

How do mortgage lenders influence neighbourhood dynamics?

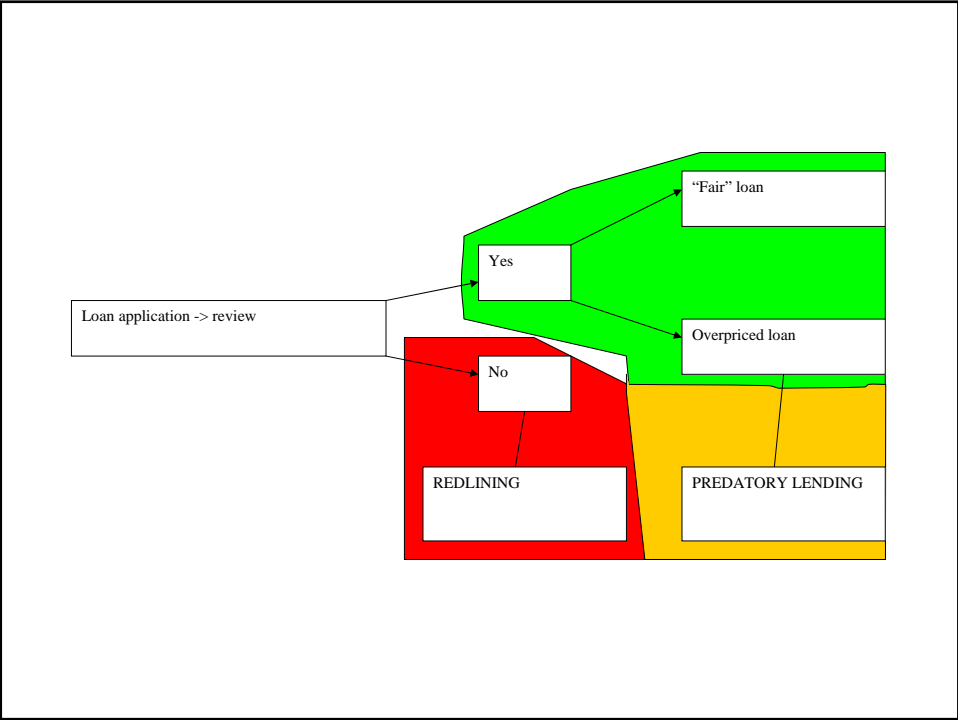
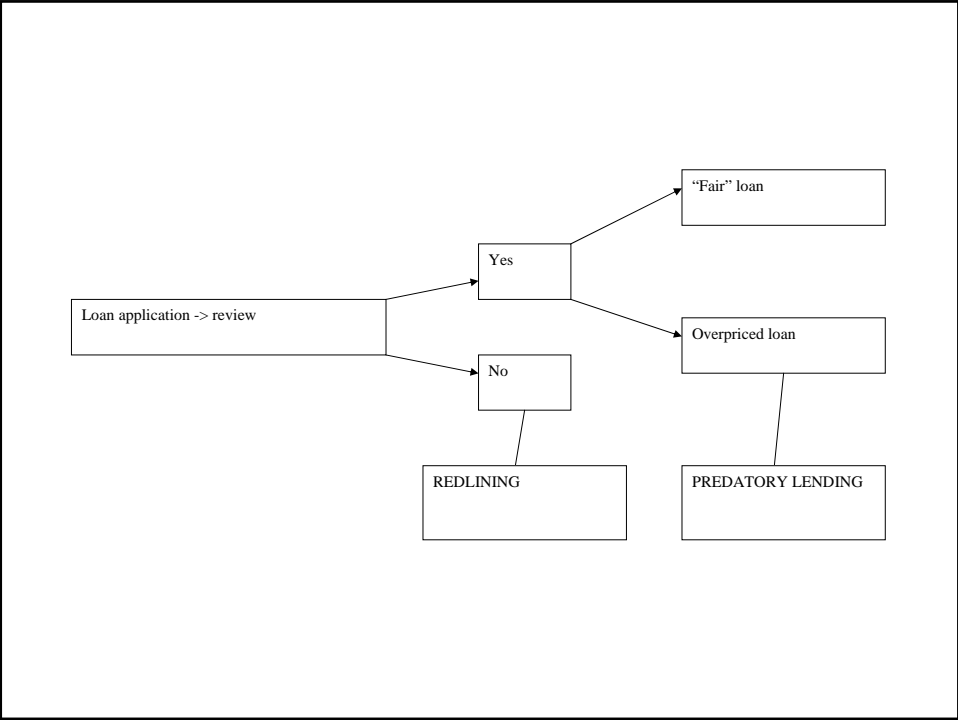


*Understanding
Neighbourhood
Dynamics
Seminar*
September 2010

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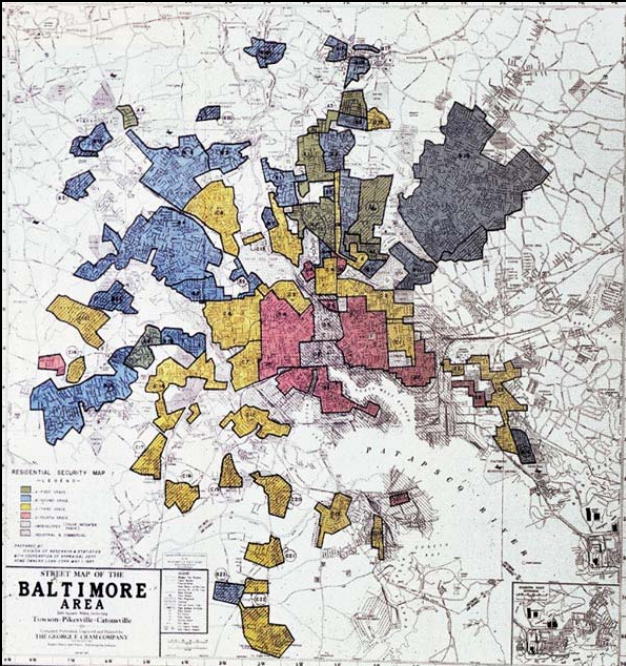
Overview

- Loan application: yes/no, in/exclusion
- **Redlining**
- Credit scoring
- **Predatory lending**



Redlining

Redlining refers to lending (or insurance) discrimination that bases *credit decisions* on the *location* of a property to the exclusion of characteristics of the borrower or property. Usually it means that lenders will not make loans to areas with African Americans or to other *perceived risks* to real estate investments (Hillier, 2003: 395, emphasis added)



Redlining

- Identification of a specific neighbourhood where people are unable – or hardly able – to get a home mortgage

Why is redlining important?

Consequences

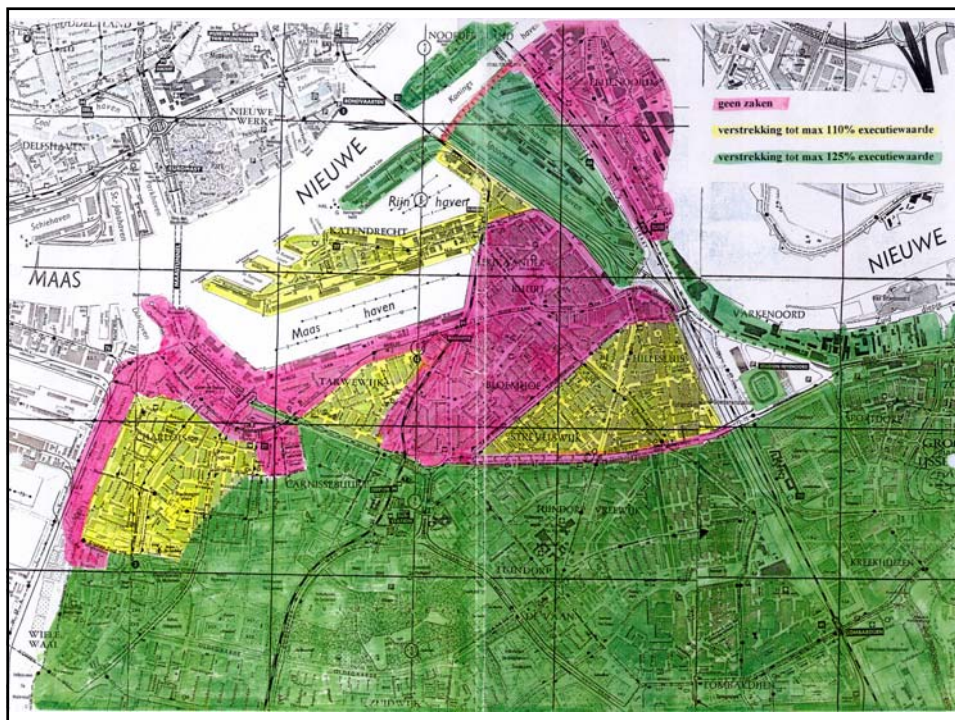
- People cannot buy a house (excl. from)
- People cannot sell a house (excl. through)
- Neighbourhood decline (excl. through)
- Stigma (excl. through)
- Works against public policies

Redlining & Neighbourhood Effects

- Place matters, i.e. the neighborhood has an independent influence on exclusion processes
- Redlining could be conceptualized as a type of neighborhood effect
- The neighborhood makes a difference for the individual mortgage loan applicant
- The reputation of an area may also have an effect on its resources

Research on Redlining

- Historical evidence from the US & Canada
- A lot of “recent” research in the US
- Some research in other (partly) Anglophone countries
- Until recently: no research outside the Anglophone world
- **Research in the Netherlands & Italy**



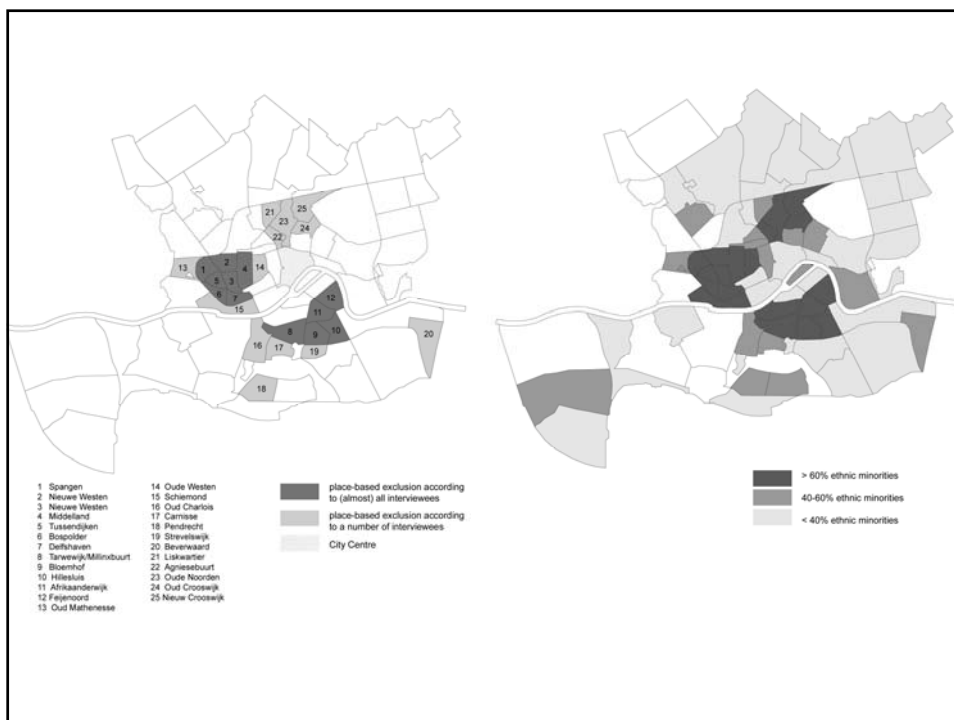
Werkgebied Centrum/Noord/Kralingen		
Postcode	Code:	
3011	Stadsriehoek	I
3013	CS-Kwartier	II
3014	Oude Westen	III
3015	Dijkzigt	I
3016	Nieuwe Werk	I
3021	Middelland	III
3022	Nieuwe Westen	III
3023	Nieuwe Westen	II
3024	Delfshaven	II
3025	Bospolder	III
3026	Tussendijken	III
3027	Spangen	III
3028	Oude Mathenesse, Witte Dorp	III
3031	Rabroek	II
3032	Agnesebuurt	III
3033	Provenierwijk	II/achter het Centraal Station
3034	Crooswijk	III
3035	Oude Noorden	II
3036	Oude Noorden	II
3037	Lijkwartier	II
3038	Bergpolder	I
3039	Hijldorp	I
3061	Kralingen West	I/overgang naar "het Kralingen"
3062	Kralingen Oost	I
3063	De Eech	I

Werkgebied Zuid		
3071	Feijenoord	III (uitgezonderd Kop van Zuid)
3072	Afrikaanderwijk	III (uitgezonderd Hillesluis 77 t/m 97 a,b,c,d => code I)
3073	Bloemhof	III/begrensd door: Putelaan/Oudekerkestraat
3074	Hillesluis	III/vanaf de Lange Hilleweg III/begrensd door: Slaghekstraat/ W. Varkenoordseweg/Riederlaan/Beijerlandse W. Varkenoordseweg/Riederlaan/Beijerlandse
3081	Tarwewijk	III/begrensd door: Dordtse/Mijnsterren/ Weverhoeckstraat/Wolphaersbocht/Pleinweg/Briefhuis
3081	Katendrechtse Lagendijk	III/vanaf de Pleinweg (oude gedeelte)
3081	Gaesbeekstraat	III/vanaf de Pleinweg (oude gedeelte)

Opmerkingen:
 Wat betreft het restant woningen, in het werkgebied Zuid, zoals Oud Charlota Carmisebuurt/Tarwewijk/Bloemhof/Strevelwijk/Hillesluis zal vooroverleg moeten plaatsvinden op basis van een taxatierapport. Tevens zal voor de appartementen een goed functionerende Vereniging van Eigenaren van belang zijn.

Verklaring begrippen:
 • Code I : Financieren tot 125% van de executiewaarde;
 • Code II : Kritisch bezien (maatwerk);
 • Code III : Niet financieren;

23 april 1999 **Rabobank**



Neighbourhoods with an overrepresentation of...

- ... ethnic minorities
- ... low income groups
- ... high unemployment
- ... low house price
- ... rental properties (often)
- ... housing speculation (sometimes)
- ... high turnover

Local: neighbourhood level

de facto redlining

maintenance of housing stock

popularity of neighbourhood

upgrading vs. downgrading

Tarwewijk / Millinxbuurt



Sub-prime Lending

to people with bad credit

Sub-prime Lending

to people with bad credit

+

to people with good credit

=>

credit score is not defining factor,
higher interest rates are

Predatory Lending

- Subset of sub-prime lending
- Refinance, second mortgages
- Not designed to enable homeownership
- Targeted at low-income and minority populations

Predatory Lending

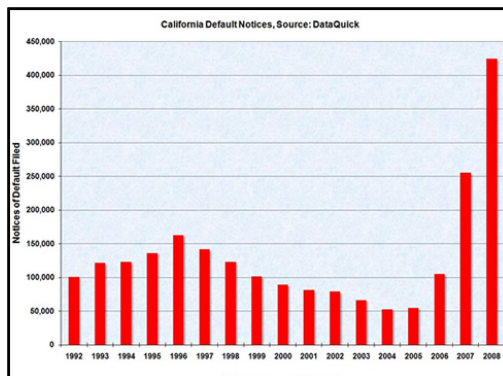
1. higher interest and fees than is required to cover the added risk of lending to borrowers with credit imperfections;
2. abusive terms and conditions that trap borrowers and lead to increased indebtedness;
3. fails to take into account the borrower's ability to repay the loan;
4. violates fair lending laws by targeting women, minorities and communities of colour.

Predatory Lending

- African-Americans relatively speaking receive more than twice as many high-priced loans as Whites.
- Almost half of the loans in minority areas are high-priced compared to 22% in predominantly white areas.
- 20% of all loans in minority areas are classified as "high risk" compared to only 4% in white areas.

The Geography of Foreclosures

- From the *Rustbelt* to the *Sunbelt*
- Stockton (California) versus Richmond (Virginia)



“Foreclosure Capital”:
Stockton,
California



The Geography of Foreclosures

- From the *Rustbelt* to the *Sunbelt*
- Stockton (California) versus Richmond (Virginia)
- Minority neighbourhoods: more predatory loans and foreclosure sales
- Top 10 neighbourhoods foreclosures are all in *Rustbelt* cities, e.g. 4 neighbourhoods in Detroit



“Ground Zero”:
Slavic Village,
Cleveland, Ohio



Foreclosures & Neighbourhood Effects

- Geographically concentrated
- Cannot fully be explained by individual characteristics
- Absentee ownership
- Spill-over effects
- Depress housing prices of near-by properties
- Crime
- Tax revenues vs. local government expenses

Redlining & Sub-prime Lending

1. lending patterns in financial markets, i.e. mortgage markets
 2. major role in the two biggest crises of the last 100 years
 3. disadvantage borrowers
 4. hit the same social groups
 5. geographical component
 6. local impact
 7. agents involved
- exclusion versus overinclusion

Neighbourhood Effects

- The problems of poor areas cannot be reduced to problems of poor people within those areas.
- The neighborhood plays a causal role
- Location plays a determining role in lender's decision-making
- Exclusion is performed both on an individual basis *and* on a neighborhood basis

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