

Housing, Finance, Harm and Crime



Finance, Harm and White Collar Crime

Stockholm, 2015

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KU Leuven/

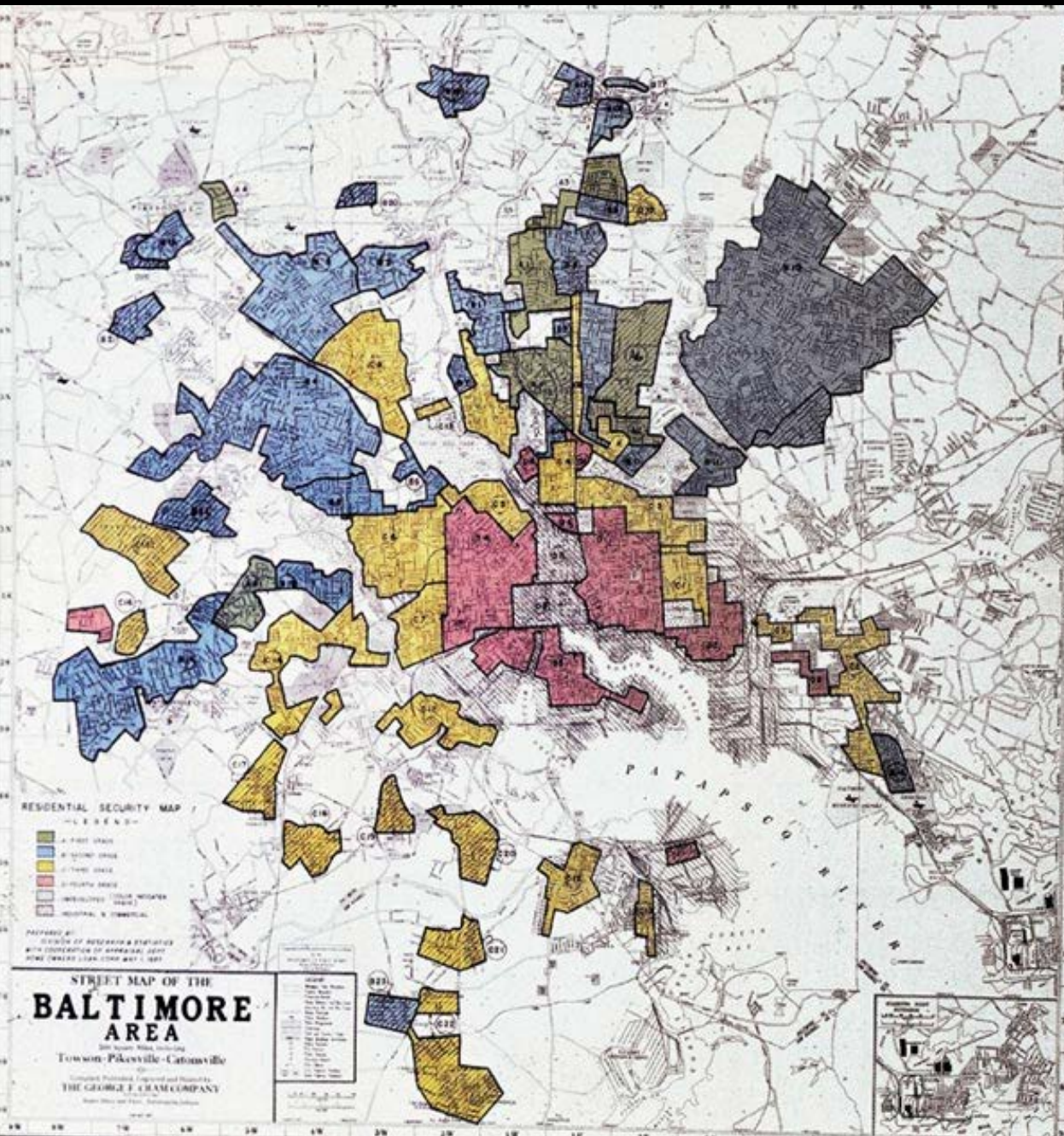
University of Leuven

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

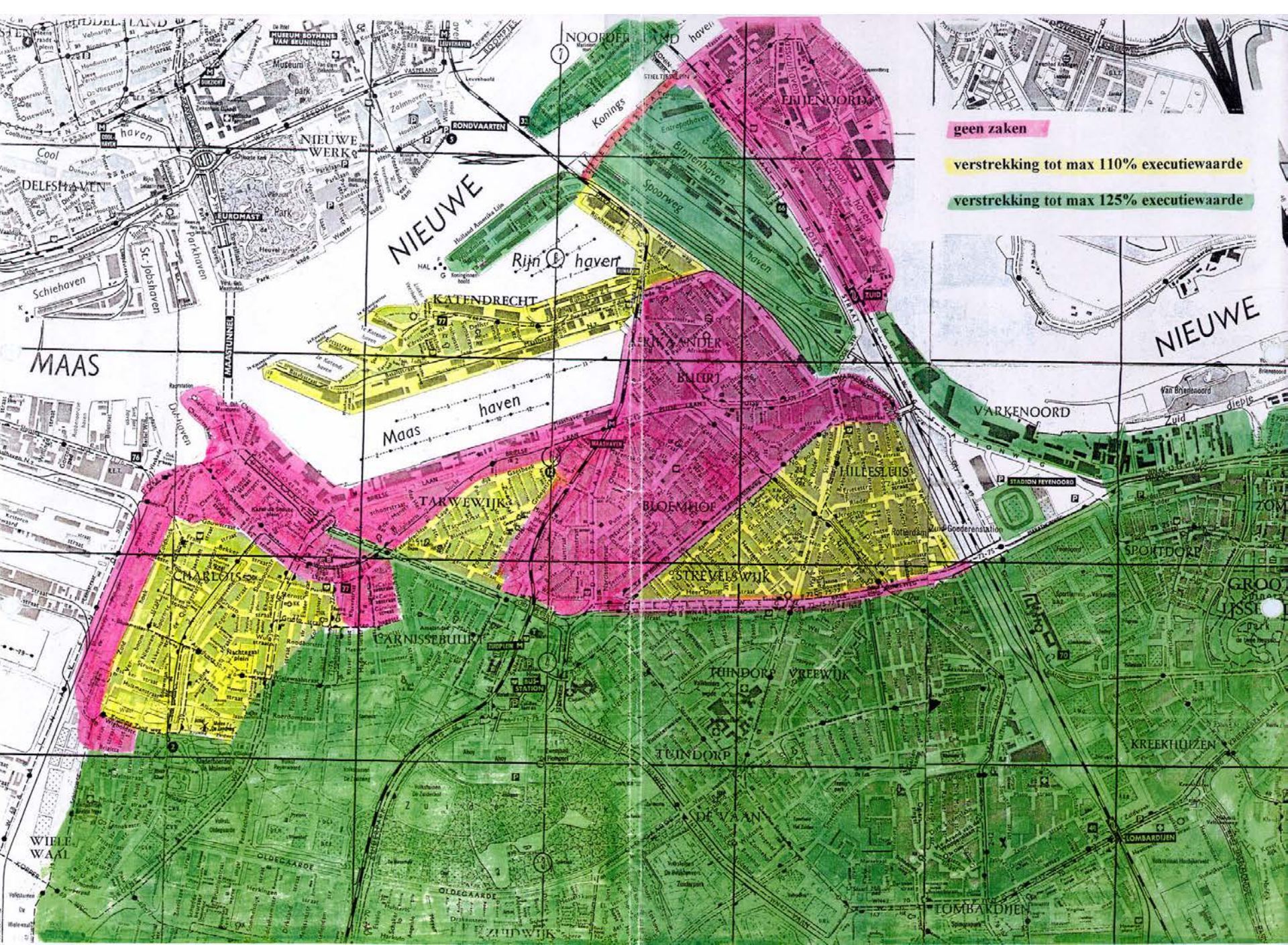
- Identification of a specific neighborhood where people are unable – or hardly able – to get a home mortgage



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

Postcode		Code:
3011	Stadsdriehoek	I
3013	CS/Kwartier	II
3014	Oude Westen	III
3015	Dijkzicht	I
3016	Nieuwe Werk	I
3021	Middelland	III
3022	Nieuwe Westen	III
3023	Nieuwe Westen	II
3024	Delfshaven	II
3025	Bospolder	III
3026	Tussendijken	III
3027	Spangen	III
3028	Oude Mathenesse, Witte Dorp	III
3031	Rubroek	II
3032	Agniesebuurt	III
3033	Provenierswijk	II/achter het Centraal Station
3034	Crooswijk	III
3035	Oude Noorden	II
3036	Oude Noorden	II
3037	Liskwartier	II
3038	Bergpolder	I
3039	Blijdorp	I
3061	Kralingen West	I/overgang naar "het Kralingen"
3062	Kralingen Oost	I
3063	De Esch	I



Werkgebied Zuid

3071	Feijenoord	III (uitgezonderd Kop van Zuid)
3072	Afrikaanderwijk	III (uitgezonderd Hilledijk 77 t/m 97 a,b,c,d -> code I)
3073	Bloemhof	III/begrensd door: Putselaan/Oleanderstraat
3073	Strevelsweg	III/vanaf de Lange Hilleweg
3074	Hillesluis	III/begrensd door: Slaghekstraat/ W.Varkenoordseweg/Riederln/BeijerlandseIn
3081	Tarwewijk	III/begrensd door Dordtseln/Mijnsherenln Wevershoekstraat/Wolphaersbocht/Pleinweg/Brielseln
3081	Katendrechtse Lagendijk	III/vanaf de Pleinweg (oude gedeelte)
3081	Gaesbeekstraat	III/vanaf de Pleinweg (oude gedeelte)

Opmerkingen:

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

Verklaring begrippen:

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

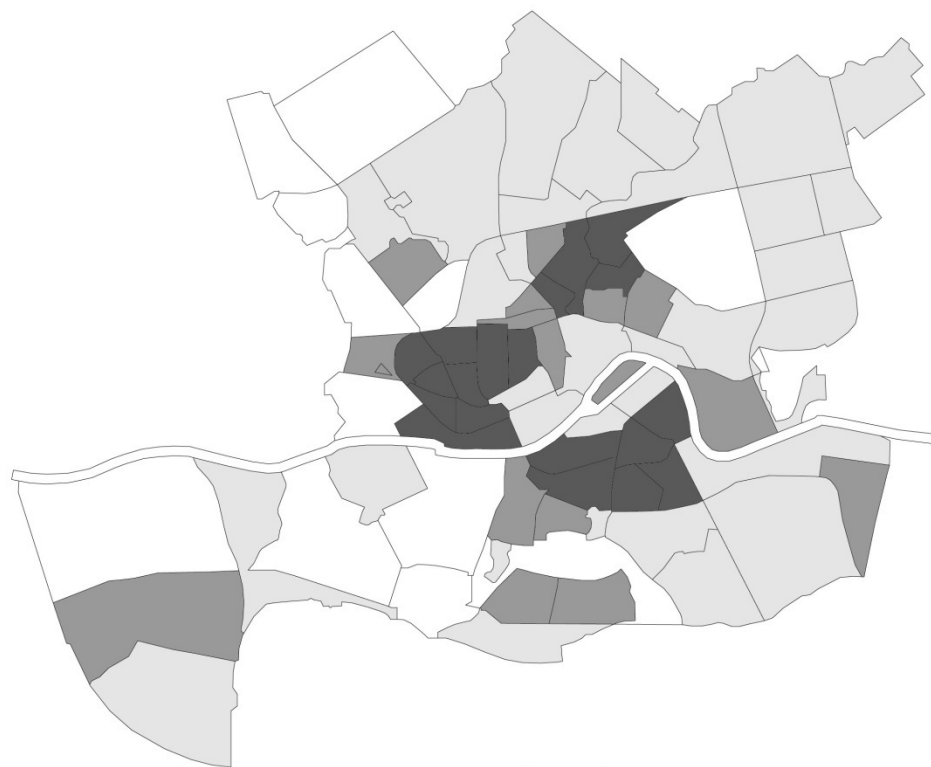
23 april 1999

Rabobank



- | | |
|--------------------------|--------------------|
| 1 Spangen | 14 Oude Westen |
| 2 Nieuwe Westen | 15 Schiemonnd |
| 3 Nieuwe Westen | 16 Oud Charlois |
| 4 Middelland | 17 Carnisse |
| 5 Tussendijken | 18 Pendrecht |
| 6 Bospolder | 19 Strevelswijk |
| 7 Delfshaven | 20 Beverwaard |
| 8 Tarwewijk/Millinxbuurt | 21 Liskwartier |
| 9 Bloemhof | 22 Agniesebuurt |
| 10 Hillesluis | 23 Oude Noorden |
| 11 Afrikaanderwijk | 24 Oud Crooswijk |
| 12 Feijenoord | 25 Nieuw Crooswijk |
| 13 Oud Mathenesse | |

- place-based exclusion according to (almost) all interviewees
- place-based exclusion according to a number of interviewees
- City Centre



- > 60% ethnic minorities
- 40-60% ethnic minorities
- < 40% ethnic minorities

Neighborhoods with an overrepresentation of...

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

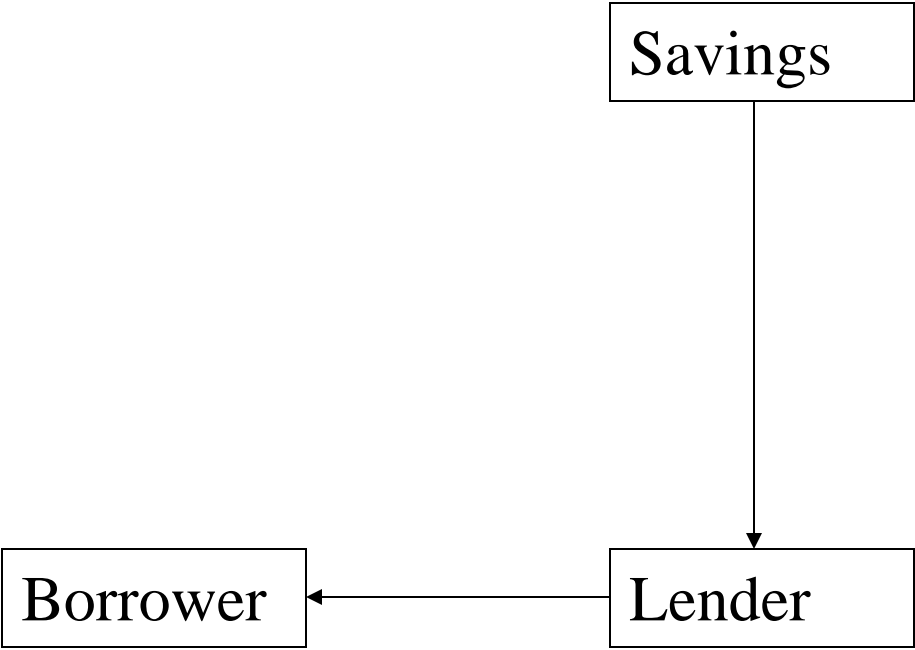
Five chapters



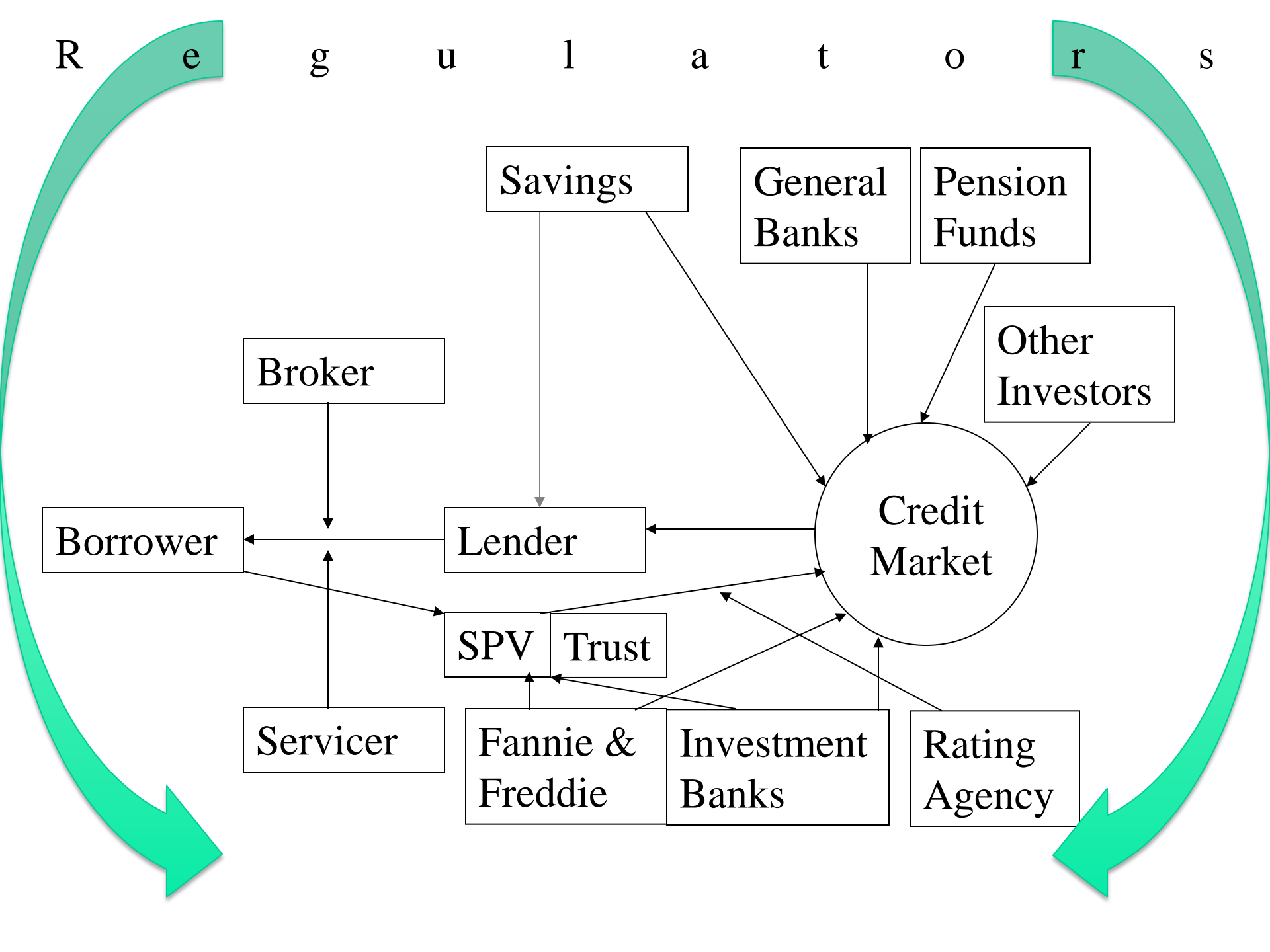
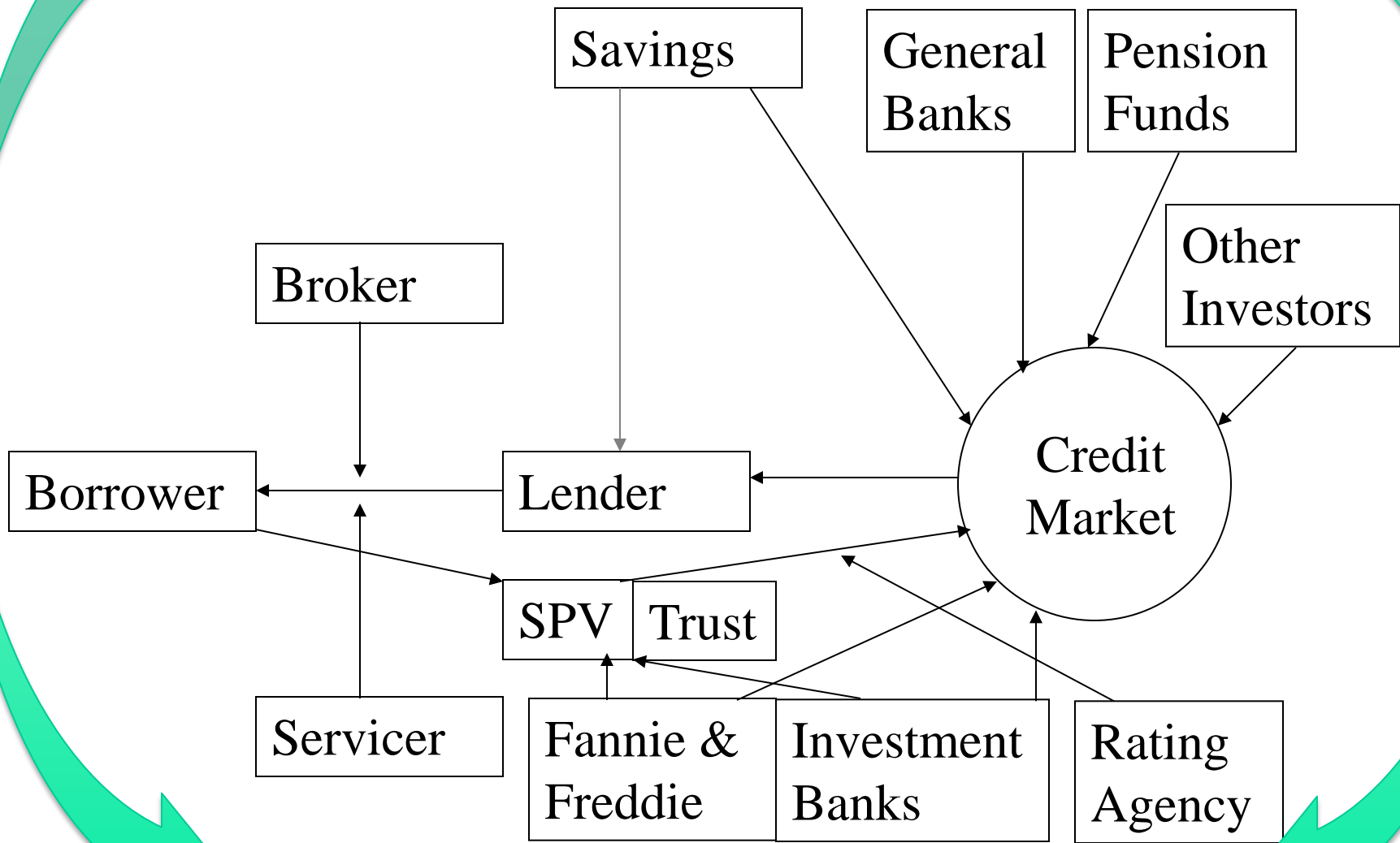
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Who gets a mortgage loan?

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



R e g u l a t o r s



Credit Scoring

Type of Residence

Own your home	3
Rent	2
Live w/parents	1

Occupation

Professional	3
Skilled	2
Unskilled	1

Length of Residence

Over 6 years	4
6-4 years	3
3-1 years	2

Length of Employment

More than 5 years	3
3-5 years	2
1-3 years	1

Previous Residence

6-3 years	2
3-0 years	1
Less than 1 year	1

Monthly Income

Over \$1,200	5
\$1,200-1,000	4
\$1,000-800	3
\$800-600	2
\$600-1	1

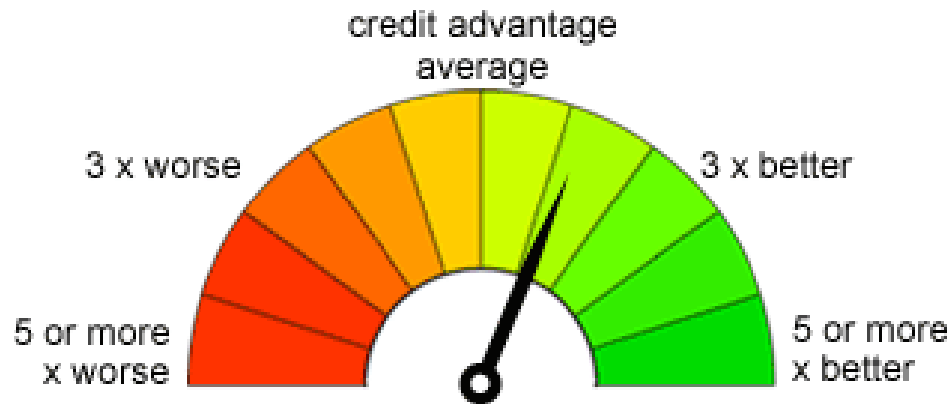
Current Monthly Debt

\$0-250	1
\$250 & up	0

Money Management/Credit History

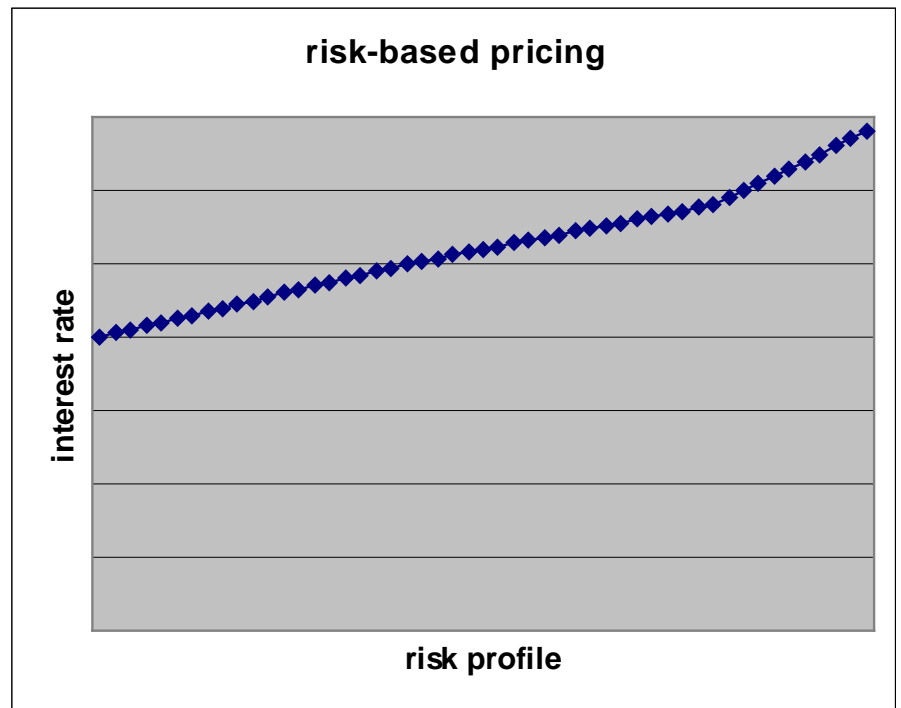
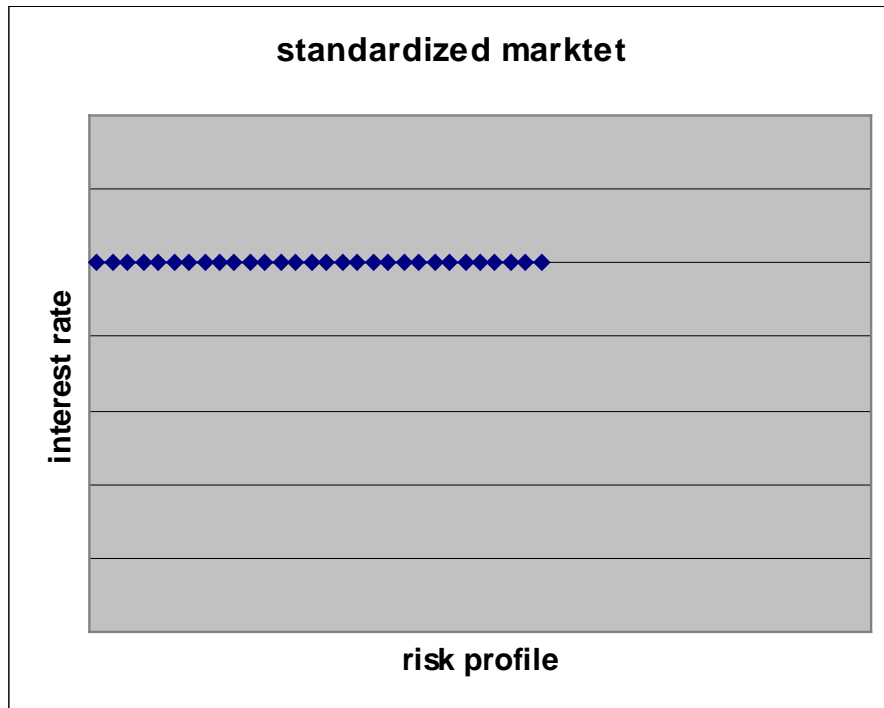
Loan at this bank	4
Loan elsewhere	3
Credit cards	2
Checking/savings accounts	1

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

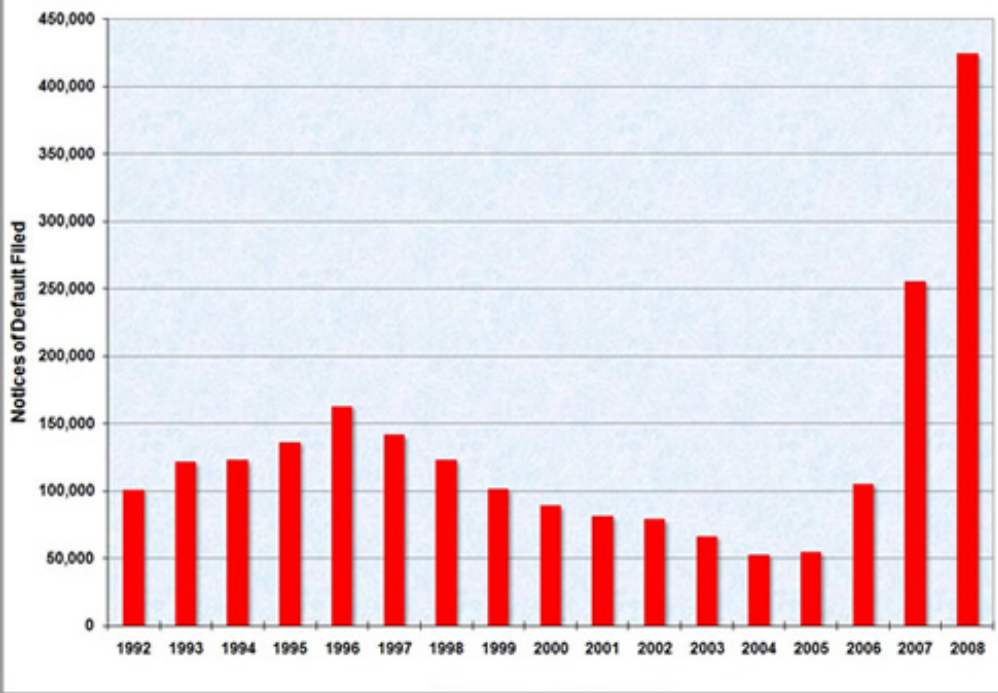
=>

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

California Default Notices, Source: DataQuick



“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.
- => Disparate treatment + impact => 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		
Legal		2. Predatory lending 1. Redlining	
-	-	Intentional	+

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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

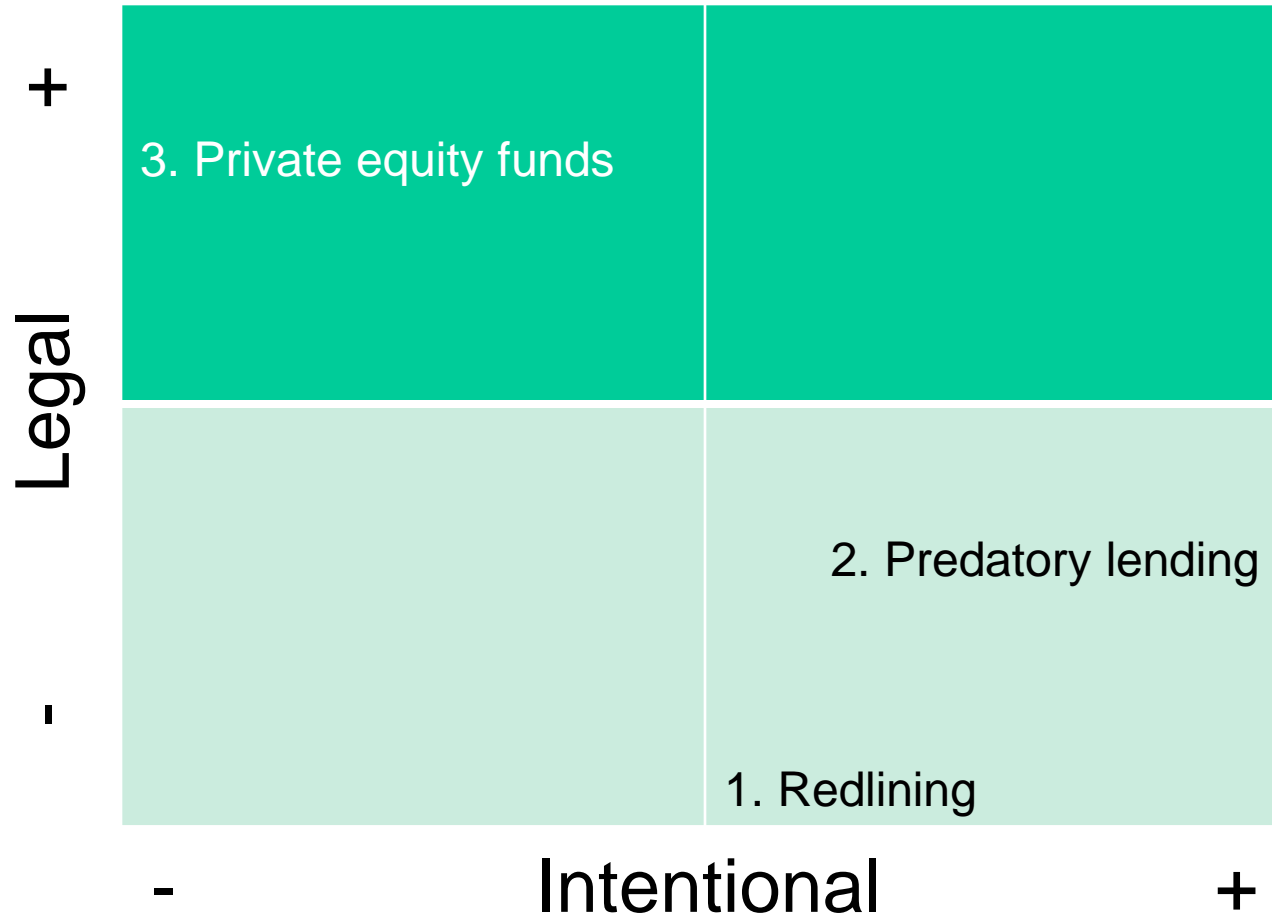
- East + West
- Restitution
- Privatisation of entire public housing companies
- Private equity funds



CERBERUS

CAPITAL MANAGEMENT, L.P.

Conceptualizing Harm



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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

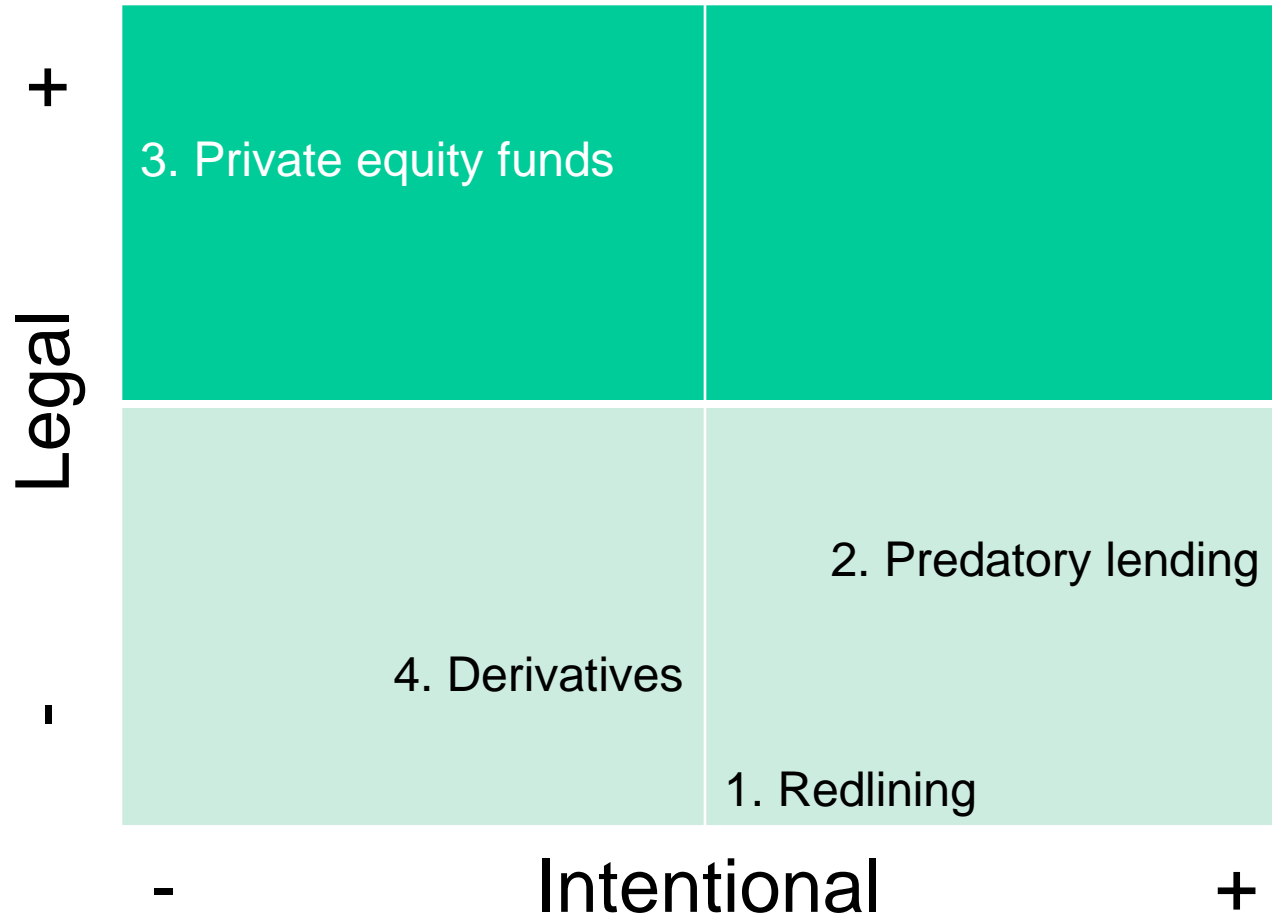
Derivative positions of Vestia, December 2011, in millions of Euros

Bank	Total nominal value derivatives	Negative market value	Threshold	Margin call
Deutsche Bank	4200	-498	150	348
Citibank	3700	-105	50	55
ABN Amro	3200	-373	150	223
Barclays	2700	-85	50	35
BNP Paribas	2400	-174	100	74
Nomura	1400	-67	50	17
Credit Suisse	800	-61	50	11
Rabobank	750	-83	50	33
JP Morgan	700	-156	200	-
Société Générale	500	-29	50	-
ING	160	-10	-	-
BNG	100	-37	-	-
DEPFA	Unknown	Unknown	50	Unknown
Total	20610	-1678		796

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 against Staal and De Vries
 - Financial supervisor fined *ABN AMRO*: €3 million
- => HARM + ILLEGAL

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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

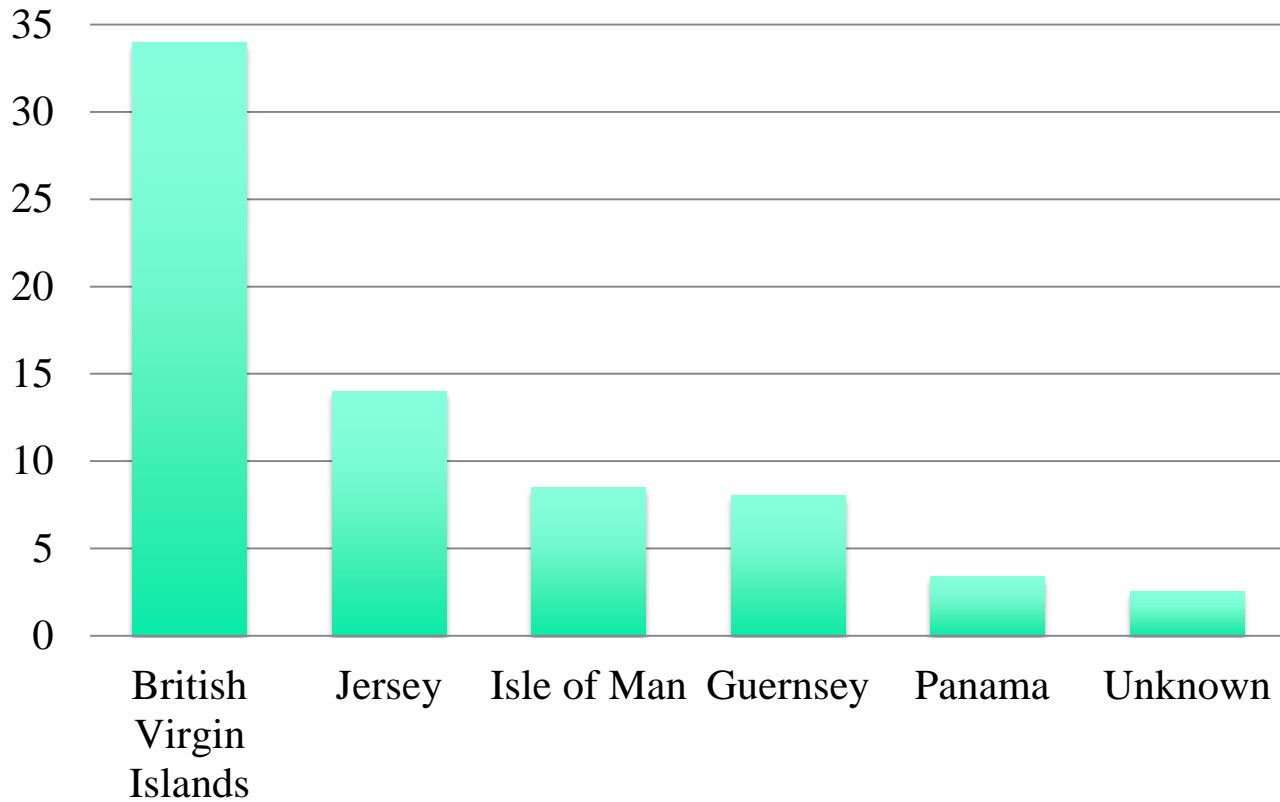
Regulatory changes

- 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

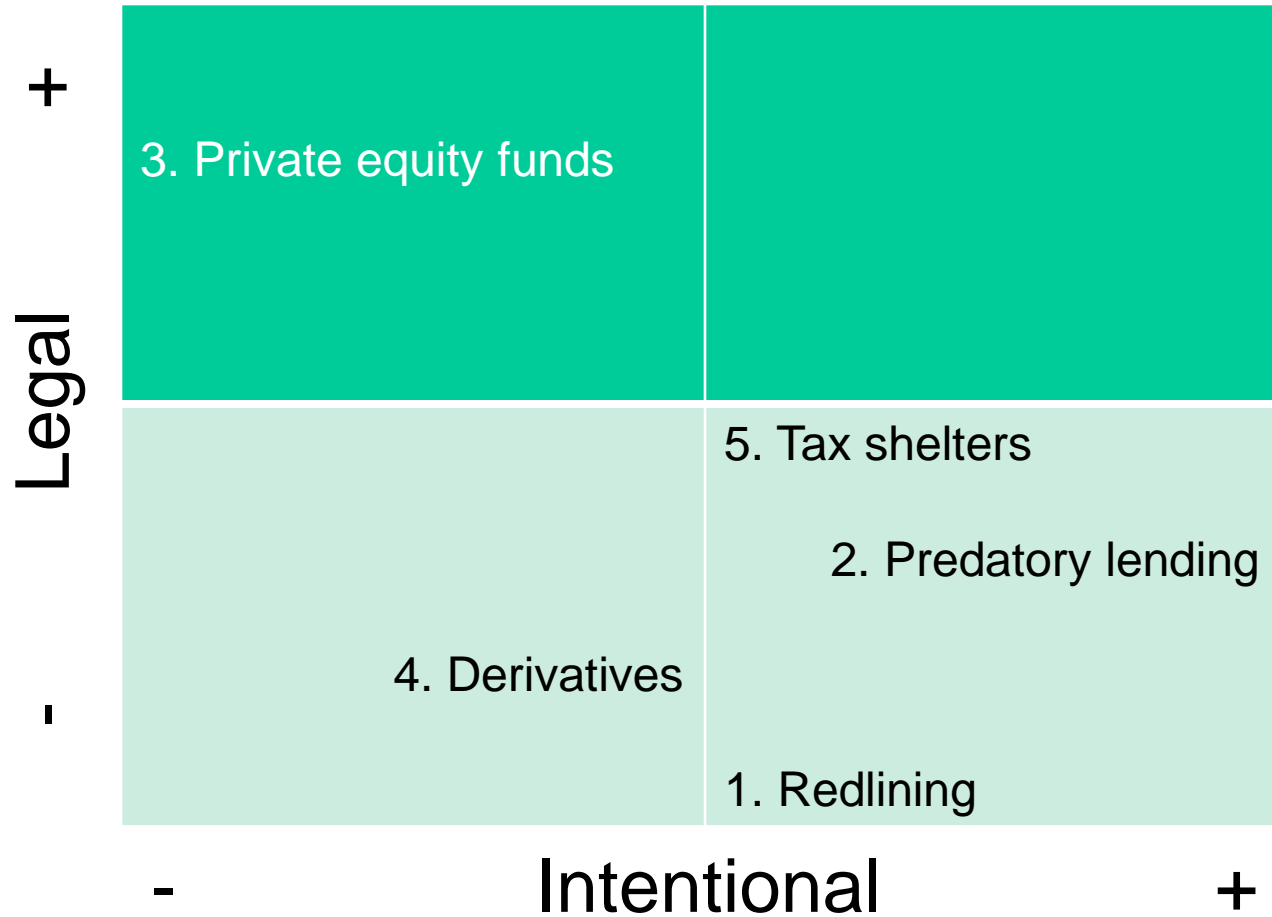
Foreign-owned London properties by main jurisdictions of registration in 2014



Consequences

- Housing affordability
 - Displacement
 - Developers focus on prime RE
- => HARM

Conceptualizing Harm



5 chapters, 6 references

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2. Aalbers, M.B. (Ed.) (2012) *Subprime Cities: The Political Economy of Mortgage Markets*. Oxford: Wiley-Blackwell.
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5. Fernandez, R., A. Hofman & M.B. Aalbers (2015) London and New York as a Safe Deposit Box for the Transnational Wealth Elite. Working paper (available from the authors)

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