprecedented wave of capital investment targeted mostly but not exclusively to low-income people and places, racially and ethnically marginalized borrowers and communities, and other 'new markets'.

Of course these markets were new only for mainstream financial institutions, and for Wall Street investment conduits. 'Underserved' markets have long been familiar to slum landlords, abusive storefront lenders, payday lenders, pawn shops and foreclosure

specialists. Subsidiary structure and securitization, however, allowed large national banks and Wall Street investment houses to tap into the extractive profits of 'new markets' while avoiding state usury law and the reputational risks of deceptive, abusive business practices. Citigroup, HSBC, and many other global banking brands bought up notorious subprime firms and moved aggressively into high-cost lending. Industry competition combined with federal pre-emption of state law led to the selective replacement and de-localization of many of the individual actors described by Harvey. Yesterday's local landlords and speculators financed by local or regional banks have been replaced by today's network of local brokers, working independently or for various kinds of non-bank mortgage companies or bank subsidiaries. Nearly all of them sell loans to obtain fresh capital flows from private investors and SPVs working with national lenders and Wall Street investment banks.

Since the 1970s, the individual actors have changed but the material relations of exploitation are the same. Today, fewer inner-city African American renters are forced to pay class-monopoly rent to slum landlords, and fewer aspiring black homeowners are forced to accept the terms of speculators peddling land installment contracts. Yet many more African Americans (and Latinas and Latinos, and others) are pushed into high-cost subprime mortgage credit — even when they are qualified for better-priced prime credit, and often (in the case of home improvement and refinance loans) when they are not even seeking credit in the first place (Stein, 2001; Lax *et al.*, 2004; Renuart, 2004; Squires, 2004; Peterson, 2005). Anyone trapped in the web of high-cost subprime credit is forced to pay a wide range of interest-rate premiums and complex fees and charges, many of them carefully disguised. These excessive payments are sustained by information asymmetries (the econometric term for deception) and by savvy exploitation of many consumers' belief that they are unable to qualify for mainstream credit. The excessive payment stream is allocated, by negotiation as well as competition, amongst brokers, lenders, appraisers, home-improvement contractors, investment banks and investors seeking maximum risk-adjusted yields in MBS shares.

It is entirely possible for abusive subprime lending to flourish even when all of the individual actors involved have honorable intentions of providing fair treatment to the customers they deal with directly: a subsidiary develops an innovative, flexible mortgage available to all, but markets heavily through racialized minority advertising channels and broker networks; a broker working in a low-income, inner-city neighborhood treats all borrowers the same regardless of race or ethnicity, but happens to specialize only in high-cost subprime adjustable-rate mortgages with stiff pre-payment penalties; a Wall Street investment banker can truthfully claim to have no knowledge of the racial identities of individuals struggling with monthly payments collateralizing subprime MBS shares. Even when individuals have honorable intentions, however, the transformation of the collateralized house into a traded financial instrument that stretches the distance between the underlying asset and global financial markets (Sassen, 2009, this issue) also breaks the ethical and economic interdependencies between savers, lenders and borrowers. The new actors involved in what Sassen (2009) diagnoses as the global circulation of mortgages — local brokers and lenders, transnational banks, investment houses and hedge funds, and worldwide MBS investors — have for the most part replaced the slum landlords and land-installment speculators of a previous age. But just as in Harvey's account of Baltimore, 'owners' have only the most precarious ability to 'have, possess' according to the etymology of the Old English *āgnian* and *agen*. Millions of home 'owners' drawn into the subprime system are, in material and housing-class terms, barely distinguishable from renters. In the subprime market, homeowners are simply paying rent to the new landlord, subprime mortgage capital. In these circumstances, the cultural symbolism of homeownership is nothing more than a deceptive illusion (Krueckeberg, 1999).

Up-scaling of the extraction of class-monopoly rent from a localized submarket, described by Harvey, to the entire US urban system presents challenges (Wyly *et al.*, 2006). In Baltimore, class-monopoly rents were typically taken by a loosely organized

group of landlords operating in collusion with one another. We do not suggest collusion among subprime lenders, but that informal agreements are not even necessary in a (neoliberal) market formed through deregulation and enticement to exploit new markets. Harvey also describes a situation where the extraction of class-monopoly rent was, to a degree, sustainable due again to informal mechanisms to prevent landlords from extracting more capital than the low-income tenants could bear. Such a set of mechanisms does not exist when class-monopoly rent is extracted through rampant subprime lending at a scale removed from the day-to-day experience of the neighborhood. With sophisticated risk management and securitization, risks were partitioned, priced and exchanged on markets worldwide — seemingly freed of the material constraints of inner-city homeowners struggling to make the monthly payments. These risk management mechanisms failed spectacularly when it became clear that exploitation had its limits. But the trillions of dollars of investor losses in 2007 and 2008 have not weakened or eliminated the inequalities of class-monopoly rent: federal policy interventions to help homeowners facing foreclosure have been limited (often involving voluntary programs to encourage servicers to consider loan modifications). By contrast, US government commitments to buy MBS, to inject capital into banks, and even to partly nationalize financial institutions have been forceful, decisive and aggressive — to the tune of a potential total public exposure of at least \$5 trillion. Notably, one of the proposals that conservatives refused even to consider in the \$700 billion rescue package passed in October 2008 would have revised household bankruptcy law to allow judges to modify the terms of first-lien mortgages for families in bankruptcy proceedings. This provision would have cost the Treasury not a penny, but it would significantly alter the terms and conditions of class-monopoly rent.

Metropolitan market penetration and racial-geographic segmentation

Our perspective on class-monopoly rent is not new. The argument was sketched clearly by Harvey in 1974, and refined in the subsequent decade (Harvey, 1978; 1981; 1985). Our theory is implicit in, and complementary to, other lines of inquiry in a rich literature, including historiographies of the Community Reinvestment Movement (Squires, 1992; 2003; 2004), legal-economic diagnoses of segmented subprime credit markets and global finance (Engel and McCoy, 2002; 2007), long-term measures of the transformation from the old inequalities of exclusion to the new inequalities of stratified inclusion (Williams *et al.*, 2005; Ashton, 2008; Immergluck, 2008; Hernandez, 2009), and especially Peterson's (2007) notion of 'predatory structured finance' and Gotham's (2006; 2009, this issue) analysis of securitization as the secondary circuit of capital. Our purpose is to add an explicit, consistent and multivariate urban and regional dimension to this literature. If we were to map Harvey's (1974) relations of class-monopoly rent as it circulates through Berry's (1964) cities as systems within systems of cities, what would we see in this cartography of capital?

Our analysis rests upon two claims, which we evaluate during the peak of the subprime boom from 2004 to 2006. First, we examine *metropolitan market penetration* by beginning with the risk-based pricing notion that subprime credit will be most common in places marginalized by urban and regional inequalities of deindustrialization and uneven development. Even after accounting for these factors, however, we hypothesize that the geography of race and ethnicity still matters. In the distorted world of subprime marketing, targeting racially and ethnically marginalized communities is an efficient, economically rational way to find consumers who feel excluded from mainstream credit markets, and who are likely to be more vulnerable to deception and abuse. Second, we hypothesize that the *racial-geographic segmentation* of class-monopoly rent can best be understood by analyzing mortgage-industry subsidiary

structure and secondary-market circuits — rather than the presumed credit blemishes of individual borrowers at the heart of risk-based pricing.

Data

Many different kinds of data source provide complementary yet partial views of specific facets of the subprime market (Immergluck, 2008; Newman, 2009, this issue). Since we wish to measure the market consistently across nearly all cities and suburbs across the nation, the only comprehensive source comes from the annual application-level records reported by lending institutions that comply with the Home Mortgage Disclosure Act (HMDA) (FFIEC, annual). HMDA provides, *inter alia*, the requested loan amount, purpose, and income of each consumer applying for a mortgage loan from a covered lender, along with the location of the collateral property, the outcome of the application, and (for loans approved and originated) information on whether the loan was sold in the same calendar year to a secondary-market investor.

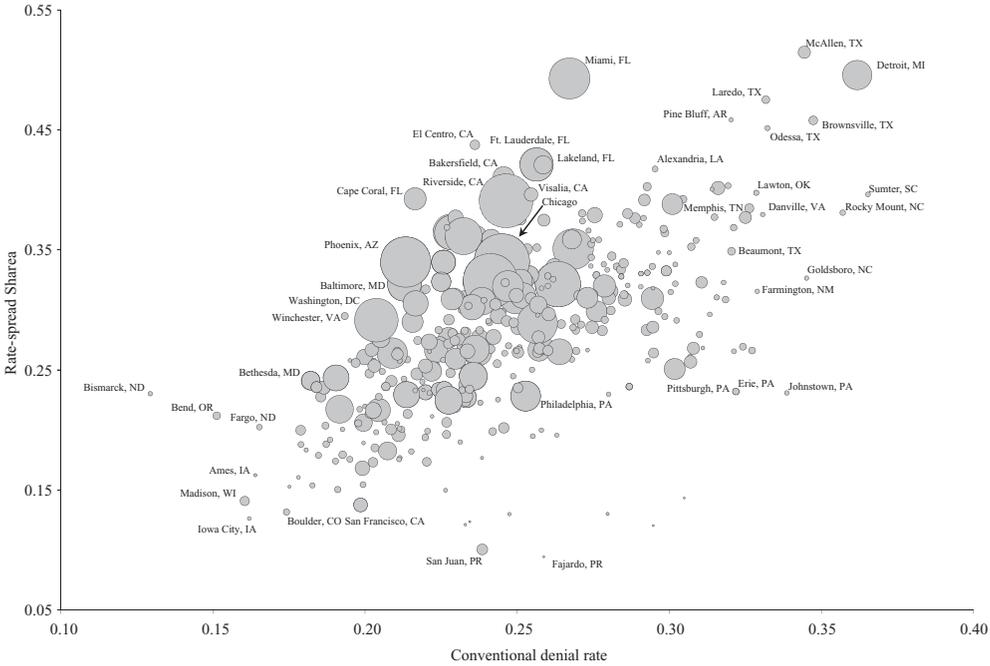
HMDA has many well-documented limitations, but (1) unlike specialized industry datasets, it provides unparalleled coverage of most of the market, (2) unlike specialized housing surveys or internal lender files, it is a full enumeration rather than a sample, and (3) it is the only comprehensive source of information on applicants' racial and ethnic identities for specific types of loans in particular places. Additionally, some of the limitations of HMDA ensure that it will understate the true extent of exploitation and bias.¹ Beginning in 2004, expanded disclosure rules required lenders to identify originations classified as high-cost, or 'rate-spread' loans² — where the annual percentage rate cost of borrowing, including up-front points and fees, is more than three percentage points higher than the reported yield for US Treasury securities of comparable maturity for first mortgages, and five percentage points higher for subordinate liens (see FDIC, 2005).

Consider a simple illustration of the interpretive dilemma between risk-based pricing and class-monopoly rent, as seen through the geography of HMDA data. Figure 1 presents a simple summary of rate-spread loan shares and conventional application denial rates across all of the nation's metropolitan areas. The common-sense understanding of risk-based pricing seems inescapable: subprime credit achieves the greatest market penetration where it is needed the most. This is in cities where higher shares of applicants are turned away from conventional credit.

Metropolitan denial rates alone account for more than one-third of the variance in subprime market share, from the worst-case scenarios of Detroit and Texas border cities (where rate-spread loans account for more than two out of five loans) to the best-case outcomes in small college towns like Boulder, Colorado, Madison, Wisconsin and Iowa City, Iowa — where only one out of seven loans is subprime. But if we account for denial rates and other factors associated with the logic of risk-based pricing, is there any evidence of the kinds of racial-geographic disparities predicted by class-monopoly rent?

To address this question, we narrowed the full database used for Figure 1 to make it possible to match lending information to other metropolitan characteristics. We also applied several quality-control screens for individual application records in order to

- 1 Lenders below specified size and lending activity thresholds are not required to report HMDA records. Some operators craft their business to escape disclosure requirements, while other fly-by-night shops simply refuse to comply. Between 2004 and 2006, the Federal Reserve cited almost 300 banks for violations of HMDA (Braunstein, 2007). Discriminatory and/or fraudulent practices are likely to be much more prevalent among institutions who refuse to disclose their activities.
- 2 Rate-spread loans are proxies for subprime loans. The analysis does not estimate the actual class-monopoly rent extracted, but demonstrates that subprime mortgage markets can be explained through the *relations* of class-monopoly rent since borrower differentials (the premise of risk-based pricing explanations) do not fully explain the observable patterns.



Note: Circle sizes are proportional to the number of rate-spread originations (e.g. 618 in Iowa City, 72,022 in Miami, 124,215 in Riverside, CA)

Figure 1 Denial rate for conventional mortgage applications, vs. rate-spread share of conventional loan originations, by metropolitan area, 2006 (source: FFIEC, 2007)

ensure precise measures that build in a conservative bias against any finding of race–class–geographical exploitation and discrimination.³ The final database provides information on 16.1 million applicants in 2004, and 17.4 million in 2006 (see Table 1). Between 2004 and 2006, denial rates edged up slightly, a reminder that relaxed underwriting did not quite allow credit for ‘anyone this side of life support’ (Stiglitz, 2007) as almost a quarter of requests in 2006 were rejected.

Yet among those who did get loans, the share exceeding the rate-spread (high cost) trigger shot up from 16.6% in 2004 to 29.7% in 2006. Lenders retained only a third of the loans they made, and sold the other two-thirds. A growing share of secondary-market sales is bypassing the GSEs in favor of a wide variety of private investor conduits. The dataset also confirms the deeply racialized character of the subprime boom (see Table 2). Non-Hispanic whites comprise an absolute majority of subprime borrowers, and the share of whites with high-cost loans jumped from 13% to 22%. But market penetration was far higher for blacks and Latinos. The ratio of black-to-white subprime share fell slightly, from 2.86 to 2.44, but the secular expansion of subprime share meant that by

3 Metropolitan areas in Puerto Rico, where the industry operates in a distinctive legal regime, were excluded from the final database. We also excluded all files with missing or invalid information on income or location, applications for government-insured loans, records for multifamily properties or with no formal mortgage lien, and records with either validity or quality edit failures. We also excluded applications in many of the new micropolitan areas defined by the Census Bureau in 2004 — since it is not possible to match these records to the detailed socioeconomic and housing characteristics reported in the 2000 Census. Finally, we sought to distinguish the subprime crisis from other disasters: Tables 1 through 4 exclude applications on properties located in New Orleans and Houma, Louisiana, and Gulfport-Biloxi, Mississippi.

Table 1 Action taken on loan applications, 2004-06

	2004	Share	2006	Share
Approved by lender, but not accepted by applicant	1,233,253	7.64	1,438,651	8.25
Denied by lending institution	3,469,950	21.50	4,118,251	23.61
Withdrawn	2,240,413	13.88	2,465,289	14.13
Closed as incomplete	656,618	4.07	629,899	3.61
Approved and originated	8,542,665	52.92	8,792,672	50.40
<i>Total applications</i>	16,142,899	100.00	17,444,762	100.00
Rate-spread loans	1,422,550	16.65	2,611,646	29.70
All others	7,120,115	83.35	6,181,026	70.30
<i>Total originations</i>	8,542,665	100.00	8,792,672	100.00
Held in portfolio	2,447,105	28.65	2,805,347	31.91
Sold to GSE	2,138,295	25.03	1,561,259	17.76
Sold through private securitization	176,637	2.07	578,185	6.58
Sold to commercial bank, savings bank, or savings association	520,018	6.09	437,624	4.98
Sold to life insurance company, credit union or finance company	699,604	8.19	1,156,270	13.15
Sold to affiliate institution	531,885	6.23	635,219	7.22
Sold to other type of purchaser	2,029,121	23.75	1,618,768	18.41
<i>Total originations</i>	8,542,665	100.00	8,792,672	100.00

Note: database includes only conventional, single-family applications with first or subordinate liens, with no missing or invalid financial or locational information, that can be matched to metropolitan area data as described in text, and excluding loans purchased by reporting institutions.

Source: FFIEC (2005; 2007)

Table 2 Race/ethnicity and subprime lending, 2004-06

	2004			2006		
	Rate-spread	All others	Rate-spread share	Rate-spread	All others	Rate-spread share
Non-Hispanic white	673,925	4,582,813	12.8	1,145,948	4,051,650	22.0
Non-Hispanic black	217,811	375,624	36.7	435,478	375,915	53.7
Hispanic ^a	233,438	700,283	25.0	553,839	660,871	45.6
Demographic information incomplete ^b	293,987	1,182,673	19.9	422,832	803,428	34.5
Native American	7,694	24,852	23.6	9,474	19,630	32.6
Asian, Hawaiian Native, Pacific Islander	37,603	383,259	8.9	92,718	327,771	22.1

^aIncludes some applicants who provided no information on race

^bIncludes some applicants who provided information on ethnicity and race, but no information on gender

2006, an outright majority of all African American borrowers were pushed into high-cost loans. For Hispanics, the disparities with whites jumped from 1.95 to 2.07.

Results

Metropolitan market segmentation

Our first hypothesis is that subprime credit proliferates in economically marginalized areas, but that risk factors cannot fully explain the sharp patterns of racial–ethnic inequality documented by so many researchers and journalists (Brooks and Ford, 2007; Immergluck, 2008; Rivera *et al.*, 2008). We aggregated the loan-level files to metropolitan-area summaries, and then matched the summaries to a standard set of measures of economic, housing market and demographic variables from the 2000 Census. We also developed a simple proxy for overall credit risk — the share of denials where underwriters cited credit history as a reason.⁴

Risk-based pricing suggests that subprime lending should achieve greatest market penetration in areas with low incomes and poor credit — and that holding these factors constant, subprime credit flows should reduce denial rates. Standard OLS regressions provide mixed and inconsistent support for these expectations.⁵ On the one hand, there is evidence that the subprime flood spread throughout the urban system. In 2004, a dozen simple measures can account for 77% of the variance in subprime share, but only 65% in 2006. Subprime shares also increase as expected in areas with higher denial rates, lower per capita incomes, and greater market shares of applicants rejected for bad credit.

Even after accounting for these factors, racial segmentation remains crucial — and its impact worsened at the height of the boom. In 2004, a one-standard-deviation increase in the metropolitan share of non-Hispanic Blacks increases subprime market penetration by 0.32 standard deviations; this elasticity of racial inequality increased to 0.36 two years later. Subprime penetration showed no significant bias towards cities with large Latino populations in 2004 (after accounting for income and other controls in the models), but yields a 0.34 standardized beta in 2006. For many years, subprime credit was most pervasive in African American communities (HUD-Treasury Joint Task Force, 2000; Squires, 2003), whereas predators found it more difficult to penetrate Hispanic communities and other minority ethnic niches. This seems to have changed rapidly as brokers and lenders responded to Wall Street pressures to find more ‘underserved’ markets.

Racial-geographic segmentation

Aggregate measures of market segmentation are helpful in mapping the broad contours of credit inequalities, but precise measurements require the analysis of outcomes for individual borrowers. To evaluate our second hypothesis — that lending industry dynamics and class monopoly rent account for racially unequal credit better than risk-based pricing — we analyze the 8.54 million loans in the dataset that were approved and originated in 2004, and the 8.79 million for 2006. We use logistic regression, the standard workhorse of the banking and lending literatures, augmented with an instrumental variable technique that provides an estimate of the credit risk for each individual applicant (see Abariotes *et al.*, 1993; Holloway, 1998).

- 4 HMDA does not provide credit history information for all applicants, but certain types of lenders are required to cite up to three reasons when they decide to reject an application. ‘Credit history’ is one of nine options lenders can choose from.
- 5 To conserve space, full results are not presented here. All multicollinearity tolerance statistics are well below problematic thresholds.

Table 3 Model fit diagnostics for credit history instrument

Probability Range %	Number of Applications	Average Model-Predicted Probability of Bad-Credit Rejection	Actual Proportion Rejected for Bad Credit
0.1-4.9	54,974	0.027	0.026
5.0-9.9	29,679	0.070	0.071
10.0-14.9	11,113	0.122	0.122
15.0-19.9	5,487	0.172	0.183
20.0-24.9	3,055	0.223	0.220
25.0-29.9	1,655	0.273	0.262
30.0-34.9	1,025	0.323	0.322
35.0-39.9	642	0.373	0.388
40.0-44.9	479	0.423	0.441
45.0-49.9	345	0.475	0.464
50.0-54.9	235	0.522	0.519
55.0-59.9	162	0.574	0.549
60.0-64.9	138	0.625	0.696
65.0-69.9	100	0.670	0.640
70.0-74.9	102	0.725	0.657
75.0-79.9	57	0.779	0.754
80.0-84.9	31	0.822	0.774
85.0-89.9	6	0.867	0.833
90.0-94.9	-		.
95.0-99.9			.

Note: Model estimated on a randomly selected sample (109,285) of all applications

This instrument is derived from the stated judgments of underwriters and lenders on their reasons for refusing to make loans to certain applicants, and it thus provides conservative insurance against any results that would unfairly place blame on the lending industry. Our instrumental variable model, estimated on a random sample of all applications, is quite 'good' at predicting the characteristics of those viewed as unacceptable by underwriters (see Table 3). We use the parameters from this bad-credit model to calculate a risk proxy for each of the applicants who eventually did receive loans. We then estimate several models to measure the factors that distinguish those who wound up with high-cost, rate-spread loans.

We estimated four models each for 2004 and 2006, beginning with (1) basic applicant financial measures, loan purpose and demographic characteristics, then adding measures of (2) lending industry structure, (3) estimated credit risk, and (4) metropolitan housing market context (see Table 4). Five results stand out. First, measures of fit declined slightly across all model specifications, attesting to the generalized spread of subprime credit throughout the market. Second, the effects of core underwriting measures weakened. Odds ratios for income and income-to-loan ratios moved closer to unity, as various forms of high-cost loans became more common among middle-income borrowers struggling to cope with the high costs of many markets. The odds ratio for owner-occupancy fell, as subprime credit became more closely linked to investment and speculative purposes; but the effect (from 0.89 to 0.69; see Model 1) is not nearly as large as implied by press coverage of legions of speculative flippers using 'exotic' loan instruments.

Table 4 Subprime segmentation models

	<i>Odds ratios from logit models</i>							
	Model 1		Model 2		Model 3		Model 4	
	2004	2006	2004	2006	2004	2006	2004	2006
Income (log)	0.592	0.789	0.540	0.702	0.666	0.794	0.737	0.846
Income-to-loan ratio (log)	1.400	1.107	1.738	1.320	1.524	1.263	1.329	1.157
Owner-occupied	0.886	0.693	0.954	0.673	0.855	0.648	0.827	0.640
Subordinate lien	1.755	1.427	0.849	0.865	0.910	0.853	1.220	0.995*
Pre-approval requested	0.660	0.336	0.516	0.301	0.702	0.362	0.691	0.359
Home improvement	0.603	0.486	0.648	0.679	0.294	0.541	0.322	0.560
Refinance	1.111	1.011	1.128	0.999*	0.898	0.898	0.932	0.911
Incomplete demographic information	1.579	1.728	1.197	1.466	1.075	1.235	1.108	1.259
Female primary applicant	1.244	1.203	1.160	1.152	1.150	1.079	1.174	1.094
Hispanic or Latino	2.037	2.863	1.662	2.400	1.138	1.951	1.239	1.972
Native American	1.975	1.690	1.747	1.709	1.026*	1.002*	1.091	1.031*
Asian	0.843	1.076	0.868	1.068	0.756	0.878	0.849	0.937
Black or African American	3.480	3.783	2.645	3.267	1.659	2.326	1.638	2.360
OCC-regulated bank			0.269	0.351	0.208	0.331	0.207	0.333
OTS-regulated thrift			0.219	0.912	0.199	0.845	0.208	0.853
FDIC-regulated bank			0.407	0.466	0.323	0.445	0.332	0.452
HUD-supervised mortgage company			2.258	1.377	1.921	1.329	1.973	1.350
Sold to GSE			0.046	0.154	0.043	0.151	0.043	0.151
Sold to private investor			0.779	3.282	0.731	3.199	0.745	3.233
Sold to bank			0.871	1.352	0.789	1.339	0.806	1.344
Sold to life insurance co., credit union, mtg. bank, or finance co.			0.575	1.803	0.559	1.796	0.565	1.790
Sold to affiliate institution			0.796	1.201	0.771	1.189	0.762	1.191
Sold to other type of purchaser			0.931	2.056	0.908	2.042	0.923	2.061
Credit history instrument					1.433	1.239	1.420	1.235
Conventional denial rate							1.048	1.110
Share of applications requesting FHA insurance							0.980	0.972
Non-Hispanic Black population							1.053	0.962
Hispanic population							0.981	0.959
Per capita income							0.908	0.905
Ratio of Non-Hispanic White to Black per capita income							1.057	1.068
Ratio of Non-Hispanic White to Hispanic per capita income							0.951	0.965
Share of owner-occupied housing built before 1950							0.982	0.983
Share of owner-occupied housing built 1995-2000							0.970	0.949

Table 4 *Continued*

	<i>Odds ratios from logit models</i>							
	Model 1		Model 2		Model 3		Model 4	
	2004	2006	2004	2006	2004	2006	2004	2006
Median gross rent as share of household income							0.924	0.960
Median owner-occupied value as share of household income							0.927	0.943
Share of owner-occupied housing units with no mortgage							1.036	0.976
Share of mortgaged units with a second mortgage							0.954	0.991
Nagelkerke max R-squared	0.131	0.116	0.333	0.303	0.338	0.305	0.346	0.310
Percent concordant	71.0	67.7	83.4	79.1	83.8	79.2	84.1	79.5
Observations for 2004 models:	8,542,665							
Observations for 2006 models:	8,792,672							

*Not significant at $P < 0.01$; all other coefficients significant at $P < 0.001$.

Note: For continuous variables (income, income-to-loan ratio, credit instrument, and metropolitan variables), odds ratios report the change in odds with a one-standard-deviation increase in the respective predictor.

Source: FFIEC (2005; 2007)

Third, racial disparities worsened. For blacks and Latinos, the results are striking across all specifications. Subprime disparities increased from 3.5 to 3.8 for African Americans, and from 2.0 to 2.9 for Hispanic borrowers.⁶ Accounting for differences in lender type (Model 2) and estimated credit risk (Model 3) certainly reduces these inequalities. However, even after giving every benefit of the doubt to lenders with an instrumental variable that itself captures disparate-impact racial discrimination, African Americans are 1.6 times more likely than non-Hispanic whites to have subprime credit in 2004, and 2.3 times more likely in 2006. For Latinos, the corresponding increase is from 1.1 to 1.9. This result aligns with the aggregate, metropolitan-level analysis, and confirms that the subprime boom consolidated African American segmentation even as the industry made new inroads into Latino communities. At the same time, the central plank to justify risk-based pricing slid away. In 2004, increasing the credit risk measure by one standard deviation increased the likelihood that a borrower received a subprime loan by a factor of 1.43; only two years later, this ratio slipped to 1.24.

The fourth finding confirms the crucial role of institutional processes and capital circuits in connecting individual borrowers to transnational investment networks. Subprime lending has traditionally been most common among small, thinly capitalized independent mortgage companies, which disclose their activity to the US Department of Housing and Urban Development (HUD), but escape the closer supervision of the four main banking regulators. Yet, as the federal banking regulators 'shrugged' when confronted with proliferating abuses (Andrews, 2007), many traditional banks began to pursue the profits of the subprime boom by purchasing or establishing their own subprime subdivisions. The odds ratio comparing independent mortgage companies to large national banks regulated by the Federal Reserve (the reference category) fell from

6 We use these categories with an understanding of the complexities of the social construction of race and ethnicity. In the case of HMDA data, loan applicants are asked to self-identify race or ethnicity by choosing from a list of categories. They may decline to do so.

1.92 in 2004 to 1.32 two years later (Model 3). Traditional, locally oriented savings and loan institutions reporting to the Office of Thrift Supervision (OTS) became almost indistinguishable from the national, Federal Reserve-regulated banks. Moreover, as banking structures evolved to create new channels for subprime credit on the front end, the back end was also shifting, as lenders accelerated their sales to the secondary market.

For quite a few years, the majority of home loans have been securitized. Until recently, however, most lenders held many of the non-conforming, non-traditional or high-risk loans in their own portfolio for a year or more. This practice, known as 'seasoning', was particularly important in the 1990s as secondary-market investors reacted cautiously to front-line lenders who were relaxing underwriting criteria in order to reach new markets (Listokin and Wyly, 2000). Our analysis reveals that this practice changed dramatically between 2004 and 2006. In 2004, subprime loans posted low odds ratios for all types of secondary purchasers. Compared to prime loans (which are commonly sold quickly to the GSEs), subprime loans were, overall, more likely to be held in portfolio long enough to stretch past the same-year sale reporting requirements of HMDA.

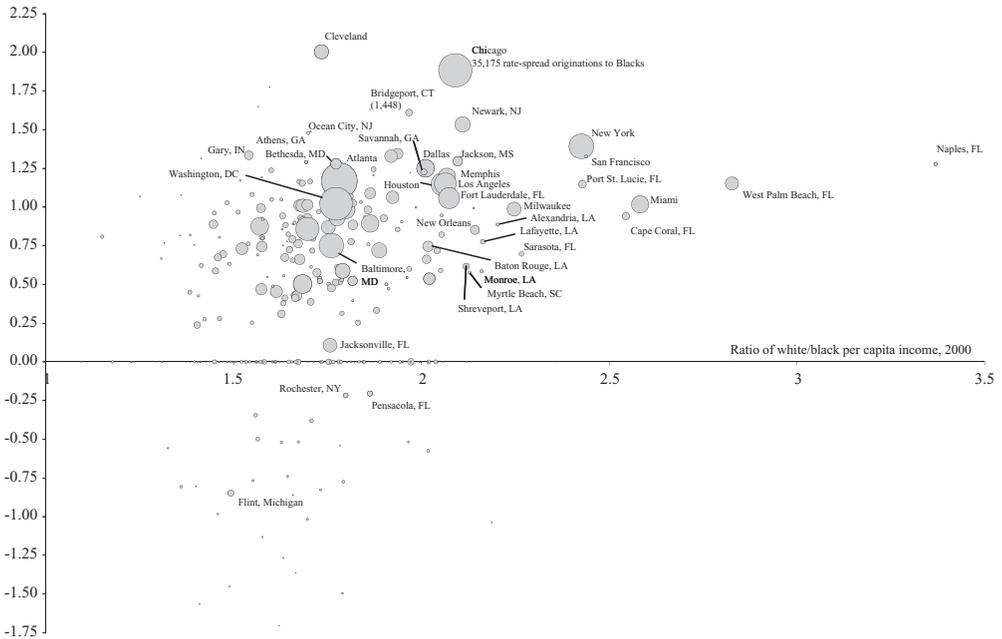
As investors flooded the MBS market and investment banks became more aggressive, front-line lenders responded with more risky loans passed on to the secondary market more quickly. In 2006, a loan approved and sold to a private investor was 3.2 times more likely to be subprime compared to an otherwise identical loan that was held in portfolio past the end of the year. A loan sold to an 'other type of purchaser' — usually an SPV that packages the loans before passing on to a trust or SIV — was more than twice as likely to be subprime. In light of what is now known about the deteriorating quality of loans made in the latter months of 2006, it is clear that the securitization system had fused a toxic brew from the most volatile compounds of economic chemistry (adverse selection, principal-agents dilemmas, information asymmetries) to create perverse incentives encouraging loans destined to end in foreclosure (Dymski, 2007; Immergluck, 2008).

The fifth finding suggests no clear role for urban and regional context. Adding a vector of theoretically relevant metropolitan measures adds almost nothing to model fit, and yields standardized odds ratios that all fall in a narrow range between 0.94 and 1.11 (Model 4). The largest effects are for metropolitan denial rates and white-black income inequality (both positive) but the effects are modest for all metropolitan indicators. After accounting for secondary investment networks, banking industry structure and applicant characteristics, it seems that class-monopoly rent displays no contextual bias towards particular kinds of places. This finding appears to undermine one of our important hypotheses.

Acknowledging geographical contingency

Adding 'metropolitan indicators' to a model is only one way to capture the distinctions of place. Another approach is to recognize that the processes summarized in a particular model may vary across different settings. There are several intricate ways to analyze this variation (expansion techniques, multilevel models) but here we consider the simplest approach: estimating Model 3 (Table 4) separately for all metropolitan areas. This boosts model fit considerably for most places, and yields varied coefficient estimates for relations of particular concern. We focus here on the geographical contingency of racial subprime segmentation for African Americans (Figure 2) and Latinas/Latinos (Figure 3), and the nexus of subprime segmentation, applicant income and secondary-market sales networks (Figure 4).

These graphs offer vivid portraits of the contextual landscape of capital flows. Subprime credit is deeply racialized across most but not all housing markets. Most metropolitan areas appear in the top portion of the graphs in Figures 2 and 3. For African Americans, many of the larger cities post coefficients between 0.75 and 1.00 — all else constant, blacks are between 2.1 and 2.7 times more likely than otherwise identical non-Hispanic whites to wind up with subprime credit. For Hispanics, most of the odds ratios range from 1.65 to 2.7. Likewise, the general pattern of class segmentation and



Note: Beta coefficient in subprime logit model, after controlling for income, debt ratio, credit instrument and other factors; coefficients not significant at $P < 0.05$ are shown as 0.00. Circle sizes are proportional to the number of rate-spread originations to non-Hispanic blacks

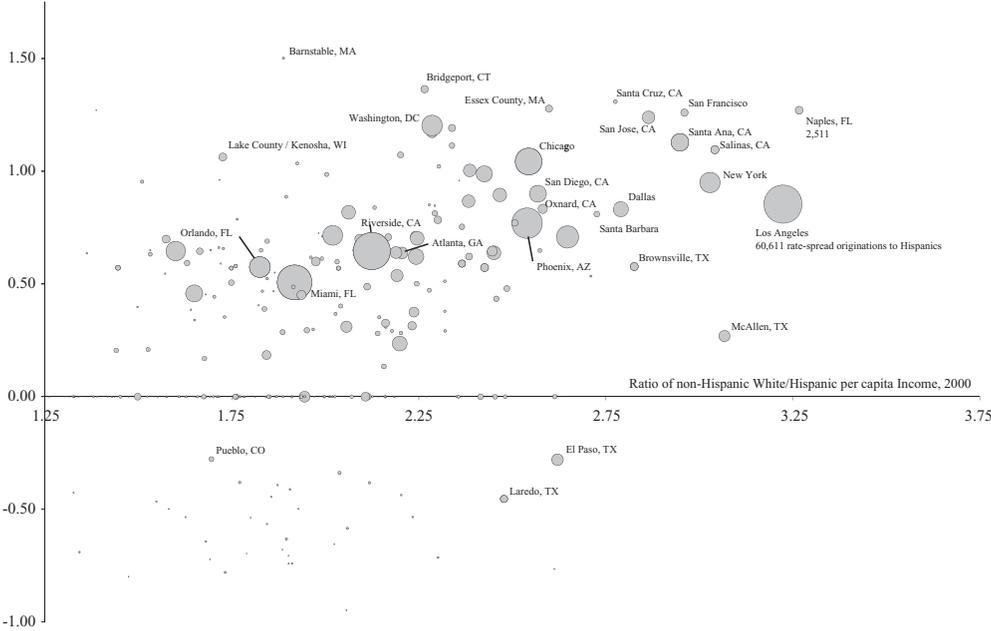
Figure 2 Metropolitan coefficients of racial segmentation, non-Hispanic African American borrowers, 2006 (sources: FFIEC, 2007; US Census 2000, per capita income data)

secondary-market sales conduits is clear. Most metropolitan areas in Figure 4 appear in the upper-left quadrant. All else constant, in most places subprime loans are targeted towards lower-income borrowers, and are more likely than prime loans to be sold immediately to SPVs and other purchasers. These general patterns conform well to the hypothesis that class-monopoly rents are extracted from across the urban system — but in uneven ways that inscribe distinctive local credit environments.

Nevertheless, urban and regional contingencies matter. Quite a few metropolitan areas cluster along one of the axes, indicating no statistically significant segmentation for race/ethnicity (Figures 2 and 3) or class/secondary circuits (Figure 4). In several metropolitan areas, the prevailing patterns are reversed. Subprime segmentation is significantly less likely for African Americans in places like Flint, Michigan, Rochester, New York, and Pensacola, Florida; for Latinas and Latinos, these effects appear in Pueblo, Colorado, and the locally transnationalized, multi-generational Texas border cities of El Paso and Laredo. There are even more exceptional cases for income and loan-sales networks: in four dozen metropolitan areas, subprime credit is *ceteris paribus* more likely for higher-income applicants.

The effects are not substantively large,⁷ but they provide a direct counterpart to the general trend. Given the controls included in the models, these effects cannot be attributed to a greater prevalence of investor-buyers, higher debt burdens or a different mix of homebuyers and applicants seeking to refinance. After accounting for these factors, part of the subprime boom appears to have involved higher-income applicants

7 For metropolitan areas near Minneapolis-St. Paul on the graph, increasing applicant income from about \$100,000 to \$350,000 increases the odds of subprime selection by a ratio of about 1.07.



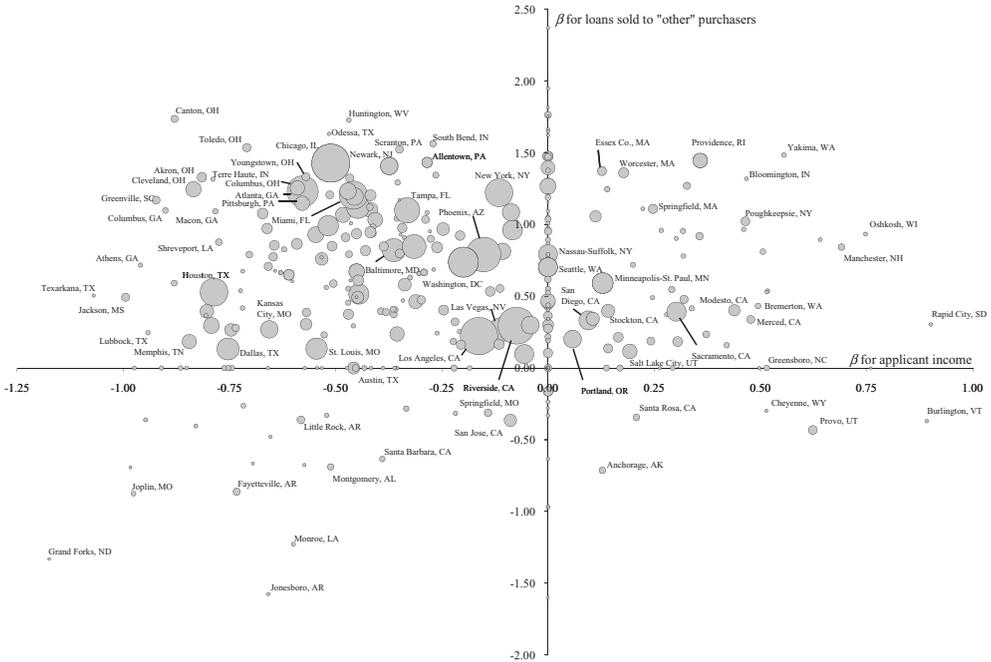
Note: Beta coefficient in subprime logit model, after controlling for income, debt ratio, credit instrument and other factors; coefficients not significant at $P < 0.05$ are shown as 0.00. Circle sizes are proportional to the number of rate-spread originations to Hispanics

Figure 3 Metropolitan coefficients of racial segmentation, Latino/Latina borrowers, 2006 (sources: FFIEC, 2007; US Census 2000, per capita income data)

responding to the imperatives of extremely tight housing markets in big cities — such as the Twin Cities, San Diego, Salt Lake City, Portland and Sacramento. But even stronger effects appear in smaller regional trade centers, and in exurban towns transformed by dramatic increases in long-distance commuter suburbs. Some of these places — San Diego, Minneapolis-St. Paul, Portland — are highlighted in Immergluck’s (2008) analysis of the expansion of ARMs and zero-down-payment loans in the cumulative-causation cycle of ‘exotic’ mortgages in the home purchase market. Rising prices in overheated markets induce lenders and buyers to use more flexible instruments, which in turn enable sellers to demand still higher prices. Many other cities on our graph do not correspond neatly with Immergluck’s analyses (see Immergluck, 2008: 7, 9, 13). Compared with the durable divisions of race and ethnicity, there is considerable metropolitan contingency in the class focus of subprime capital.

Conclusions

As America’s subprime lending boom reached its crescendo and then began its descent between 2004 and 2006, the share of African Americans pushed into high-cost loans shot up from 37% to 54%, and the share for Latinas and Latinos jumped from 25% to 46%. In this article, we challenged the dominant, risk-based pricing explanation for these kinds of disparities. Even after accounting for a wide range of demand-side factors, African Americans and Latinas/Latinos approved for credit were still twice as likely as otherwise identical non-Hispanic whites to wind up with high-cost loans in 2006. Inequalities are even more severe for African Americans in cities like Cleveland, Chicago, Newark and



Note: Beta coefficient in subprime logit model, after controlling for income, debt ratio, credit instrument and other factors; coefficients not significant at $P < 0.05$ are shown as 0.00. Circle sizes are proportional to the number of rate-spread originations

Figure 4 Metropolitan coefficients of income segmentation and SPV sales conduits, 2006 (source: FFIEC, 2007)

New York; for Latinos, in smaller cities in Massachusetts, and in Bridgeport, Connecticut, Washington, DC, Chicago and the San Francisco Bay Area. The analysis demonstrates that the geography of the subprime lending boom was not simply a random deviation from mainstream market outcomes: rather, the pattern was inscribed through the mutual interplay between regional histories of race and uneven urban development across the American urban system and the competitive moves of brokers, lenders and Wall Street investment houses working to maximize short-term profits in an anti-regulation climate that favors the interests of financial capital over the needs of consumers. Although our findings are tempered by significant data limitations, our results complement and amplify Hernandez's (2009, this issue) historical analysis of the 'seemingly place-less and colorblind' wave of subprime capital that reorganized the spaces of vulnerability created in previous generations of racialized exclusion. Our measures of the rapid changes in securitization networks at the height of the boom also complements Gotham's (2009, this issue) important Lefebvrian analysis of the role of securitization innovations in accelerating the fluidity and velocity of leveraged market transactions — annihilating space by time in a dangerous shift to unsustainable, short-term relations of extraction and exploitation.

The framework of risk-based pricing certainly can be refined and adapted to help disentangle the information asymmetries among lenders, investors, investment banks, and bond-ratings agencies (*cf.* Greenwald and Stiglitz, 1991). But the theory of risk-based pricing has become doctrine and ideology, used for well over a decade to blame consumers for the consequences of an abusive industry, to justify a deregulatory stance that encourages usury as 'innovation', and to sustain the mirage of an 'American Dream' backed by high-risk, predatory credit. That is not to say that critical treatments of

risk-based pricing and credit scoring need be viewed purely in ideological terms (Langley, 2007; Burton, 2008). But Harvey's (1974) analysis of class-monopoly rent provides a compelling theoretical and strategic alternative that emphasizes the social relations of the rights of property, ownership and profit — against the use values of home, community and security. Subprime lending and Wall Street securitization have replaced the abusive local loan sharks and slum landlords with entrepreneurial brokers and lenders pushing high-cost credit backed by mortgage companies, subsidiaries of large national banks and the entire array of investment bankers, bond traders, ratings analysts and yield-hungry investors. The agents may be different, but the exploitation remains. Challenging this exploitation will be an important part of political struggle in the coming years, as the crisis evolves and devastates households, neighborhoods and cities — as well as many investors and pensioners. The politics of scale will be central to this struggle — community organizations fighting foreclosures (Newman, 2009), state legislatures fighting federal pre-emption of consumer protections, and European governments taking the lead against the US in proposals for new policies on bank supervision, accounting and market disclosure (Aalbers, 2009, this issue). Wainwright's (2009, this issue) work makes it clear that these struggles are by no means predetermined: the migration, adoption and adaptation of US securitization practices in the UK was deeply contextual, shaped by the distinctive features of tax law, accounting standards and banking regulation. Put simply, the details of political economy matter. And some of these details can be changed. There are encouraging possibilities for post-crisis consumer protection law in the US, given the outcome of the Presidential and Congressional elections, and recent moves by Britain, France and other nations to demand reforms to America's curiously parochial-yet-globally-significant regulatory infrastructure. The framework of class-monopoly rent must be at the heart of these discussions if we are to restore any balance in the rights and protections available to people who need the use values of home, security, stability and community — and whose lives are being so painfully disrupted by the irresponsible exploitations of speculative capital accumulation.

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Résumé

La crise financière mondiale la plus grave depuis la Grande Dépression a attiré le regard de la planète sur le secteur américain des prêts hypothécaires à risque (subprime) et sur ses liens avec une exploitation abusive au sein des communautés ouvrières et raciales marginalisées. Durant près de vingt ans de prospérité, les établissements de crédit hypothécaire à risque ont combattu réglementations et réformes: ils ont appliqué une 'tarification au risque' pour rapprocher innovation financière et accès démocratisé au capital; ils ont tiré parti des mythes culturels liés au 'Rêve américain' de la propriété

individuelle; ils ont écarté les cas vérifiés de discrimination raciale et de comportement abusif, sous prétexte d'anecdotes isolées circonscrites à de rares sites voués à l'échec dans ce qui est par ailleurs une sphère bienveillante du libéralisme de marché. L'article met en cause ces trois tactiques. Une fois adaptée et actualisée, la théorie de Harvey (1974) sur les rentes de monopole de classe permet de cartographier les exploitations localisées (quartiers) de classes et de races dans plusieurs centaines de zones métropolitaines américaines, et d'expliquer comment elles ont glissé, via les canaux de titrisation de Wall Street, jusqu'aux réseaux internationaux d'endettement et de placement. Il faut appréhender les inégalités structurelles des rentes de monopole de classe pour pouvoir analyser, organiser et répondre à la crise par des politiques publiques.