

UPP 594 Topics in Urban Planning and Policy Community Reinvestment: Building Access to Capital

Wednesday 3:00pm– 5:50pm
ADH 2234
33665

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Course Information

This course will introduce students to the variety of issues involved in expanding access to credit in inner city neighborhoods and other historically underserved markets. This topic has been of crucial interest for over four decades as planners, policymakers and advocates have sought to remedy disinvestment and build individual and community wealth through an increased pace of financial investment. It has also taken on critical importance in light of the mortgage and foreclosure crisis that has taken shape since 2007, as policymakers and practitioners now face the question of what the future of the US housing and retail finance system will be.

The core of the course will focus on the strategies being employed to expand access to fair credit among low-income/minority borrowers and neighborhoods. As Chicago has historically been a center for the community reinvestment movement, we will use the city as a laboratory to learn about different sectoral emphases (mortgage lending, financial services for households, small business lending), as well as different organizational strategies (community reinvestment agreements, community development financial institutions). Throughout, we will pay close attention to the public policy environment that supports these initiatives.

The course will also equip students to analyze different developments in the financial sector for their effects on inner city markets. This will include in-depth discussion and analysis of the following topic areas:

- The history and theory of redlining and lending discrimination. Why would banks refuse to make loans to low income or minority borrowers and the neighborhoods where they are concentrated? When economists say that a more efficient market will remedy these behaviors, should we believe them?
- The globalization of the financial system and the sources of the current mortgage and foreclosure crisis. Does the integration of financial capital into global markets result in greater financial exclusion? Why have issues such as the rise of the subprime market, predatory lending and fringe/payday lenders become so prevalent in such a short period of time, and how did they come to produce such widespread carnage?
- The history of organizing around fair access to credit. Since the late 1960s, community organizations and civil rights groups have succeeded in passing a patchwork quilt of federal, state and local laws that aim to remedy credit inequities. How do these laws work? How have they evolved as the financial system has been transformed over the last twenty years?
- Finally, the course will introduce students to methods of assessing credit inequities. How do we measure inequities or gaps in the availability of fairly priced credit using publicly-available data?

By the end of the semester, students in this course should have accomplished the following:

- Developed a literacy in the concepts that explain how banks behave in US inner cities, and expanded that literacy by examining in detail the debates over how best to meet the credit needs of low-income and minority households and neighborhoods;
- Practiced core methods for analyzing lending disparities using publicly available data; and
- Gained both a broad overview of the history and practice of community reinvestment in the U.S., as well as a more in-depth understanding of current issues faced by public and private actors as they seek to influence the pace and scale of financial investment in low-income and minority neighborhoods.

Course Requirements

The requirements for this course include the following:

- Weekly Readings & Class Participation: A maximum level of participation is required as a part of this course. I expect you to do the required readings listed in the syllabus prior to attending class; they constitute approximately 2-3 hours of reading for each class – a normal load for a graduate seminar. Please read the assigned material and come prepared to contribute to the class discussion. Additionally, there will be periodic preparatory assignments prior to some classes – for instance, writing out questions for guest speakers or conducting background research on issue. Together, these activities account for 20 percent of your overall grade.
- Short Analytical Assignments:
 - o Merger Analysis: You will write a short policy brief assessing a bank merger (15 percent).
 - o Lending Disparities: You will prepare an analysis of bank lending behavior and write a CRA policy memo (25 percent).
- Final Paper & Presentation: I will ask you to write an original research paper on a policy or practice issue directly related to banking, community reinvestment, or financial investment issues in inner city markets. Each of you will prepare a preliminary presentation based (10 percent presentation, 30 percent final paper).

Course Outline & Schedule[†]

As a form of supplemental reading, students may find it useful to follow along with current developments in banking or retail finance through one or another RSS feed. I find Housing Wire, Calculated Risk and Naked Capitalism to all be good timely sources of information.

[†] Note: All readings may be found online at the course Blackboard site.

SECTION 1: CONCEPTS & DEVELOPMENTS IN US BANKING

Week 1 (August 24): Introduction to the U.S. Banking System

Questions & Themes

- Why study banks and banking in urban planning and policy?
- What exactly are banks, and how do they function as profit-oriented firms? How do basic categories of a bank's balance sheet - like assets and liabilities, revenues and expenses - help us understand the business strategies of a bank, including its lending patterns?

Week 2 (August 31): History & Theory of Redlining

Readings

- Immergluck, Daniel. 2004. *Credit to the Community: Community Reinvestment and Fair Lending Policy in the United States*. Armonk, NY: M.E. Sharpe.
 - o Chapter 4, "A Brief History of Mortgage-Lending Discrimination and Redlining".
- Dymski, Gary A. 1995. The theory of bank redlining and discrimination: An exploration. *The Review of Black Political Economy* 23 (3): 37-74.

Questions & Themes

- How it is that race, ethnicity or national origin have come to stand in for credit risk in the United States? How has the equation of risk and race worked, and what have been its effects?
- Under what circumstances might a bank consider it "rational" to limit its issuance of credit? How have economists interpreted that form of economic behavior, and how has that interpretation influenced public policy?

Week 3 (September 7): Is More Financial Openness a Remedy to Redlining? The Federal Reserve Bank Thinks So...

Readings

- Immergluck, Dan. 2009. *Foreclosed: High-Risk Lending, Deregulation, and the Undermining of America's Mortgage Market*. Ithaca, NY: Cornell University Press.
 - o Chapter 1, "U.S. Mortgage Market Development & Federal Policy through the Early 1990s," pp.17-46.
- Dymski, Gary. 1999. *The Bank Merger Wave: The Economic Causes and Social Consequences of Financial Consolidation*. Armonk, NY: M.E. Sharpe.
 - o Chapter 3, "Bank Merger and Regulatory Policy from the 1960s to the 1990s", pp. 34-49.
- Avery, Robert, Raphael Bostic, Paul Calem, and Glenn Canner. 1999. Trends in home purchase lending: Consolidation and the Community Reinvestment Act. *Federal Reserve Bulletin* 85 (February): 81-102.

Questions & Themes

- What has globalization meant for US banks? What are the competitive pressures and public policy reforms that have shaped the structure of US banking markets over the past 40 years?
- Do large consolidating banks have competitive advantages that might allow them to better tap underserved markets, as postulated by economists with the Federal Reserve Bank? Or does the integration of financial capital into global markets result in greater financial exclusion?

Week 4 (*September 14*): From Redlining to Hyper-Segmentation: Subprime & Predatory Lending

Readings

- Immergluck, Dan. 2009. *Foreclosed: High-Risk Lending, Deregulation, and the Undermining of America's Mortgage Market*. Ithaca, NY: Cornell University Press.
 - Chapter 3, "The High-Risk Revolution," pp.17-46.
 - Chapter 6, "High Risk Lending and Public Policy, 1995-2008," pp.167-196.
- Immergluck, Daniel. 2004. *Credit to the Community: Community Reinvestment and Fair Lending Policy in the United States*. Armonk, NY: M.E. Sharpe.
 - Chapter 5, "From Fair Access to Credit to Access to Fair Credit."
- Engel, Kathleen, and Patricia McCoy. 2002. A tale of three markets: The law and economics of predatory lending. *Texas Law Review* 80 (6): 1255-1367.
 - Read Sections I-II (pp. 1257-1299) only.

Questions & Themes

- How was it that the historic exclusion of low-income and minority borrowers and neighborhoods from banking markets could be so quickly transformed into the kinds of heightened rent-seeking and exploitation that characterized the subprime mortgage market from the early 1990s onwards?
- What are/were the business strategies of so-called "subprime lenders" and the characteristics of "subprime loans"? How did they differ from mainstream lenders and prime loans?

Week 5 (*September 27*): The Mortgage Meltdown & Foreclosure Crisis

Readings

- Ashton, Philip. 2009. An appetite for yield: The anatomy of the subprime mortgage crisis. *Environment & Planning A* 41 (6): 1420-1441.
- Wallison, Peter. 2011. Dissent from the Majority Report of the Financial Crisis Inquiry Commission. Washington, DC: American Enterprise Institute.
 - Part 1, "Summary," pp.9-30.
- Immergluck, Dan. 2009. *Foreclosed: High-Risk Lending, Deregulation, and the Undermining of America's Mortgage Market*. Ithaca, NY: Cornell University Press.
 - Chapter 4, "Mortgage Market Breakdown," pp.99-132.
 - Chapter 5, "The Economic and Social Costs of High-Risk Mortgage Lending," pp.133-166.

Questions & Themes

- What factors in the development of US mortgage markets though the 2000s created the basis for the mortgage meltdown and foreclosure crisis?
- How have different political perspectives interpreted the sources and dimensions of the crisis? In particular, what role is attributed to public policy in spurring the mortgage crisis, and what empirical evidence is used to support that position?
- What future structure to banking and housing finance is emerging from the post-2008 reforms to the US financial system? Is it one that will be able to avoid the problems that were evident in the lead-up to the crisis?

SECTION 2: ANALYZING LENDING DISPARITIES

Week 6 (September 28): Measuring Credit Flows (LAB SESSION – meet in SEL 2249F)

Assignment #1 due in class

Readings

- Avery, Robert, Brevoort, Kenneth, and Glenn Canner. 2008. The 2007 HMDA Data. *Federal Reserve Bulletin* (December): 107-146.

Questions & Themes

- What are the primary parameters of data collected under the Home Mortgage Disclosure Act?
- How can that data be used to construct profiles of local banking markets?

Week 7 (October 5): Techniques of Lending Research (LAB SESSION – meet in SEL 2249F)

Readings

- Ross, Stephen, and John Yinger. 1999. Other evidence of discrimination: Recent studies of redlining and of discrimination in loan approval and loan terms. In *Mortgage Lending Discrimination: A Review of Existing Evidence*. M.A. Turner & F. Skidmore, eds. 85-106. Washington, DC: The Urban Institute.
- Paying More for the American Dream: The Persistence and Evolution of the Dual Mortgage Market*. Chicago, IL: Woodstock Institute et al.
- Calem, Paul S., and Stanley D. Longhofer. 2002. Anatomy of a fair-lending exam: The uses and limitations of statistics. *Journal of Real Estate Finance and Economics* 24 (3): 207-237.

Questions & Themes

- How do we measure redlining or credit discrimination using available data? What are the benefits and drawbacks of those measurements?

SECTION 3: REMEDIES TO LENDING DISPARITIES

Week 8 (October 12): Fair Lending

Readings

- Temkin, Kenneth, Levy, Diane, and David Levine. 1999. Inside a lender: A case study of the mortgage application process. In *Mortgage Lending Discrimination: A Review of Existing Evidence*. M.A. Turner & F. Skidmore, eds. 137-160. Washington, DC: The Urban Institute.
- Engel, Kathleen, and Patricia McCoy. 2002. A tale of three markets: The law and economics of predatory lending. *Texas Law Review* 80 (6): 1255-1367.
 - o Read Sections III-V (pp. 1300-1367) only.

- ❑ Immergluck, Daniel. 2004. *Credit to the Community: Community Reinvestment and Fair Lending Policy in the United States*. Armonk, NY: M.E. Sharpe.
 - Chapter 8, "The Predatory Lending Policy Debate".
- ❑ CASE: *Mayor and City Council of Baltimore v. Wells Fargo Bank N.A. et al.*

Questions & Themes

- ❑ How have legal concepts such as equal treatment or fairness been applied to credit transactions, and is there empirical evidence of the effectiveness of those frameworks?
- ❑ Is there an appropriate role for states and localities as enforcers of those legal standards? How has the geography of fair lending enforcement evolved over the past 20 years?
- ❑ Can these legal frameworks provide recourse for communities suffering the effects of the foreclosure crisis, as has been tried in places like Baltimore and Cleveland?

Week 9 (October 19): The Community Reinvestment Act & Its Brethren

Assignment #2 due in class

Readings

- ❑ Community Reinvestment Act Regulations (2005). *Federal Register* 70 (147): 44256-44270.
- ❑ Immergluck, Daniel. 2004. *Credit to the Community: Community Reinvestment and Fair Lending Policy in the United States*. Armonk, NY: M.E. Sharpe.
 - Chapter 6, "Mobilizing for Credit: Community Activism, Policy Adoption, and Implementation through 1987"
 - Chapter 7, "Community Reinvestment from 1988 to the End of the Twentieth Century: Struggles for Bank and Regulator Accountability".
- ❑ Essene, Ren, and William Apgar. 2009. The 30th anniversary of the CRA: Restructuring the CRA to address the mortgage finance revolution. In *Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act*. Boston and San Francisco: Federal Reserve Bank.
- ❑ CASE: US Bank Chicago Area Community Benefits Plan, February 2011

Questions & Themes

- ❑ What does it mean for banks to have an "affirmative obligation" to meet the credit needs of the communities in which they do business? How has that obligation been enforced? Is such an obligation still necessary given all the changes in US banking markets since the 1970s, when the Community Reinvestment Act (CRA) was first enacted?
- ❑ What kinds of business strategies have banks adopted to address the Act's requirements?
- ❑ What evidence is there that CRA has made a difference in credit access? How might we measure the Act's effects?

Week 10 (October 26): Development Finance

Readings

- ❑ Lynch, Teresa, and Lois Rho. 2011. *Capital Availability in Inner Cities: What Role for Federal Policy?* Boston, MA: Initiative for a Competitive Inner City.
- ❑ Baxter, Christine. 1996. Canals where rivers used to flow: The role of mediating structures in community lending. *Economic Development Quarterly* 10 (1): 44-56.

- ❑ CDFI Data Project. 2007. *Providing Capital, Building Communities, Creating Impact: Community Development Financial Institutions*. Philadelphia, PA.

Questions & Themes

- ❑ What are the different organizational forms and lending strategies that characterize the community development finance sector? Should we consider these institutions to be alternatives to mainstream financial institutions, or is their role to open up new markets?
- ❑ How can these institutions gain scale and capacity to better facilitate credit access on the part of underserved markets? How has public policy targeted CDFIs over the last 20 years?
- ❑ What do we learn from high-profile instances of failure in the CDFI industry, such as Chicago's Shorebank?

Week 11 (November 2): Mortgage Modification & Alternatives to Foreclosure

Readings

- ❑ National Consumer Law Center. 2009. *Why Servicers Foreclose When They Should Modify and Other Puzzles of Servicer Behavior: Servicer Compensation and its Consequences*. Boston, MA.
- ❑ Haughwout, Andrew, Okah, Ebiere and Joseph Tracy. 2009. *Second Chances: Subprime Mortgage Modification and Re-Default*. Staff Report no. 417. New York, NY: Federal Reserve Bank of New York.
- ❑ Interagency Review of Foreclosure Policies and Practices. Federal Reserve System, Office of the Comptroller of the Currency and Office of Thrift Supervision. April 2011.

Questions & Themes

- ❑ For communities struggling with high levels of foreclosures, how can federal, state and local policies provide resources to ameliorate housing distress? What are the differences between mediation, modification, refinance, short sale and other foreclosure alternative programs in this regard?
- ❑ Do programs such as HAMP work equally well in all cities or neighborhoods? What program factors influence the geography of loan modification outcomes?

SECTION 4: STUDENT PRESENTATIONS – CURRENT ISSUES & MODELS

Week 12 (November 9): Topics TBA

Week 13 (November 16): Topics TBA

Week 14 (November 23): No Class - Thanksgiving

Week 15 (November 30): Topics TBA