Five chapters

1. Mortgage Redlining (US+NL)
2. Predatory Mortgage Lending (US)
3. Private Equity Funds (US+GE)
4. Derivatives & Social Housing (NL+UK)
5. Tax Shelters & International Wealth Elites (US+UK)
Redlining

- Identification of a specific neighborhood where people are unable – or hardly able – to get a home mortgage
Why is redlining important?

Consequences: HARM

• 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
• Disparate treatment + impact -> ILLEGAL
geen zaken
verstrekking tot max 110% executiewaarde
verstrekking tot max 125% executiewaarde
### Werkgebied Centrum/Noord/Kralingen

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<th>Code</th>
</tr>
</thead>
<tbody>
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### Werkgebied Zuid

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<td>III</td>
</tr>
<tr>
<td>3081</td>
<td>III</td>
</tr>
</tbody>
</table>

### Opmerkingen:

Wat betreft het restant woningen, in het werkgebied Zuid, zoals
Oad Charlois/Sarnissebuurt/Tarwewijk/Bloemhof/Strevelswijk/Hillestuis zal vooroverleg
moeten plaatsvinden op basis van een taxatiereport. 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 beriken (maatwerk);
- Code III: Niet financieren;
Neighborhoods with an overrepresentation of...

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

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Who gets a mortgage loan?

- Loan-to-value
- Loan-to-income
- Other individual (?) characteristics of the loan applicant and the house
- State rules/regulation
Savings

Borrower

Lender
## Credit Scoring

<table>
<thead>
<tr>
<th>Type of Residence</th>
<th>Length of Residence</th>
<th>Previous Residence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own your home</td>
<td>Over 6 years</td>
<td>6-3 years</td>
</tr>
<tr>
<td>Rent</td>
<td>6-4 years</td>
<td>3-0 years</td>
</tr>
<tr>
<td>Live w/parents</td>
<td>3-1 years</td>
<td>Less than 1 year</td>
</tr>
<tr>
<td><strong>Occupation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional</td>
<td>More than 5 years</td>
<td>Over $1,200</td>
</tr>
<tr>
<td>Skilled</td>
<td>3-5 years</td>
<td>$1,200-1,000</td>
</tr>
<tr>
<td>Unskilled</td>
<td>1-3 years</td>
<td>$1,000-800</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$800-600</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$600-1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Monthly Debt</th>
<th>Money Management/Credit History</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0-250</td>
<td>Loan at this bank</td>
</tr>
<tr>
<td>$250 &amp; up</td>
<td>Loan elsewhere</td>
</tr>
<tr>
<td></td>
<td>Credit cards</td>
</tr>
<tr>
<td></td>
<td>Checking/savings accounts</td>
</tr>
</tbody>
</table>

Total Points________
“It is a sport among all banks to retrieve increasingly better information about the social profile of the client. The fact that this occurs is unknown, but not a secret. Credit scoring is everyday practice. The systems, the content and the criteria that banks put together to provide mortgage loans, however, are confidential.”
Risk-based pricing
securitization

credit scoring

risk-based pricing

sub-prime lending
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
Foreclosure crisis

- Default rates go up
- Housing prices go down
- People can’t sell their house
- Harder to get a mortgage
- Foreclosure sales
- Housing abandonment

=> HARM
“Foreclosure Capital”: Stockton, California
De-/re-regulation

- Some states outlawed predatory lending
- New Mexico: Home Loan Protection Act (2003): outlawed high interest rates and high fees
- North Carolina: outlawed refinancing if it’s not in the borrower’s interest
- Federally: many illegal possible ‘ingredients’ of predatory lending
Predatory lending

• Subset of sub-prime lending
• Refinance, second mortgages
• Not designed to enable homeownership
• Targeted at low-income and minority populations
• Abusive terms and conditions
• Fails to take into account the borrower’s ability to repay the loan

=> HARM
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.

$\Rightarrow$ Disparate treatment + impact $\Rightarrow$ illegal
Redlining & Predatory Lending

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

N.B. Subprime lending

1. Redlining
   - Intentional
   + Legal

2. Predatory lending
   + Intentional
   - Legal
Five chapters

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Privatisation in Germany

- 3 million units (8%) public housing
- 100,000s of units are sold
- Right to buy?
- Wholesale privatisation
- Residualisation of public housing stock
Privatisation in Berlin

• East + West
• Restitution
• Privatisation of entire public housing companies
• Private equity funds
Conceptualizing Harm

1. Redlining
   - Intentional
   - Legal

2. Predatory lending
   - Intentional
   + Legal

3. Private equity funds
   + Intentional
   + Legal
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Why does a social housing provider bet on interest rate fluctuations?

- Housing association “Vestia”
- Derivative portfolio of €23 billion
- Summer of 2011: margin calls
- Bail out: €2 billion
- Total financial damage: €3 billion
- Selling off social rented units

=> HARM
“Finance is our core business. We know the financial markets, minute by minute.”

- Quote from CEO Erik Staal (2011)
- Late 1990s: Vestia becomes large RE developer
- 2002: Staal hires treasurer Marcel de Vries
- Derivatives: decrease interest rate risk
- National Social Housing Guarantee Fund promotes derivatives
- Until 2010: accountants at Deloitte and KPMG approve Vestia’s numbers
## Derivative positions of Vestia, December 2011, in millions of Euros

<table>
<thead>
<tr>
<th>Bank</th>
<th>Total nominal value derivatives</th>
<th>Negative market value</th>
<th>Threshold</th>
<th>Margin call</th>
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<tr>
<td>Deutsche Bank</td>
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<td>-498</td>
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<td>348</td>
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<td>Citibank</td>
<td>3700</td>
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<td>55</td>
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<tr>
<td>ABN Amro</td>
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<td>150</td>
<td>223</td>
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<tr>
<td>Barclays</td>
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<td>-85</td>
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<td>BNP Paribas</td>
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<td>Nomura</td>
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<td>-67</td>
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<td>Credit Suisse</td>
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<td>Rabobank</td>
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<td>JP Morgan</td>
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<td>200</td>
<td>-</td>
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<td>Société Générale</td>
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<td>50</td>
<td>-</td>
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<td><strong>Total</strong></td>
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<td><strong>-1678</strong></td>
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<td><strong>796</strong></td>
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</table>
After the bail out

- (Re-)development projects: terminated or sold off
- Renovation minimized
- Number of employees: minus 20-25%
- Rents raised after units become vacant
- 30,000 (1/3) of all housing units sold by 2022, e.g. 13,000 sold to *Patrizia* (German RE investor)
- Vestia pressed charges again Staal and De Vries
- Financial supervisor fined *ABN AMRO*: €3 million

=> HARM + ILLEGAL
Conceptualizing Harm

- Intentional       +
- Legal   +

3. Private equity funds

Legal

- Intentional

4. Derivatives

2. Predatory lending

1. Redlining
Five chapters

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‘[Glenn Stewart] didn’t become rich enough to make the Forbes list, but he profited tremendously. In 2007, he bought an eight-million-dollar residence in Malibu. He already owned a four-bedroom house in Pacific Palisades as well as apartments in London, Oxford, and Leeds. Records show that he held most of the English properties through financial instruments called special-purpose vehicles (S.P.V.s), which he had incorporated in offshore tax havens in Bermuda, Cyprus, and the British Virgin Islands. S.P.V.s are commonly used to limit tax exposure and liability. Records obtained for one of Stewart’s S.P.V.s, registered on the Caribbean island of Nevis, show that, as of October, 2006, it held more than twenty-four million dollars in assets. Stewart said of the S.P.V.s, “My lawyers recommended them.” He added, “It’s also a tax-efficient way to invest in U.K. real estate.”’

(The New Yorker, 2015, page 46)
Transnational wealth elite

- Super-rich? The 1%? Plutocrats? -> “journalistic and rhetorical terms” (Savage, 2015)
- Transnational (capitalist) class + wealth elite = Transnational wealth elite
- Empirically: Ultra High Net Worth Individuals (UHNWIs)
- Social formation+network are international in nature
How do the transnational wealth elite buy houses and apartments in NY and London?

- Real estate agents + lawyers specialising in high-end foreign clientele
- Asset managers
- International marketing: eg. Beijing International Property Expo (BIPE)
- Organized visits to open houses
Regulatory changes

• LON: conversion from commercial to residential RE possible
• NY: EB-5 immigrant VISA program attracting investors
• Other locations (e.g. Switzerland, Luxembourg): have become less attractive
Offshore Special Purpose Vehicles

- Transaction costs reduced
- Lower taxes on rental income
- Intra-firm loan arrangements: ‘thin capitalization’
- Recovery of VAT on RE purchase in UK
- Exempt from capital gain tax in US

=> Partly ILLEGAL
Foreign-owned London properties by main jurisdictions of registration in 2014

- British Virgin Islands: 35
- Jersey: 15
- Isle of Man: 8
- Guernsey: 6
- Panama: 2
- Unknown: 1
Consequences

• Housing affordability
• Displacement
• Developers focus on prime RE
=> HARM
Conceptualizing Harm

<table>
<thead>
<tr>
<th>Intentional</th>
<th>Legal</th>
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</thead>
<tbody>
<tr>
<td>- 1. Redlining</td>
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<td>- 2. Predatory lending</td>
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<td>4. Derivatives</td>
<td>5. Tax shelters</td>
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<td>3. Private equity funds</td>
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- Intentional
- Legal


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