

Race, Market Constraints, and the Housing Crisis

A Problem of Embeddedness

Jesus Hernandez

In Sacramento, California, an ongoing wave of foreclosures resulting from a high number of subprime loans has plunged the city into a state of economic crisis. Foreclosures increased from a record low of 117 in 2005 to 7,494 in 2007 and 17,801 in 2008.¹ A flurry of news articles covering Sacramento's housing problems reported that these foreclosures hit the region's poorest neighborhoods hardest, particularly Oak Park, located a short distance southeast of the central business district, and Del Paso Heights just to its north. Plagued by a rash of abandoned and foreclosed properties, these predominantly nonwhite neighborhoods have seen their home values plummet up to 80 percent from their mid-2006 peak.² Many of these properties remained vacant for over a year following foreclosure, causing havoc for local building code inspectors, law enforcement, and residents and adding to the growing inventory of homes for sale in the area's already depressed real-estate market. Investors and contractors sifted through the fallout of the mortgage meltdown, purchasing houses for what one reporter noted was "less than the cost of a Honda Accord."³

According to the local housing agency, from August 2007 through July 2008, investors purchased 25 to 50 percent of foreclosed properties in Sacramento's low-income areas. This confirmed the troubling shift from resident- to investor-owned properties in these neighborhoods.⁴ Over the years, intensive organizing and programmatic efforts by community activists and the local housing and redevelopment agency have led to increased owner-occupied residency in these neighborhoods. Now, the current wave of foreclosures in Sacramento threatens such hard-fought, positive gains towards revitalization and stabilization.

Financial experts across the United States concur that subprime lending

Jesus Hernandez is a lecturer at the University of California, Davis, where he teaches courses on urban sociology. His research focuses on how institutional structures and market interventions articulate the nexus between race and economy and highlights the importance of equitable urban planning, housing finance, and public policy in building effective community-based economic development strategies. His work emphasizes the use of case studies to reveal how contemporary regional planning and economic development can act as divisive market interventions that serve to perpetuate spatial patterns of poverty in cities through market segmentation.

Kalfou, Volume 1, Issue 2 (Fall 2014). © 2014 by the Regents of the University of California. ISSN 2151-4712 (print). ISSN 2372-0751 (online). <http://dx.doi.org/10.15367/kf.v1i2.31>. All rights reserved.

triggered the start of the foreclosure wave we see today (Shiller 2008; Zandi 2008). Subprime loans are alternative home mortgage products with interest rates substantially higher than conventional financing; they bring an unusually high yield to lenders and investors. Because these products feature rapidly adjusting interest rates, high origination fees, and short repayment periods that encourage periodic refinancing of debt, subprime borrowers shoulder a heavy financial burden. Subprime borrowers are six to nine times more likely to experience foreclosure when compared to borrowers with conventional home loans (Renuart 2004; Schloemer et al. 2006; Girardi, Shapiro, and Willen 2007).

The problem of subprime lending and foreclosures is normally associated with market risk. Simply stated, lenders see less-fortunate consumers as risky, or more likely to default on credit agreements, and offer them credit opportunities attached to more punitive terms (Stuart 2003). Thus borrowers not qualified for prime credit obtain subprime credit at a higher cost (Gramlich 2007). Such innovations expanded access to credit for weaker borrowers and previously underserved racial and ethnic markets, albeit at a higher (but supposedly justified) price (Wyly et al. 2009).

The fact that certain people pay a higher cost for the privilege of credit than others is attributed to disparities of income, or individual circumstances, and market competition. Differences in homeownership rates between groups are reduced to the insensitivity of market forces, leaving a disadvantaged population unable to compete in the shifting urban economy (e.g., Wilson 1987, 1996). This reductionist framework overlooks the historical processes used for distributing housing credit, and excludes exploitation and discrimination from dominant explanations of the crisis.

For decades, housing analysts have indicated that the geography of mortgage lending is highly influenced by borrowers' race and ethnicity. Weaver (1948), Abrams (1955), and Jackson (1985) note that federal housing policies as far back as 1934 prohibited nonwhites from receiving federally insured mortgages. With access to credit determining residential location, segregation became a standard practice in the American housing industry (Massey and Denton 1993; Freund 2007). Consequently, the merging of race with federal urban policy prompted a series of institutional mechanisms that denied access to housing and housing credit, actively separating city residents according to racial categories (Bradford 1979; Gotham 2002; Hirsch 2006). Despite regulatory reforms in the 1960s and 1970s, racial and spatial disparities in accessing home credit persisted into the 1980s and 1990s (Squires 1992; Yinger 1995; Turner and Skidmore 1999; Holloway and Wyly 2001). This long-term, differential treatment in access to mortgage credit clearly impacted the race-based residential geographies of the present.

In today's mortgage market, the disproportionate clustering of subprime loans in nonwhite neighborhoods has replaced such historical exclusionary actions as "mortgage redlining."⁵ Canner, Passmore, and Laderman (1999) attrib-

uted more than one-third of the growth in overall mortgage lending between 1993 and 1998 to subprime lending in predominantly nonwhite census tracts. Immergluck and Wiles (1999) warned that a dual credit market was emerging through predatory mortgage lending practices that placed subprime loans with unusually punitive terms in nonwhite neighborhoods. In 1998, subprime lending accounted for 51 percent of refinance loans in predominantly African American neighborhoods, compared with only 9 percent in predominantly white neighborhoods (Bunce et al. 2002). Scheessele (2002) found that the percentage of Blacks in a given neighborhood is positively related to the area's share of subprime refinance loans. In fact, racial disparities in subprime lending have occurred in urban areas of all sizes throughout the nation (Bradford 2002), leading observers to note that lenders' willingness to serve nonwhite credit markets has become virtually synonymous with subprime lending (Wyly et al. 2006).

Of course, racialized lending patterns expose racial concentrations of residents; the fact that subprime loans are concentrated in nonwhite areas calls our attention to the continued existence of residential segregation. Logically, segregation appears to be a necessary condition for a racialized concentration of subprime loans to exist. The question that guides this inquiry is this: Why, following decades of Civil Rights reform specifically formulated to confront barriers to equal opportunity, do markets continue to produce racial inequality in the distribution of wealth and social goods? A more specific question is why, if credit markets are truly racially neutral, subprime loans are concentrated in Sacramento's predominantly nonwhite neighborhoods. This research examines how contemporary residential segregation and related housing-market outcomes are reproduced historically through seemingly colorblind economic actions intended to aid and revitalize US cities.

Sacramento's history exemplifies the processes and growth that shaped the social and physical landscape of the urban United States, making it an ideal location to study the housing crisis. As in large metropolitan areas throughout the country, its development has been characterized by patterns of residential segregation, postwar suburban sprawl, urban redevelopment, race riots accompanying the 1960s Civil Rights Movement, and now, racial concentrations of subprime loans. Thus the example of Sacramento may inform our understanding of how the housing crisis unfolded in other cities across the United States.

Initial observations of mortgage lending patterns in Sacramento show that subprime loan activity remains concentrated in predominantly nonwhite neighborhoods. Table 1 shows the percentage of nonwhite residents in neighborhoods with high rates of subprime loan activity. Here we see some evidence that the distribution of subprime loans may be correlated with nonwhite residency. Supporting this observation, loan transaction data from the Home Mortgage Disclosure Act (HMDA) for 2004 in Sacramento County show that nonwhites have substantially higher rates of subprime loan usage when compared to whites

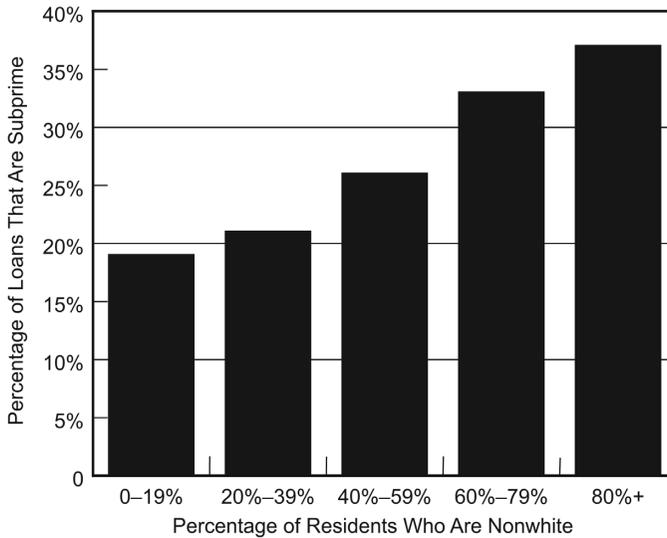


Figure 1. Subprime loan activity by nonwhite population concentration for Sacramento County, 2004. (Source: 2004 HMDA Raw Data for Sacramento County.)

(Hernandez 2009). Moreover, the 2004 HMDA data, which represent the year with the highest subprime loan activity in Sacramento, show that the percentage of loans in a census tract that are subprime increases in direct relationship to the percentage of residents who are nonwhite (see Figure 1).⁶ As a result, predominantly nonwhite neighborhoods in Sacramento have experienced some of the highest foreclosure rates in the nation (Christie 2007).

This racialized concentration of unsustainable mortgage credit in Sacramento is certainly not a new phenomenon for local residents. Starting in about 1990, experimental loan programs, commonly referred to as “B” and “C” paper loans, made their way into the local credit market. These, as practicing real-estate brokers observed, concentrated unsustainable credit products in the area’s nonwhite neighborhoods. Lenders approved loans for borrowers with marginal credit histories, using little or no verification of income, assets, or employment. They approved such loans without regard to the borrower’s creditworthiness, capacity to repay, or property value (collateral).⁷ The unsustainable loans that resulted led to a flurry of foreclosures in the late 1990s. Such neighborhoods as Del Paso Heights, Oak Park, Meadowview, and the greater South Sacramento area suffered the highest foreclosure rates in 1997. Ten years later, these same neighborhoods suffered similar outcomes due to the subprime loan meltdown.⁸

The fact that neighborhoods historically populated with the highest concentration of nonwhite residents repeatedly bear the brunt of disparate access to credit and housing suggests a connection between the way we sort who lives in our neighborhoods and the market practices employed in these places. Neigh-

Table 1. Percentage of Nonwhite Residents for Sacramento Neighborhoods with High Rates of Subprime Loan Activity

Neighborhood	Percentage
Del Paso Heights	65
Franklin/Woodbine	65
Oak Park	68
Valley Hi	70
Meadowview	79

Note: This table is based on Home Mortgage Disclosure Act (HMDA) raw data for 2004, the year of the highest subprime loan activity in Sacramento County, to identify neighborhoods with high subprime loan activity. Nonwhite residency rates were calculated using Federal Financial Institutions Examination Council (FFIEC) Census Data estimates for 2006.

borhoods do not appear overnight. Instead, they take form over extended periods of time, reflecting a series of social, political, and economic decisions made by public agencies that ultimately affect how various housing market participants interact with and within a particular space. Cities in the United States have a long history of using inhabitants' racial characteristics to designate neighborhoods where they can live (Drake and Cayton 1945; Massey and Denton 1993). Therefore, segregation as a form of social closure—the practice of preserving privilege by restricting other people's access to resources and rewards (Parkin 1982)—took root through local acts of racism and discriminatory government policies that reflected the desire for racially separate housing and community (Dean 1947; Weaver 1948; Hirsch 1983; Haynes 2001; Haynes and Hernandez 2008). This article argues that the resulting social geography—labeled as racial space (Iglesias 2000), racially defined residential space (Haynes 2001), or racially identifiable space (Ford 1994)—continues to impact the manner in which social goods are distributed and economic action is organized in Sacramento.

The Mortgage Crisis and the Push for Homeownership

Since the Great Depression, US leaders have promoted the concept of homeownership as fundamental to the American way of life. Franklin Roosevelt proclaimed that a country of homeowners was “unconquerable.” Homeownership could “save babies, save children, save families and save America,” declared Jack Kemp, Secretary of Housing and Urban Development (HUD) during the first Bush presidency.⁹ Many Americans have come to believe that homeownership is critical to building wealth, deterring crime, and establishing a base of social networks that help communities succeed. Promoting his “American Dream” down payment-assistance legislation, George W. Bush declared, “I do believe in the American Dream. Owning a home is part of that dream, it just is. Right here in America, if you own your own home, you're realizing the American Dream.”¹⁰ In this narra-

tive, homeowners guide families and communities towards stability like some sort of moral or cultural compass. Higher rates of homeownership in neighborhoods have traditionally been associated with access to better schools, jobs, and public services (Squires and Kubrin 2006; Correa 2009). Indeed, our housing system has had many positive effects on building the social fiber of cities and communities, as well as becoming an important sector of the nation's economy.

Despite such reverence for homeownership, our political leaders have been quietly dismantling federal support for housing and housing finance over the last thirty-five years. Under the Reagan and first Bush administrations, drastic cutbacks in federal budget resources for housing led to the national homeownership rate either stagnating or actually declining for twelve consecutive years.¹¹ In 1995, a majority Republican Congress succeeded in slashing the HUD budget by 25 percent, cutting an additional 25 percent the following year.¹² Such drastic reductions in federal housing assistance meant the gradual replacing of traditional mortgage financing and increased reliance upon the financial industry to provide new innovations and infrastructure to create opportunities for home buyers. The ever-present push towards increased homeownership from the political arena required the private sector to create new credit products that would make housing affordable in the absence of federal funds.

Although private innovations in the financial industry fueled the housing industry's rapid growth and a boom in homeownership, they also required the reduction of governmental oversight. As Congress met these demands, new rules overrode important consumer protections against predatory lending and usury limits originally enforced at the state level. Moreover, these rules allowed commercial banks to acquire or affiliate themselves with less-regulated entities, leading to innovative lending practices that took place through mortgage companies not subject to the regulatory oversight placed on banks by the Community Reinvestment Act (CRA) (Immergluck 2009). Enacted in 1977, the CRA responded to the systematic denial of credit, or redlining, that took place in low-income and nonwhite residential neighborhoods at the hands of banks. The logic behind CRA was to require banks to extend credit to the communities in which they maintained branches and collected deposits. As part of the finance industry's dramatic, thirty-year transformation, the strong link between mortgage lending and branch-based, deposit-oriented banking has disappeared. By 2002, less than 30 percent of home purchase loans were subject to CRA scrutiny. In some metropolitan areas, the share was even less.¹³ In 2006, only one of the top twenty-five subprime lenders was directly subject to CRA regulations.¹⁴ By sidestepping government oversight during the "boom" years, unsupervised lenders summarily weakened credit standards, imposing unsustainable credit terms on borrowers in exchange for higher credit limits via subprime lending.

Congressional rulemaking also paved the way for securitization—the bundling of mortgages into securities for sale to Wall Street investors. The cash

flow expected from borrowers' future monthly mortgage payments served as collateral, guaranteeing a return for such investors. Securitization provided mortgage companies with a significant amount of liquidity, freeing them from dependence on their own funds to make loans. As a result, lenders came to rely upon securitization as the primary funding source for their loan commitments (Immergluck 2009). This new cash infusion into mortgage markets supercharged the entire housing industry, shifting consumer attention away from the safe, traditional, fixed-rate mortgages offered by government-sponsored entities (GSEs) and toward more risky, adjustable-rate mortgages with higher loan limits.¹⁵ These changes to the structure of mortgage lending laid the foundation for alternative mortgages such as subprime loans, which flooded the market and left cities to deal with the ensuing financial disaster. In less than three decades, the mortgage industry's transformation from a community builder to a predatory and profit-seeking infrastructure has resulted in the worst economic downturn and residential displacement since the Great Depression of the 1930s.

Race, Markets, and Social Closure

The difficulty in explaining disparate market outcomes, such as racially concentrated subprime loan activity in US cities, comes in part from common perceptions of markets. Typically, classical economists view markets as price-making mechanisms driven by supply and demand that place economic efficiency above all else (Smith 1976). Race, therefore, is considered an irrelevant non-market force; racially disparate market outcomes somehow stem from neutral market forces. Consequently, today's markets are considered to be race-neutral economic processes that operate independently of social relations. However, this traditional view fails to consider the nature and history of social relations that have excluded certain groups from market opportunities and market organization.

By outlining the social preconditions necessary for markets to function, I emphasize Granovetter's (1985) notion that economic action remains embedded in social relations. I argue that manipulation of market preconditions leads to social ordering that designates market position, facilitates social closure, and protects market privilege. Excluding racial groups from access by defining them as undesirable is necessary to monopolize market opportunity and create group-based interests. This racially oriented manipulation of market preconditions means that race relations as well as social relations remain embedded in economic action. By identifying the processes that racialize market organization, I will show how categorical social ordering sustains exclusionary market practices and produces a racial hierarchy in our cities and neighborhoods. I argue that the racialized concentration of Sacramento's subprime loans, mortgage defaults, and foreclosures can be explained as a problem of embeddedness.

Market Preconditions and Performance

Swedberg (1994, 256) conceptualizes a market as a type of social structure that facilitates exchange. Treating markets as social structures calls attention to the rules that regulate market conduct and, most importantly, to their barriers to entry. Market rules contribute to the sorting of individuals based upon specific selection criteria and, when racialized, contribute to the definition of racial categories. Four preconditions for market exchange indicate the social nature of markets (Carruthers and Babb 2000) and provide an important link between race and economic action. First, property—the socially constructed bundle of rights to ownership—is the object of market exchange. The fact that rights of ownership have a price indicates the dependency of markets on social actions. When property rights are weakened or become selective in nature, market performance suffers for particular groups. Second, buyers and sellers dictate the amount of economic activity in markets. Placing conditions on who can exchange goods and the type of goods available for exchange selectively limits market access while skewing market outcomes. Third, access to information allows market participants the ability to determine the price, quality, and quantity of property. Information dissemination is critical for establishing price and value, and in helping groups to establish rules for property exchange. Consequently, imperfectly informed markets, or markets with asymmetric information, produce advantages or disadvantages for certain groups. Finally, money, in the form of credit, allows us to quantify value. It also provides immediate purchasing power, enabling participation in market exchanges and opening opportunities for social mobility. Credit indicates a promise of future remittances in exchange for current market opportunity, signifying the establishment of trust—a social act of acceptance that is highly conditioned upon moral and collective beliefs.

The preconditions comprising the institutional foundation of markets are normative, indicating the presence of a socially constructed infrastructure for exchange that is contingent upon the actions of agents. The point here is that it is absolutely essential to look at the actual, concrete interactions of individuals and groups when analyzing market activity (Granovetter and Swedberg 1992). These theoretical notions provide important clues when investigating human agency in the use of racial hierarchies in appraising the value of space, allocating housing credit, and shaping the social closure that results from inequitable market opportunity.

Social Closure

Social closure refers to a system of relationships imposed upon, by, or for individuals and groups according to subjective conditions and rules, which bind

a set of individuals within a particular group. Characterized by exclusion, it includes practices such as residential segregation (Parkin 1982; Haynes and Hernandez 2008). Groups identify certain social or physical attributes that they themselves possess and define these as eligibility criteria. Such strategies reflect the use of power in creating a stratum of inferior individuals. Through this stratum of subordinates, closure becomes a strategy for monopolizing market opportunities. This practice preserves privilege by restricting certain people's access to resources and rewards (Parkin 1979).

Social closure refers to not only the social actions related to the selection of individuals eligible for group membership and exchange but also the processes that keep the scheme of open and closed social relations in place (Weber 1978; Haynes and Hernandez 2008). Punitive legal positions on the part of the state—which are influenced by, as well as implemented through, dominant groups—place subordinates in a weakened bargaining position for market opportunity. Formal rulemaking processes, therefore, directly affect how markets become a dominant form of social organization. Consequently, individuals' market positions are predetermined by such acts of social ordering and the monopolization of access to resources. The geographic patterns of residential segregation and subprime loan concentration provide the opportunity to explore the foundations of this important connection between social order and market position.

Racializing Markets

Blumer (1958) argues that racism is a collective process characterized by dominant group members insisting on differences between racial groups and putting these differences to “mythical use” by using generalizations to justify aggression, separation, and privilege. The process of defining a racially subordinate group takes hold with the establishment of a complex, highly interactive network operating in the public arena as an authoritative voice in reinforcing the abstract image, or racial profile, of subordinate groups. The resulting organized and public denunciation of subordinate groups leads to a social order that establishes a race-based group position as a social norm and a social imperative.

The urgency of protecting those in the dominant group from perceived subordinate threats solidifies group ties. In Blumer's view, rulemaking provides essential institutional protections for a group's position, while denying privileges to non-group members. As this process creates the categorical “racial other,” it safeguards the market privileges and financial gains of the dominant group. As we shall see, residential segregation clearly demonstrates the sorting and ordering of residents in a manner that reserves market opportunities for specific groups. Through this lens, social closure becomes a collective process that utilizes scripted market manipulations and ultimately alters market opportunity to produce differentiated market outcomes. These “scripts” require categorical

inequalities to facilitate the monopolizing of valuable resources (Tilly 1998), and reveal an important connection between race and economic action.

I use the county of Sacramento, California, an area populated by 1.2 million residents at the time of the 2000 census, as the site for examining the conditions leading to increased subprime loan activity and its concentration in geographies historically organized along racial categories. Sacramento provides a typical example of US urban growth, demonstrating such processes as the segregation and sprawl that shaped the social and physical landscapes of cities throughout the United States. For this reason, Sacramento provides an opportunity to understand contemporary housing credit markets as part of a larger historical process that takes form socially, as well as spatially.

Moreover, events in Sacramento reflect how social processes at a national level influence local place-making narratives. Accordingly, this case study explores the connection between contemporary housing credit and residential segregation. It examines the conditions that led to a massive racial sorting of Sacramento residents and the formalizing of residential segregation—the essential condition necessary for a racialized concentration of subprime lending to take place. The mortgage crisis in Sacramento, therefore, appropriately returns our attention to the presence of racially fragmented, or segregated, residential space.

Finally, this article identifies racially restrictive covenants, mortgage redlining, and urban redevelopment as the economic and legal devices necessary to operationalize the cultural directives and racial ideology predominant in the United States during the formative years of urbanization. The use of these devices illustrates organized exclusionary social actions at the institutional level, where formal structures reinforce group desires for racially homogenous residential space. The proactive use of such devices to promote social closure, therefore, calls our attention to the formation of a geopolitical collective process that ties together social boundaries, legal rulemaking, and economic policy into everyday practices of defining racially identifiable space (Ford 1994; Delaney 1998; Haynes 2001). These exclusionary devices were a fundamental part of the multi-scaled historical process of organizing space in the United States. Such spatial organization, I argue, remains essential to understanding the racial dimensions of contemporary subprime loan activity, the associated rate and location of current mortgage defaults and foreclosures, and the impact of these local dual credit markets on today's global financial network.

Shaping Segregation: Community Builders and New Deal Financing

During the early 1900s, the rise of large-scale community builders dominated the planning, design, and construction of the new US suburb and transformed home construction into a nationwide industry. With community builders in leadership roles, the National Association of Real Estate Boards (NAREB), a coalition of local

and state real-estate associations throughout the United States, formed in 1908 and quickly transitioned from a quasi-fraternal group to a working body ready to act nationally on issues affecting community builders (Davies 1958, 63). During this time, developers felt that building successful communities required strict, long-term building restrictions on all lots, the establishment of uniform building standards, and non-Caucasian racial exclusion. By placing these conditions upon community development projects, builders intentionally created patterns of housing segregation based upon race and class (Monchow 1928, 47; Weiss 1987, 45). Accordingly, the reorganization of the real-estate industry during this period placed a high priority on builders creating physical distance between white and nonwhite residential settlements. Racially restrictive covenants—property deed restrictions prohibiting nonwhite residency—became the main method by which developers implemented their planning and design visions (Weiss 1987, 3).

Throughout the 1920s, the NAREB adopted a national agenda advocating strict residential segregation and prioritizing racially homogeneous residential development by imposing a strict code of ethics that forbade realtors from engaging in home sales to nonwhites (McMichael 1949, 208). The code specifically directed a nationwide network of realtors, community builders, mortgage lenders, and appraisers to be race-minded in land development, property exchanges, property valuation, and when providing access to housing credit. The code's existence sent important cultural and social signals to real-estate professionals and homeowners, verifying that segregation was the standard for community development.

The NAREB also sponsored a series of appraisal guides that advanced the financial sophistication of methods used in determining property value. However, these methods clearly advocated rigid segregation to control race-related declines in property values. These publications informed appraisers that the spillover of Blacks into neighborhoods had an inherently detrimental effect on land values, and that recognizing residents' racial heritage was essential to properly calculating land values (McMichael and Bingham 1928, 343; Babcock 1932, 86–91). Homer Hoyt (1933, 316), one of the leading appraisal scholars of the time, provided appraisers with a list described as “the ranking of races and nationalities with respect to their beneficial effect upon land values.” Consequently, race became an important organizing factor for the real-estate industry, its affiliates, and its clients. Exclusionary industry directives signaled to real-estate professionals that a “natural” order existed among racial groups and that this order required protection.

Establishing the connection between race and value was a crucial step in expanding race covenants on a nationwide scale. As in other US cities, the use of race covenants in Sacramento began with homebuilders associated with the local real-estate board, which became affiliated with the NAREB in 1918.¹⁶ During the early 1920s, local developer J. C. Carly, who also served as president of the local NAREB affiliate, began using race covenants in new residential sub-

divisions located just south of the central business district. Carly, along with a number of prominent Sacramento community builders, followed NAREB directives by placing racial deed restrictions on a number of residential developments throughout the Curtis Park and East Sacramento neighborhoods. This action created the city's first legally recognized racial boundaries for residency.

Since Sacramento's small nonwhite population did not pose any major threat of integrating the city's all-white residential neighborhoods, one might question the reasons behind race covenants. In fact, the use of distinct racial boundaries by Carly and others reflected the influence of the NAREB on local builders and realtors.¹⁷ By 1928, race covenants had become a standard practice expected by both residents and local real-estate interests. A story in the local newspaper dated April 13, 1928, commented that buyers looked carefully for deed restrictions on new homes to see if inappropriate development could take place nearby. The reporter noted that a typical buyer actively "looked for a more striking recent restriction, so he may be sure what the color and race of his next door neighbor will not be."¹⁸

Prior to the creation of Roosevelt's New Deal federal housing programs, access to mortgage credit for Sacramento's working-class borrowers came through local realtors who, acting on behalf of well-to-do individual investors, arranged the majority of residential loans.¹⁹ Consequently, housing credit remained contingent upon the screening and sorting of potential borrowers by realtors committed to a race-based code of ethics that excluded nonwhites from property transactions and ownership. By 1927, individuals in Sacramento made an aggregate of \$4,000,000 in home loans annually through real-estate firms that acted as mortgage brokers.²⁰ Local NAREB affiliates, therefore, played a significant role in determining who had access to mortgage credit in the city.

Before 1935, none of the local banking institutions were particularly active in the residential mortgage field. But the creation of the Federal Housing Administration (FHA) in 1934 began a pronounced shift in local residential mortgage financing. Created to stimulate the housing industry during the Great Depression, the FHA made federally insured, long-term, low-interest loans available through local lending institutions. Following the start-up of FHA mortgage programs, banks and trust companies quickly dominated the housing credit market in Sacramento, issuing approximately 60 percent of all loans between 1936 and 1938. More than 85 percent of these loans were FHA Title II loans totaling nearly \$6,500,000.²¹ Banks offering Title II loans quickly supplanted individuals and their real-estate brokers as the principal source of mortgage funding in Sacramento. Borrowers now sought out banks and trusts offering FHA loans and relied less upon credit from individual investors.

By December 1937, individual lenders represented by real-estate brokers accounted for only 27 percent of all mortgages in Sacramento. This important shift to institutional lending was due to the fact that FHA programs offered more

Table 2. Comparison of Mortgage Credit Terms in Sacramento by Lender Type (1938)

Lender Type	Max. Loan Based on Appraisal Loan	Period in Years	Interest Rate
Federal savings and loan	70%–75%	10	6%–6.5%
State-chartered	60%	10	6.6%
Banks and trusts	60%	5–10	5%–7%
Insurance companies	60%–67%	5	4.5%–6%
Other non-resident institutions	60%–80%	0–20	5%–6.5%
Individuals (realtor-brokered)	50%–60%	2–6	6%–7%
FHA Title II Loans	80%–90%	25	5%

Source: "Report of a Survey of Sacramento California," Home Owners' Loan Corporation, Division of Field Research and Statistics, December 2, 1938, 9.

favorable terms to both borrowers and lenders (see Table 2).²² Longer payment terms, lower interest rates, and higher loan amounts facilitated borrowers' access to credit, while mortgage insurance against default effectively shifted the risk of loss from local banks to the FHA. The Federal National Mortgage Association (Fannie Mae), created in 1938 for the sole purpose of purchasing FHA mortgages originated by banks, effectively recycled funds back to local banks, making more funds available for borrowers. Local banks no longer waited years for a loan to mature to realize a return on investment. New Deal mortgage programs stimulated the post-Depression economy by instantly increasing the availability of credit while reducing the need for the short-term, high-cost alternative credit provided by individuals and their brokers.²³

The FHA, however, specifically required racial restrictions on home occupancy as a condition of loan approval and home purchase.²⁴ With longtime NAREB member Frederick Babcock acting as the chief underwriter in charge of drafting FHA loan approval guidelines, these conditions reflected both NAREB policy and Babcock's instructional materials on appraising, which called for restricting home purchase and financing to whites only.²⁵ FHA's mandatory race covenants also embedded race in Fannie Mae's secondary market loan-purchasing activities, and were sternly enforced by the area's local real-estate professionals and community builders. Consequently, race covenants in property deeds became a standard practice and a necessary condition in the Sacramento housing industry. The entry of FHA into the mortgage industry marked three critical events in the housing market: the shift in the source of housing credit from individuals to banks; the shift of risk for loan default from banks to FHA; and the institutionalization of the informal racial categories that realtors, acting as gatekeepers of homeownership opportunities, had created. Moreover,

the creation of FHA and the interdependent Fannie Mae secondary mortgage outlet resulted in the availability of an abundance of capital for new home construction and purchase, while formalizing a national housing-credit market infrastructure that officially excluded nonwhites.

Title II FHA loan activity during the 1930s led to a rush on home financing in Sacramento, which meant an increased use of race covenants in new residential development. New FHA-financed developments using race covenants appeared in the East Sacramento and Land Park areas and accounted for 60 percent of Sacramento's residential construction in 1937—just two years following the start-up of FHA programs.²⁶ FHA financing, contingent upon race restrictions, also fueled racially segregated suburban growth beyond the city limits into the northeastern region of the county.

While Sacramento's suburban communities enjoyed a post-Depression housing boom, other parts of the city experienced a different fate. Race restrictions, first practiced informally by realtors and then formalized by the FHA, restricted the flow of housing capital to racially integrated neighborhoods. A federal assessment of neighborhoods in 239 US cities between 1935 and 1940 proved the existence of a dual mortgage market in Sacramento. Conducted under the authority of the Home Owners' Loan Corporation (HOLC), the City Survey Program studied local real-estate and economic trends and was intended to provide appraisers with an accurate understanding of the general character of local neighborhoods, which would help them to assess property values. The survey captured detailed information regarding the location of residents, categorized them by race and ethnicity, and ranked each neighborhood according to the perceived risk for mortgage default. Survey results were cartographically captured on what are now known as the Residential Security Maps (Jackson 1985).

A review of the coding sheets used by local fee appraisers collecting data for Sacramento's 1937 HOLC survey indicates that the racial composition of neighborhoods was an important factor in measuring their default risk for FHA mortgage insurance. "Clarifying remarks" throughout the forms indicate the potential risks in lending, such as "the particular hazard is racial"; "infiltration of subversive races has occurred"; "mixture of Orientals, Mexicans and low-class Italians"; the area "contains the principal Japanese colony and the greatest concentration of Negroes in the city"; "the subversive character of population constitutes the area's principal hazard"; and "subversive races a definite hazard." Surveyors also documented which neighborhoods lacked deed restrictions, noting that population "heterogeneity" had the potential to adversely affect present and future value. The remarkably callous language displayed by HOLC surveyors signified the continuous actions of a dominant group to label, disparage, and segregate nonwhites and to define them in terms of a subordinate relationship. The form specifically included sections for surveyors to estimate the percent of foreign-born families and "Negroes" in each neighborhood.²⁷

The Sacramento survey identified a peninsula located at the northwest corner of the city, known as the West End, as the area most unsuitable for mortgage lending, due largely to its lack of deed restrictions. The limited availability of mortgage funds to West End residents noted by surveyors at that time also indicated that mortgage redlining was occurring prior to the HOLC study. Although the survey indicates that much of the West End was in fair to good condition with occupancy rates above 95 percent, the entire area was assigned a security grade of “D,” or “Low Red,” indicating the highest risk of default for FHA mortgage insurance programs.²⁸

Mortgage redlining effectively excluded West End property owners from participating in normal market exchanges. With financing options limited and restrictions on nonwhite residency enforced throughout the city, the West End became a rental neighborhood as landlords converted single family residences to multiple units, capitalizing on nonwhites’ lack of housing options due to redlining and covenant use.²⁹ Mortgage redlining also encouraged negligent landlords to let properties fall into decay, and the ghetto-like housing conditions that ensued contributed to the West End’s rapid decline. While West End property values plummeted, values in racially homogeneous suburban tracts steadily increased.³⁰ The HOLC survey reveals the racial dynamics that shaped the Sacramento housing market during its formative years and demonstrates how public policy and private implementation of said policy produced a racially designated residential space.

Linking race with value became an effective industry strategy for justifying the formal use of racially restrictive covenants to maintain racial boundaries. This linkage permitted the incorporation of racial ideology into the complex financial calculations that determine access to housing markets. The mission of segregating communities was viewed as merely the collateral damage of market practices. Acts of social closure were thus reduced to “natural” principles of real-estate economics, epiphenomena of free-market competition, rather than exercises in cultural warfare and the foundations of a two-tiered federal housing policy (Hirsch 2006). Establishing the connection between race and value allowed race covenants and mortgage redlining to expand on a nationwide scale. In Sacramento, direct government intervention that systematically excluded nonwhites’ access to beneficial market privileges produced the racial geographies that remain extant today.

This example shows how the coding of race into market information, a critical precondition of market operation, made the use of racial categories operational at the local level, and consequently embedded race in nationwide market practices during an important period of urban growth. The collective process of racializing market information and rules shaped a public and legal discourse that directly altered the future market position of nonwhites. The use of racially restrictive covenants and mortgage redlining demonstrated the private

influence on rulemaking, the essential role of government in controlling market conditions, and the extensive reach of multi-scaled social networks necessary to operationalize race-based property covenants as a nationwide device for social control.

Urban Renewal and Relocating the Boundaries of Mortgage Redlining

Similar racially segregated conditions characterized a number of major urban centers across California. A coalition of city planners, aligned with groups such as the California Real Estate Association, the California Savings and Loan League, and the National Association of Home Builders, lobbied for state and federal assistance to remove blight from California cities, and NAREB set this concept into motion at the national level in 1935.³¹ In 1945, California passed the Community Redevelopment Act, calling for the formation of local redevelopment agencies. These agencies would acquire blighted properties, assemble them into larger parcels, and then clear them of existing buildings and residents. In a plan that closely followed NAREB proposals, the assembled parcels would be offered to private enterprise for redevelopment. The 1949 Federal Housing Act encouraged cities to undertake redevelopment projects by providing federal funds to local agencies to finance property purchase and development. The act also encouraged the use of eminent domain—the ability of the state to seize private property to serve the greater needs of the public.³²

In Sacramento, redevelopment planners designated the West End as the city's first urban renewal site. Not surprisingly, the site consisted of the very same census blocks that federal regulators had “redlined” as a high mortgage risk in the 1937 HOLC City Survey. Land acquisition and clearance associated with these projects commenced in 1956 and required the mass relocation of 8,500 nonwhite residents from the West End (Dingemans and Datel 1995). Many residents moved out of the area upon hearing of the proposed evictions while others waited until receiving eviction notices. Others moved to affordable housing at the fringe of redevelopment where construction was scheduled for later years.³³

Displacement proved costly for nonwhite communities. The West End had become the center of their social and economic activities, functioning as an employment center for migrant workers who filled about 15 percent of California's agricultural jobs each year.³⁴ The overwhelming majority of residents (70 percent) were gainfully employed and relied on their West End contacts to seek out work opportunities. Forced relocation also dismantled and neutralized the strong support networks for families and nonwhite businesses in the West End. Minority entrepreneurs, who constituted 49 percent of the area's business owners, were forced to relocate to neighborhoods with higher rents and no longer enjoyed access to West End clientele. Most businesses either ceased to operate or, if they relocated, soon failed.³⁵

West End redevelopment initiated a steady stream of emigrants out of the city core, triggering an immediate need for affordable shelter in a city organized by segregationist housing policies. These emigrants encountered limited options for housing as gatekeeping realtors pushed them away from predominantly white neighborhoods. During the 1954–1966 period, local Civil Rights activists produced ample documentation of housing discrimination against nonwhites. Rental surveys and housing audits found that up to 90 percent of apartment owners in the downtown and the northeastern areas of the county would not rent to Blacks (Mueller 1966). Realtors and mortgage lenders actively discouraged nonwhites from purchasing homes in neighborhoods with race covenants and in new suburban developments.³⁶ In *Ming v. Horgan*, Oliver Ming, an employee at a local military base, filed suit against a number of real-estate brokers and developers, as well as the Sacramento Real Estate Board, for discriminating against nonwhites in FHA-financed housing developments. The local Superior Court found that real-estate operators uniformly refused to sell to Blacks even when they could qualify for FHA financing; it recognized the “various methods of consistent discrimination used by realtors, subdividers, owners and builders in the absolute prohibition of Negroes from buying new housing in the area.” Even with this successful ruling, Ming was awarded damages in the amount of just one dollar.³⁷

Despite the *Ming* decision in 1958, nonwhites continued to be denied access to new homes. In 1962, a three-month-long protest by community activists took place outside new developments in South Land Park Hills, an exclusive, all-white area historically off-limits to nonwhites. The protest prompted the State Attorney General’s Office to investigate claims of housing discrimination in a number of Sacramento-area subdivisions.³⁸ Furthermore, Black federal employees also resorted to legal action against local builders and owners for the right to purchase new homes; although these court actions were successful, they took many years to reach resolution.³⁹ Despite these legal challenges to housing discrimination, new racial boundaries continued to form, accommodating the city’s demand to ensure segregated space in the wake of the West End urban renewal projects.

While redevelopment displacement rapidly integrated the older neighborhoods of Sacramento that did not have race covenants, such as Oak Park, white residency rates remained consistently high in areas with race covenants and in those protected by realtor gatekeeping. In East Sacramento, whites constituted 99 percent of the population in 1950 and just over 97 percent in 1970. Similarly, the Land Park and Curtis Park neighborhoods, combined, had a white residency rate of 98 percent in 1950 and 92 percent in 1970—a full twenty years following the outlawing of race covenants in the landmark *Shelley* decision.⁴⁰ Suburban tracts in the county’s northeast region, which relied on a combination of restrictive covenants, FHA financing, and realtor gatekeeping, also repeated residential

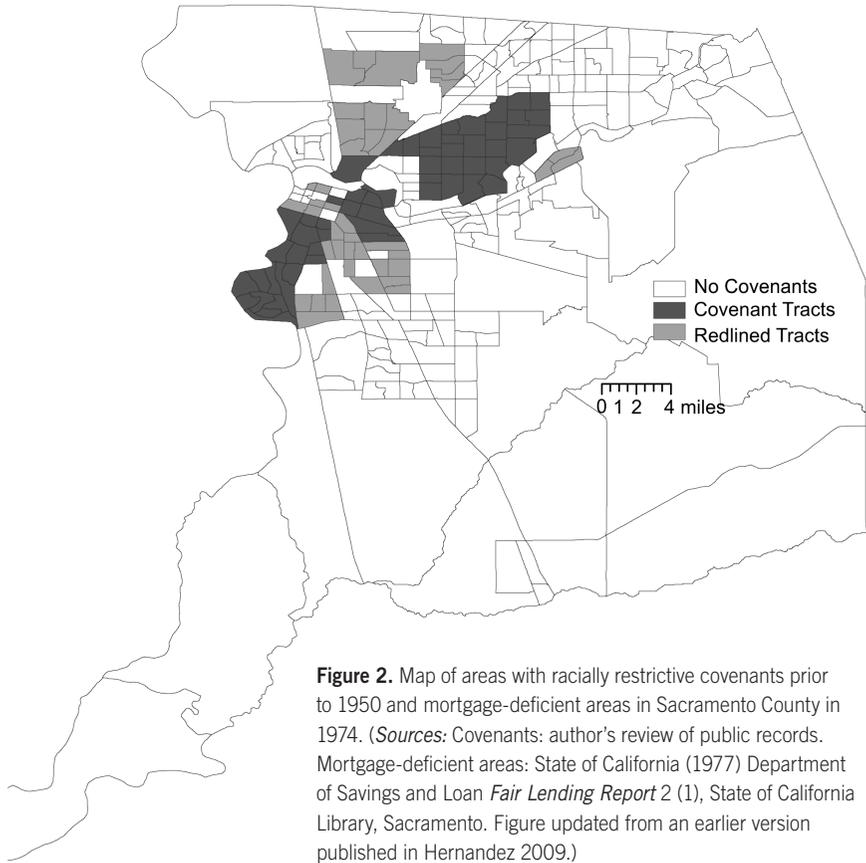


Figure 2. Map of areas with racially restrictive covenants prior to 1950 and mortgage-deficient areas in Sacramento County in 1974. (Sources: Covenants: author's review of public records. Mortgage-deficient areas: State of California (1977) Department of Savings and Loan *Fair Lending Report 2* (1), State of California Library, Sacramento. Figure updated from an earlier version published in Hernandez 2009.)

patterns of racial homogeneity. Whites accounted for 98.5 percent of that area's 190,000 residents, or approximately one-third of the county's 1970 population.

In response to agricultural and military labor demands through the 1960s, nonwhites moved steadily into the area and took up residency, albeit reluctantly, in racially designated neighborhoods. Antidiscrimination laws appearing in the 1960s provided no basis for attacking mortgage redlining. In fact, the open use of racial categories in property valuation and credit approval did not officially end until 1976 when a federal lawsuit against the American Institute of Real Estate Appraisers, the Society of Real Estate Appraisers, the US League of Savings Associations, and the Mortgage Bankers Association of America legally forbade the use of race as a factor in property appraising and mortgage underwriting.⁴¹ Although the suit ended the overt use of racial categories in instructional texts, real-estate sales, and credit approval, racially segregated communities—and the economic and political fragmentation that accompanied this segregation—remained commonplace in Sacramento and in cities across the United States.

By 1970, racial boundaries for residency and access to housing credit were firmly entrenched in Sacramento. Neighborhoods that housed nonwhite labor and West End emigrants became the new sites for mortgage redlining and segregation. A 1977 report by the California Department of Savings and Loan identified census tracts in Sacramento County where an abnormally low volume of loans were made by state-licensed mortgage lenders.⁴² Figure 2 overlays these mortgage-deficient tracts in Sacramento with census tracts known to have racially restrictive covenants identified via public records. The resulting geography of redlined neighborhoods includes much of the northern and southern areas of Sacramento County. Conversely, we see a west-to-east geography of neighborhoods with restrictive covenants, which firmly established white residential boundaries further shaped by race-based access to mortgage credit.

The new racial boundaries for residency reflected rules of financial segregation and disinvestment, as capital flows were directed to suburban space reserved for white residents. Although redlining and segregation are necessarily rooted to a particular place, cumulative events to this point show that such boundaries are not fixed, but rather rearranged to meet the social and economic needs of dominant groups. This hybrid geography of credit and race is key to understanding the racial dimensions of contemporary housing finance, mortgage default, and foreclosure in Sacramento.

Racial Spaces, Bank Deregulation, and Subprime Concentration

During the 1960s, Sacramento, like most of the nation, experienced an active Civil Rights movement and a series of race riots that brought generations of inequality and racial segregation to the forefront of social discourse. This civil unrest was a direct response to long-standing patterns of racial discrimination: namely, the lack of access to housing, employment, and social goods that characterized segregated space. At the national level, community organizing to fight housing discrimination, led by Gail Cincotta and other mobilizations, moved federal regulators to open credit markets as one strategy to placate riot-stricken, redlined neighborhoods. The resulting Community Reinvestment Act of 1977 (CRA) provided the threat of sanctions against lenders who failed to underwrite loans for qualified buyers in previously underserved areas. By 1980, federal regulators aggressively extended access to credit markets for residents of areas redlined by banks during the 1960s and 1970s.

Between 1980 and 2000, however, banks actively pushed for federal deregulation of lending activity and laid the foundation for the new subprime mortgage market. A series of industry-sponsored legislative acts promoted the use of adjustable interest rates on mortgages, allowed the use of balloon payments, and overrode local government restrictions on high-cost, high-risk lending products. More important, the deregulation of the banking industry allowed the

bundling of these high-risk loans into loan pools that could be sold as securities on Wall Street, a process commonly known as securitization.⁴³ With the switch from safe, long-term, low-profit products to fee-based, high-risk products with adjustable interest rates, banks efficiently moved profit-taking to the point of loan origination, generating immediate profits via excessive origination fees and the sale of mortgages to investment firms. Because the sale of these mortgages allowed lenders to pass the risk of default to Wall Street investors, loan originators were no longer “on the hook” for losses associated with mortgages in traditionally redlined neighborhoods. With this shift, subprime loans became an easy method for lenders to extract profit without risk—a destructive process that pushed mortgage lending away from the traditional fixed-rate mortgage to high-risk adjustable rate mortgages (ARMs). Banks no longer concerned themselves with a proper assessment of a borrower’s capacity to repay. Instead, the concern for lenders was to meet the demand for subprime loans from Wall Street investment bankers (Zandi 2008).

The shift in default risk from loan originators to Wall Street made the opening of credit markets to underserved neighborhoods profitable: lenders soon capitalized on the financial and social vulnerabilities characteristic of segregated space. Bank deregulation, therefore, played a key role in converting racially defined residential spaces from places of exclusion to the new sites for predatory capital extraction. Despite their proactive approaches to opening credit markets, policymakers once again established the market conditions necessary for disparate lender activity in low-income, racialized neighborhoods and institutionalized the subprime mortgage industry.

Like many other cities, Sacramento experienced a high concentration of subprime loans in predominantly nonwhite neighborhoods. These neighborhoods were, for the most part, areas that had previously experienced mortgage redlining (Hernandez 2009). Even now, little is widely known about the characteristics of these loans and how they triggered the mortgage meltdown in Sacramento. To investigate the performance aspect of racialized credit markets and to determine the actual length of time between loan origination and the date of default and the property location, I use a data set obtained from DataQuick consisting of 49,977 Notices of Defaults (NODs) recorded against delinquent mortgages in Sacramento County for the period 2006–2008. In California, the NOD serves as the first legal notification to homeowners that their property may be sold via foreclosure auction. By calculating the time between loan origination and default, we can identify the vintage of the subprime loans that led to mortgage defaults and gain some indication of how quickly the adjusting interest rates of loans resulted in unsustainable mortgages.

In 2006, 40 percent of all NODs recorded in Sacramento County occurred less than one year from the date of origination. Incredibly, 81 percent of all 2006 NODs occurred less than two years from loan origination (see Figure 3). The

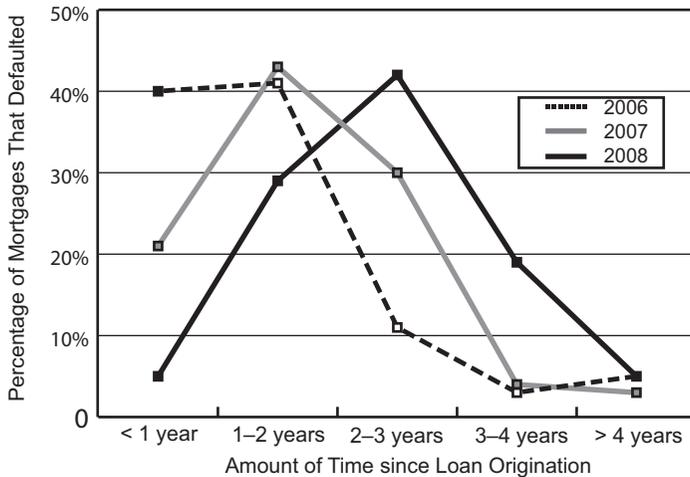


Figure 3. Percentage of mortgage defaults by year and time since loan origination, for Sacramento County, 2006–2008. (Source: Author’s calculation of DataQuick “Notice of Default” raw data for 2006–2008.)

short period of time between origination and default places the date of origination for the bulk of 2006 defaulted loans between 2004 and 2005. The NOD transaction data provide strong indication that these rapidly defaulting loans originated between 2004 and 2006, a time when subprime loans with low “teaser” introductory interest rates and short adjustment periods were the primary credit products in the mortgage industry (Zandi 2008).

In 2007, 63 percent of NODs recorded in Sacramento County took place less than two years after loan origination, and an astonishing 94 percent occurred less than three years from the origination date. In 2008, slightly over 76 percent of NODs, or three out of four defaults, occurred less than three years from loan origination. Again, we see evidence that the defaulted loans were unsustainable “teaser rate” ARMs originating between 2004 and 2006, the period when subprime credit products and adjustable rate mortgages dominated the Sacramento housing market.

Even more alarming is that these mortgage defaults were concentrated in the same neighborhoods previously denied housing credit during the 1960s and 1970s. By mapping mortgage default data by census tract, we can see the connection between unsustainable subprime loan concentration and past episodes of housing discrimination. Figures 4 and 5 show a pattern of mortgage defaults concentrated in the northern and southern regions of the county, a pattern similar to the geography of redlined areas identified in Figure 2. Conversely, we can see a very low frequency of NODs occurring in neighborhoods with racially restrictive covenants (shown in Figure 3), thus indicating that access to safe loans remained abundant in protected neighborhoods. The mortgage default data for Sacramento lead to two conclusions: the loans that triggered the mortgage cri-

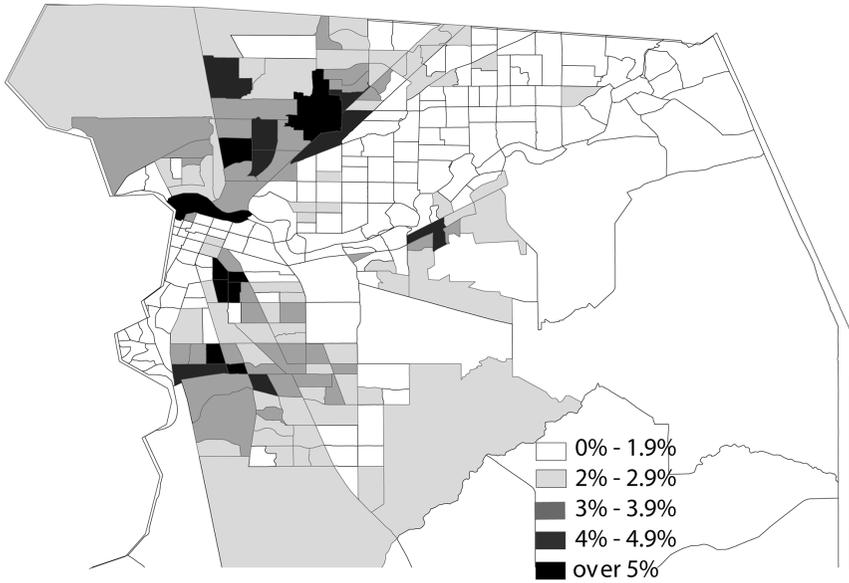
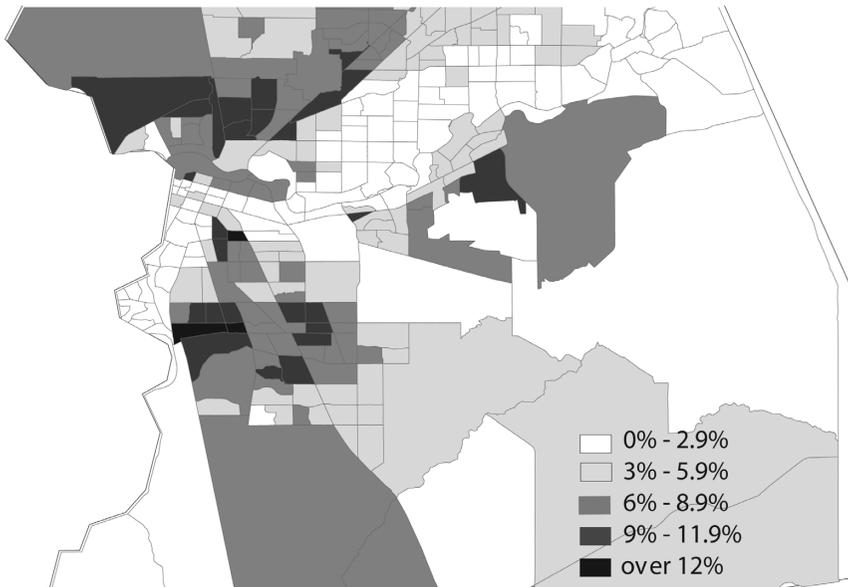


Figure 4. Percentage of single-family residential parcels receiving notices of default in Sacramento County, by Census Tract for 2006. (Source: author's calculation of DataQuick "Notice of Default" raw data for 2006.)

Figure 5. Percentage of single-family residential parcels receiving notices of default in Sacramento County, by Census Tract for 2007. (Source: author's calculation of DataQuick "Notice of Default" raw data for 2007.)



sis originated between 2004 and 2006, which is the period when unsustainable subprime loans flooded the Sacramento market; and high concentrations of unsustainable loans occurred in neighborhoods shaped by a history of racially discriminatory housing policy. The evidence strongly suggests that unsustainable credit products, concentrated in segregated residential space, precipitated the housing crisis in Sacramento. In short, the combination of no-risk subprime lending and a history of exclusionary market practices left racialized space vulnerable to predatory mortgage market activity.

As events continue to unfold in this ongoing crisis, it is clear that Sacramento residents located in certain neighborhoods have suffered far more financial and social hardship than others. Subprime lending, the primary trigger of the foreclosure crisis, has been concentrated in predominantly nonwhite neighborhoods shaped by practices of segregation. The data on subprime loan activity, mortgage defaults, and foreclosures unmistakably corroborate how predominantly nonwhite neighborhoods, shaped by racialized market interventions, became “ground zero” for the foreclosure crisis in Sacramento. Adding to this evidence, in 2005, near the peak of the subprime boom in Sacramento, 44 percent of loans sold to area Blacks and 41 percent of loans sold to Latinos were subprime—a rate nearly twice the number of subprime loans sold to all other racial groups.⁴⁴ Since one in five subprime loans are expected to result in foreclosure, their concentration in nonwhite neighborhoods raises considerable cause for concern (Schloemer et al. 2006).

New evidence now shows the effects of racially concentrated subprime lending in Sacramento. During a decade that saw one of the largest residential development booms in Sacramento history, census data show that homeownership rates for Blacks fell from 40 percent in 2000 to 36 percent in 2010; likewise, Latino homeownership dropped from 49 percent to 47 percent. In contrast, homeownership rates for whites rose to 67 percent during these 10 years, and whites are now 85 percent more likely than Blacks to own homes.⁴⁵ Vacancy data from the US Postal Service for June 2010 show that Sacramento’s highest residential vacancy rates are in Oak Park, Del Paso Heights, and the greater South Sacramento area. Four of the six census tracts with the highest rate of vacancies were in Oak Park. Thus, many of the recent homeownership gains in older communities like Oak Park have been lost to foreclosures that displaced newcomers who sought affordable housing during the peak years of the housing boom. More importantly, many long-term residents of these neighborhoods, who borrowed against their inflated home values with subprime loans, lost their homes when adjustable-rate mortgages made their mortgage payments unsustainable. Making the recovery even worse, data from the Home Mortgage Disclosure Act for 2009 show that in Sacramento 48 percent of loan refinancing applications for Blacks and 41 percent for Latinos were denied—rates twice those of other racial groups.⁴⁶

These findings emphasize the mechanisms that racialize economic action and perpetuate social, spatial, and financial segregation in an era where formal advocacy for racial equality is promoted as a core value. The implementation of market strategies is about power; we need to be concerned with the mechanisms that allow power to be exercised and activated. We need to understand how market preconditions—the basic rules for participating in exchange opportunities essential to city life—are altered and co-opted by groups seeking to monopolize market opportunity and access to social goods.

Conclusion

The connection between residential segregation and contemporary lending practices reveals how exclusionary housing market manipulations have produced a racially defined system of financial exclusion that has utilized space to operationalize racial ideology. The result is a bifurcated housing-credit market that has left segregated neighborhoods without access to mainstream mortgage lending (Bradford 2008). The current housing crisis, therefore, reveals the long-standing relationships of power that are embedded in social constructions. Here, markets and race illustrate how social and political directives work over extended periods of time to shape the social and spatial configurations of the city. The fact that housing opportunities in Sacramento were organized and distributed along particular racial lines indicates the presence of a social and economic infrastructure that endorsed the use of racial categories in everyday relations.

In Sacramento, market participation has not been a natural right. Access to housing remains highly conditioned upon specific social qualifications, which are predefined and governed by patterns of conduct and affiliation. By framing particular groups as a threat to economic well-being, the makers of housing finance policy manipulated market preconditions to enforce a specific social and spatial order. Once race became a qualifier for market access, it also served as a device to exclude and divide. Consequently, the framing and reasoning behind market interventions altered the manner in which market participants would view and rationalize race and inequality. The assigning and enforcement of market position embedded distinct racial and spatial characteristics into housing market practices. The resulting geography of race and economy is now an important field of power used in negotiating and manipulating conditions for future access to market opportunity. Market phenomena, therefore, can be traced back to definite actions of the members of the market society (Storr 2009).

The story of lending practices in Sacramento reveals an important relationship between institutional practices, spatial arrangements, and market outcomes. For most of the twentieth century, dominant values, laws, and administrative procedures put minorities at a structured disadvantage in real-estate markets, locking them into inferior housing and segregated neighborhoods.

The “neutral” or “colorblind” lending practices that followed Civil Rights reform allowed predatory mortgage brokers to operate freely and capitalize upon minorities’ historically weakened position in the housing market. Subprime lending in Sacramento perpetuated, and actually worsened, this tenuous market position (see also Roithmayr 2007; 2014).

How should we think about the distribution of goods in our cities during an era of financialization that emphasizes market leadership and drives urban planning? If we learn from the foreclosure crisis in Sacramento, we will see the roots of market-entry barriers, and the state’s involvement in the tactics that divide or segment markets. The rules of market building and market intervention are crucial components of how markets emerge in society and dictate the conditions under which transactions are carried out; overall, these rules reflect how markets are structured to perform (Fligstein 1996). Fligstein (1996) suggests that “models of action,” or actions to control market competition, can be thought of as a cultural tool kit (Swidler 1986) where conceptions of control have profound effects on market organization and management. The relationships that produce markets involve manipulating power and authority to secure advantage. Powerful groups’ efforts to influence governments often result in the conducting of public affairs for their private advantage. Therefore, the convergence of agendas between private networks and institutions makes market construction a political event. Emerging markets become political projects undertaken by political actors, analogous to social movements (Fligstein 1996).

The task before us is to understand how our social and financial structures become racialized and reproduce multiple forms of inequality without necessarily involving overtly racist actors. Because economic relations are clearly fused with social content (Granovetter 2005), it is possible to focus on the processes in which race becomes operational through markets. What the subprime crisis in Sacramento teaches us is that we must identify the ostensibly neutral market practices that, in an outcome commonly referred to as disparate impact, disproportionately harm those located in segregated space. Sacramento’s mortgage history shows how markets became a means of social control, and how these products of human relations are often oriented towards monopolistic group closure (see also Haynes and Hernandez 2008). The lessons learned from the subprime crisis in Sacramento can therefore be applied prospectively in recognizing injurious patterns of market-oriented models of action and the institutional processes that bring them into existence.

Dymski (2009, 427) argues that an accurate understanding of contemporary mortgage markets demands that the observer be spatially aware and pay explicit attention to social inequality, especially racial/ethnic inequality. To leave out the impact of racial/ethnic inequality on mortgage-market dynamics, he stresses, “is to miss the heart of the problem.” Contextualizing the crisis within the history of race relations and market organization provides a more careful consideration

of the race/economy nexus. By emphasizing the centrality of race in economic action, this analysis shows how the wave of foreclosures that eventually froze Wall Street credit markets and threatened the financial stability of neighborhoods and cities across the United States remains a problem of embeddedness.

NOTES

Acknowledgments: This paper originated from research commissioned by the Kirwan Institute for the Study of Race and Ethnicity at Ohio State University. The author thanks Bruce Haynes, Robert Moorehead, Melody Chiong, and Patti Kimura for valuable comments on earlier versions. Thanks also to Richard Marciano from the Testbed for Redlining Archives of California's Exclusionary Spaces (T-Races) project and Patricia Johnson at the Sacramento Archives and Museum and Collection Center for access to important historical documents critical to this research. The author is solely responsible for all errors and opinions contained in this article.

1. Source: author's calculation of DataQuick "Raw Foreclosure" data 2003–2008.
2. See "Some Houses in Sacramento Area Now Cost Less than \$25,000," *Sacramento Bee*, April 26, 2009; "Interactive Map: A Plague of Vacant Homes," *Sacramento Bee*, April 21, 2009; "Interactive Map: A Grand Tour of Sacramento's Cheapest Homes," *Sacramento Bee*, April 16, 2009.
3. "Some Houses in Sacramento Area."
4. The countywide average was 16 percent while the rate in upper-income areas was much lower than the county average. Source: Report to County Board of Supervisors: Approval of the 2009 One-Year Action Plan, Attachment VI, October 21, 2008. Sacramento Housing and Redevelopment Agency.
5. Redlining is the practice of arbitrarily denying or limiting financial services to specific neighborhoods, usually because their residents are people of color or are poor. Redlining, used by the mortgage industry as a method of managing perceived risks against borrower default, also refers to setting prohibitively high fees for financial services in a presumed "high-risk" area.
6. This relationship between racially concentrated subprime lending and nonwhite concentration also mirrors patterns at the national level. See Dymski, Hernandez, and Mohanty 2013.
7. These loans, often referred to as "NINJA" loans (No Income, No Job or Asset verification), allowed applicants to bypass normal loan approval guidelines simply by paying a fee and higher interest rates. This would compensate a lender for accepting a borrower with potentially less capacity to meet the terms of loan repayment.
8. The author analyzed foreclosure data obtained from DataQuick for the period 1997–2008 to confirm trends noted in twenty years of local housing market observation. See also Hernandez 2009.
9. See Barbara Kiviat, "The Case against Homeownership," *Time Magazine*, August 26, 2010, <http://www.time.com/time/business/article/0,8599,2013684,00.html?xid=rss-fullnation-yahoo#ixzz0xyrUTkuh>.
10. See Don Watkins and Yaron Brook, "The Un-American Dream," *Forbes*, August 27, 2010, <http://www.forbes.com/2010/08/27/ayn-rand-housing-opinions-columnists-yaron-brook-watkins.html?partner=yahootix>.
11. See Marc A. Weiss, "National Housing Policy in the U.S. for the 21st Century," Global Urban Development, December 2002, <http://www.globalurban.org/GUDHousingPolicyReport.pdf>.
12. Ibid.
13. See "The 25th Anniversary of the Community Reinvestment Act: Access to Capital in an Evolving Financial Services System," Joint Center for Housing Studies, Harvard University, 2002.
14. See David Goldstein and Kevin G. Hall, "Private Sector Loans, Not Fannie or Freddie, Triggered the Crisis," *McClatchy Newspapers*, Washington Bureau, October 12, 2008. <http://www.mcclatchydc.com/2008/10/12/v-print/53802/private-sector-loans-not-fannie.html>.
15. Government-Sponsored Entities (GSEs) include the Federal National Mortgage Associa-

tion (FNMA), commonly known as Fannie Mae; the Federal Home Loan Mortgage Corporation (FHLMC), known as Freddie Mac; and the Government National Mortgage Association (GNMA), or Ginnie Mae. These GSEs buy mortgages on the secondary market and then sell pools of these loans as mortgage-backed securities to investors on the open market. This buying and selling of mortgages increases the supply of money available for mortgage lending and home purchases.

16. The Sacramento Real Estate Association formed in 1911 and became a member of NAREB in 1918. Source: Sacramento Association of Realtors Archives.

17. The 1920 US Census for Sacramento shows that nonwhite residents constituted only 9 percent of the total population, with 675 Black residents accounting for less than 1 percent of the County's population.

18. "Subdivision Trend Shows Lot Purchasers Demand Restriction," *Sacramento Bee*, April 13, 1928.

19. See "Report of a Survey of Sacramento California," Home Owners' Loan Corporation, Division of Field Research and Statistics, December 2, 1938, 36.

20. *Ibid.*

21. *Ibid.*, 38.

22. *Ibid.*, 9

23. *Ibid.*, 6.

24. See "Underwriting Manual: Underwriting and Valuation Procedures under Title II of the National Housing Act, with Revisions to June 1, 1935." Federal Housing Administration, Washington, DC. See also Weaver 1948, 72; and Jackson 1985, 208.

25. See Babcock 1932. See also Babcock 1938: "Techniques of Residential Location Rating," *Journal of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards* 6 (2): 137. As FHA Chief Underwriter he states, "If a neighborhood is to remain stable, it is necessary that properties shall continue to be occupied by the same racial and social classes. Changes in social or racial occupancy contribute to neighborhood instability and the decline of value levels." He makes clear that race was essential to determining property valuation and loan approval and advocated for the complete segregation of racial groups in housing.

26. See "Report of a Survey of Sacramento California," Home Owners' Loan Corporation, Division of Field Research and Statistics, December 2, 1938, 36.

27. Actual data collection sheets from the 1937 HOLC survey for Sacramento can be found at the Testbed for the Redlining Archives of California's Exclusionary Spaces, *SALT (Sustainable Archives and Leveraging Technologies)*, <http://salt.unc.edu/T-RACES/demo/demo.html#>.

28. See "Summary of Economic Real Estate and Mortgage Survey and Security Area Descriptions of Sacramento, California," Home Owners' Loan Corporation, Division of Research and Statistics Federal Home Loan Bank Board, 1938, 6–61.

29. "Sacramento Urban Redevelopment: Existing Conditions in Blighted Areas," Sacramento City Planning, October 1950.

30. From 1938 to 1949, property values in Sacramento experienced a 46 percent increase while West End values declined 30 percent to 65 percent. Source: "Sacramento Urban Development: Existing Conditions in Blighted Areas," Sacramento City Planning, October 1950, 3.

31. See Davies 1958, 183–184; also see "Blighted!" California State Reconstruction and Reemployment Commission, January 1946.

32. See "Redevelopment Ideas for California's Capital: Preliminary Ideas and Recommendations," Sacramento City Planning Commission, June 1950.

33. See "Final Relocation Report," Project No. UR Calif. 5-1 Capitol Mall. Redevelopment Agency of the City of Sacramento, March 1963.

34. See "Redevelopment Ideas for California's Capital: Preliminary Report and Recommendations," Sacramento City Planning, June 1960.

35. See "Site Occupant Survey Summary Report, Capital Mall Project Area No. 2-a," Redevelopment Agency of the City of Sacramento, September 18, 1957; "Relocation Plan: Slum Area Labor Market, Sacramento," Redevelopment Agency of the City of Sacramento, January 1959.

36. See "Buying Home in Sacramento Is 6 Months of Humiliation," *Sacramento Bee*, December 19, 1963. See also Mueller 1966.

37. See *Ming v. Horgan et al.*, 1958, California Superior Court, Sacramento County #97130.
38. See “Mosk Is Checking Housing Discriminations in Capital,” *Sacramento Bee*, September 20, 1962; “Race Discriminations in Housing Probed,” *Sacramento Union*, September 21, 1962.
39. See “Trial Opens in \$65,000 Blocked Home Sale,” *Sacramento Bee*, June 5, 1962; also Duff 1963.
40. See *Shelley v. Kraemer* 334 US 1 (1948).
41. See *US v. AIREA*, 442 F. Supp. 1072; 1977 US Dist. LEXIS 12760; 24 Fed. R. Serv. 2d (Callahan) 880.
42. See *Fair Lending Report* 2 (1), California State Department of Savings and Loan, October 1, 1977.
43. An excellent historical background on deregulation and securitization since 1980 can be found in Immergluck (2009) and the series of articles on the global subprime crisis in the *International Journal of Urban and Regional Research* 33 (2), June 2009.
44. See “Housing Bust Hit Blacks, Latinos Hardest,” *Sacramento Bee*, September 11, 2011, <http://www.sacbee.com/2011/09/11/v-print/3900326/housing-bust-hit-blacks-latinos.html>.
45. *Ibid.*
46. *Ibid.*

REFERENCES

- Abrams, Charles. 1955. *Forbidden Neighbors: A Study of Prejudice in Housing*. New York: Harper and Brothers.
- Babcock, Fredrick. 1932. *The Valuation of Real Estate*. New York: McGraw-Hill.
- Blumer, Herbert. 1958. “Race Prejudice as a Sense of Group Position.” *Pacific Sociological Review* 1: 3–7.
- Bradford, Calvin. 1979. “Financing Home Ownership: The Federal Role in Neighborhood Decline.” *Urban Affairs Quarterly* 14 (3): 313–336.
- . 2002. *Risk or Race? Racial Disparities and the Subprime Refinance Market*. Washington, DC: Center for Community Change.
- . 2008. Testimony before the National Commission on Fair Housing and Equal Opportunity. Atlanta, GA. October 17.
- Bunce, Harold, Debbie Gruenstein, Christopher Herbert, and Randall Scheessele. 2002. “Subprime Foreclosures: The Smoking Gun of Predatory Lending?” Paper presented at the Housing Policy in the New Millennium Conference. Washington, DC. October.
- Canner, Glen, Wayne Passmore, and Elizabeth Laderman. 1999. “The Role of Specialized Lenders in Extending Mortgages to Lower-Income and Minority Homebuyers.” Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin* 85 (11): 709–726.
- Carruthers, Bruce, and Sarah Babb. 2000. *Economy/Society: Markets, Meanings, and Social Structure*. Thousand Oaks, CA: Pine Forge Press.
- Christie, Les. 2007. “Foreclosures Drift to Sun Belt from Rust Belt.” *CNN Money*, August 13.
- Correa, Vanessa. 2009. “The Housing Downturn and Racial Inequality.” *Policy Matters* 3 (2).
- Davies, Pearl. 1958. *Real Estate in American History*. Washington, DC: Public Affairs Press.
- Dean, John P. 1947. “Only Caucasian: A Study of Race Covenants.” *Journal of Land and Public Utility Economics* 23 (4): 428–432.
- Delaney, David. 1998. *Race, Place and the Law 1836–1948*. Austin: University of Texas Press.
- Dingemans, Dennis, and Robin Dattel. 1995. “Urban Multiethnicity.” *Geographical Review* 85 (4): 458–477.
- Drake, St. Clair, and Horace Cayton. 1945. *Black Metropolis: A Study of Negro Life in a Northern City*. Chicago: University of Chicago Press.
- Duff, Edgar. “Federal Employee Sues for Blocked Home.” Sacramento Committee for Fair Housing. May 1963.
- Dymski, Gary. 2009. “Afterword: Mortgage Markets and the Urban Problematic in the Global Transition.” *International Journal of Urban and Regional Research* 33 (2): 427–442.

- Dymski, Gary, Jesus Hernandez, and Lisa Mohanty. 2013. "Race, Gender, Power, and the US Subprime Mortgage and Foreclosure Crisis: A Meso Analysis." *Feminist Economics* 19 (3): 124–151.
- Fligstein, Neil. 1996. "Markets as Politics: A Political-Cultural Approach to Market Institutions." *American Sociological Review* 61 (4): 656–673.
- Ford, Richard. 1994. "The Boundaries of Race: Political Geography in Legal Analysis." *Harvard Law Review* 107 (8): 1841–1921.
- Freund, David. 2007. *Colored Properties: State Policy and White Racial Politics in Suburban America*. Chicago: University of Chicago.
- Girardi, Kristopher, Adam Shapiro, and Paul Willen. 2007. "Subprime Outcomes: Risky Mortgages, Homeownership Experiences, and Foreclosures." *Working Paper 07-15*. Federal Reserve Bank of Boston.
- Gotham, Kevin. 2002. *Race, Real Estate and Uneven Development: The Kansas City Experience 1900–2000*. Lawrence: University Press of Kansas.
- Gramlich, Edward. 2007. *Subprime Mortgages: America's Latest Boom and Bust*. Washington, DC: Urban Institute Press.
- Granovetter, Mark. 1985. "Economic Action and Social Structure: The Problem of Embeddedness." *American Journal of Sociology* 91 (3): 481–510.
- . 2005. "The Impact of Social Structure on Economic Outcomes." *Journal of Economic Perspectives* 19 (1): 33–50.
- Granovetter, Mark, and Richard Swedberg, eds. 1992. *The Sociology of Economic Life*. Oxford: Westview Press.
- Haynes, Bruce. 2001. *Red Lines, Black Spaces*. New Haven: Yale University Press.
- Haynes, Bruce, and Jesus Hernandez. 2008. "Place, Space and Race: Monopolistic Group Closure and the Dark Side of Social Capital." In *Networked Urbanism*, edited by Talja Blokland and Mike Savage, 59–82. Hampshire, UK: Ashgate Press.
- Hernandez, Jesus. 2009. "Redlining Revisited: Mortgage Lending Patterns in Sacramento 1930–2004." *International Journal of Urban and Regional Research* 33 (2): 291–313.
- Hirsch, Arnold. 1983. *Making the Second Ghetto: Race and Housing in Chicago 1940–1960*. Chicago: University of Chicago Press.
- . 2006. "Less than Plessy: The Inner City, Suburbs, and State-Sanctioned Residential Segregation in the Age of Brown." In *The New Suburban History*, edited by Kevin Kruse and Thomas J. Sugrue, 33–56. Chicago: University of Chicago Press.
- Holloway, Steven, and Elvin Wylly. 2001. "The 'Color of Money' Expanded: Geographically Contingent Mortgage Lending in Atlanta." *Journal of Housing Research* 12 (1): 55–90.
- Hoyt, Homer. 1933. *One Hundred Years of Real Estate in Chicago*. Chicago: University of Chicago Press.
- Iglesias, Elizabeth. 2000. "Global Markets, Racial Spaces and the Role of Critical Race Theory in the Struggle for Community Control of Investments: An Institutional Class Analysis." *Villanova Law Review* 45: 1037–1073.
- Immergluck, Daniel. 2009. *Foreclosed: High-Risk Lending, Deregulation, and the Undermining of America's Mortgage Market*. Ithaca, NY: Cornell University Press.
- Immergluck, Daniel, and Marti Wiles. 1999. *Two Steps Back: The Dual Mortgage Market, Predatory Lending, and the Undoing of Community Development*. Chicago: Woodstock Institute.
- Jackson, Kenneth. 1985. *Crabgrass Frontier: The Suburbanization of the United States*. New York: Oxford University Press.
- Massey, Douglas, and Nancy Denton. 1993. *American Apartheid: Segregation and the Making of the Underclass*. Cambridge, MA: Harvard University Press.
- McMichael, Stanley. 1949. *Real Estate Subdivisions*. New York: Prentice-Hall.
- McMichael, Stanley, and Robert Bingham. 1928. *City Growth Essentials*. Cleveland: Stanley McMichael Publishing Organization.
- Monchow, Helen. 1928. *The Use of Deed Restrictions in Subdivision Development*. Chicago: Institute for Research in Land Economics and Public Utilities.

- Mueller, Paul. 1966. "Effects of Housing Discrimination on Residential Segregation Patterns in Sacramento 1960–1966." Sacramento, CA: Sacramento Community Integration Project.
- Parkin, Frank. 1979. *Marxism and Class Theory: A Bourgeois Critique*. New York: Columbia University Press.
- . 1982. *Max Weber*. London: Tavistock Publications.
- Renuart, Elizabeth. 2004. "An Overview of the Predatory Mortgage Lending Process." *Housing Policy Debate* 15 (3): 467–502.
- Roithmayr, Daria. 2007. "Racial Cartels." Law and Economics Working Paper Series, Paper 66. University of Southern California Law School.
- . 2014. *Reproducing Racism: How Everyday Choices Lock In White Advantage*. New York: New York University Press.
- Schessele, Randall. 2002. "Black and White Disparities in Subprime Mortgage Refinance Lending." *Housing Finance Working Paper Series*. Office of Policy Development and Research. US Department of Housing and Urban Development.
- Schloemer, Ellen, Wei Li, Keith Ernst, and Kathleen Keest. 2006. "Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners." Durham, NC: Center for Responsible Lending.
- Shiller, Robert. 2008. *The Subprime Solution: How Today's Global Financial Crisis Happened, and What to Do about It*. Princeton, NJ: Princeton University Press.
- Smith, Adam. 1776 [1976]. *The Wealth of Nations*. New York: Oxford University Press.
- Squires, Gregory, ed. 1992. *From Redlining to Reinvestment: Community Responses to Urban Disinvestment*. Philadelphia: Temple University Press.
- Squires, Gregory, and Charis Kubrin. 2006. *Privileged Places: Race, Residence and the Structure of Opportunity*. Boulder, CO: Lynne Rienner.
- Storr, Virgil. 2009. "The Social Construction of the Market." Working Paper No. 09-44. Mercatus Center. George Mason University.
- Stuart, Guy. 2003. *Discriminating Risk: The U.S. Mortgage Lending Industry in the Twentieth Century*. Ithaca, NY: Cornell University Press.
- Swedberg, Richard. 1994. "Markets as Social Structures." In *The Handbook of Economic Sociology*, edited by Neil J. Smelser and Richard Swedberg, 255–282. Princeton, NJ: Princeton University Press.
- Swidler, Ann. 1986. "Culture in Action: Symbols and Strategies." *American Sociological Review* 51 (2): 273–286.
- Tilly, Charles. 1998. *Durable Inequality*. Berkeley: University of California Press.
- Turner, Marjorie, and F. Skidmore, eds. 1999. *Mortgage Lending Discrimination: A Review of Existing Evidence*. Washington, DC: Urban Institute Press.
- Weaver, Robert. 1948. *The Negro Ghetto*. New York: Harcourt, Brace.
- Weber, Max, 1978. *Economy and Society*. Berkeley: University of California Press.
- Weiss, Marc. 1987. *The Rise of the Community Builders*. New York: Columbia University Press.
- Wilson, William. 1987. *The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy*. Chicago: University of Chicago Press.
- . 1996. *When Work Disappears: The World of the Urban Poor*. New York: Vintage Books.
- Wyly, Elvin, Mona Atia, Holly Foxcroft, Daniel J. Hammel, and Kelly Phillips-Watts. 2006. "American Home: Predatory Mortgage Capital and Neighborhood Spaces of Race and Class Exploitation in the United States." *Geografiska Annaler B* 88 (1): 105–132.
- Wyly, Elvin, Markus Moos, Emanuel Kabahizi, and Daniel J. Hammel. 2009. "Cartographies of Race and Class: Mapping the Class-Monopoly Rents of American Subprime Mortgage Capital." *International Journal of Urban and Regional Research* 33 (2): 332–354.
- Yinger, John. 1995. *Closed Doors, Opportunities Lost: The Continuing Costs of Housing Discrimination*. New York: Russell Sage Foundation.
- Zandi, Mark. 2008. *Financial Shock: A 360° Look at the Subprime Mortgage Implosion, and How to Avoid the Next Financial Crisis*. Upper Saddle River, NJ: FT Press.