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Race And Space: Segregation And Foreclosure

What's Your Reaction?

As the foreclosure crisis has unfolded, it's become clear that blacks and Hispanics were much more likely to get high-cost mortgages than whites with similar incomes buying similarly-priced homes. But according to a new study, there's more to the link between high-cost loans—which are the most likely to lead to foreclosure—and race: Not only did being black or Hispanic hurt your chances of getting a decent loan, but living in areas with high concentrations of blacks and Hispanics did, too.

This is not merely a retrospective topic: The foreclosure crisis continues to unfold, with signs that President Obama's signature response to the problem is spinning its wheels, and an increase in the number of foreclosure processes begun this year in New York City.

The new report by the Furman Center for Real Estate and Urban Policy at New York University finds that racial segregation affected the distribution of high cost loans in American cities, and at least in New York City, that the impact was felt by whites as well as blacks and Hispanics.

The report first looked at 200 metro areas and divided them into quartiles based on their level of segregation, measured by a "dissimiliarity index" which reflects the extent to which racial groups are distributed differently in different neighborhoods. It controlled for differences among borrowers (income, gender, presence of a co-signer, home price) and cities (median income, size, demographics) to wash out some of the differences that affect access to good loans.

It found that blacks living in the least segregated cities had a 45 percent chance of getting a high-cost loan, while those in the most segregated cities had a 56 percent chance. For Hispanics, the difference was less striking, shifting from 45 percent in low-segregation metro areas to 47 percent in areas where the races are most segregated. Whites, who got high-risk loans at a rate of 14 to 17 percent, were unaffected by the level of segregation at the metro area.

But that was a look at the racial dynamics among whole cities. Here at home, how did the races fare in individual neighborhoods, defined as New York City census tracts? The report found out it that the more white people you lived near, the better for your chances of getting a low-cost loan. In New York's most white neighborhoods, 5 percent of whites, 24 percent of blacks and 14 percent of Hispanics got high-cost loans. In the least white areas, 14 to 18 percent of whites, 38 percent of blacks and 31 percent of Hispanics received high-cost loans.

The influence of segregation on lending could have taken one or more of several forms, the report says. It could be that majority-nonwhite areas were more economically isolated, and this affected those borrowers' employment opportunities and income in some way that the researchers weren't able to control for. It could be that highly segregated areas tended to have borrowers with a lack of financial know-how, or a lack of access to conventional, low-cost lenders. Or it could be that low-cost lenders deliberately "redlined" (i.e., avoided) and high-cost lenders targeted (i.e., preyed) on segregated areas.

The foreclosure crisis is often depicted as a product of our very unique times—an outgrowth of the demise of Glass-Steagall, the development of secondary markets for mortgages, the deepening debt of the American household and government.

But the centrality of race to the story gives it a slightly different feel. This is an old storyline in a new setting: Race and segregation biting everyone in the ass, with blacks and Hispanics feeling the sharpest sting. Is it time for another Beer Summit? Or perhaps a strong cup of coffee?