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Who's afraid of red, yellow and green?: Redlining in Rotterdam

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Abstract

Redlining research is common practice in the US but not in other countries. Does this imply redlining does not take place elsewhere? This paper presents evidence from Rotterdam, the second largest city of the Netherlands, showing that in the 1990s it was impossible to get a home mortgage in large parts of the city. However, after Rotterdam joined the National Mortgage Guarantee (an institutional control measure) in 2000, hardly any evidence of redlining was found. This paper not only shows that redlining takes place outside of the US context, but also that a (discursive) treatment based on case study research has the possibility to gain a fuller understanding of redlining practices than a statistical/correlation analysis of mortgage data. Interviews with key actors are instrumental to unravelling how, why and when those in power make their decisions: agents are structured by the existing system while, at the same time, some of these agents have the power to re-produce as well as re-structure (transform) the system. One of the geographical outcomes of the agency-structure interaction is that credit is "redirected away from poorer to richer (and therefore "safer") groups" as part of a strategy of risk avoidance [Leyshon and Thrift, 1997]. Thus redlining, like any other form of financial exclusion, deepens and accentuates prevailing levels of uneven development by creating geographical variations in access to the financial system [Dymski and Veitch, 1992].
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1. Introduction: red, yellow and green in mortgage maps

Red, yellow and green are the common colours used on mortgage finance maps. Red, in both the natural and the social worlds, is often used as a portent of danger. Green has been assigned the meaning of safe condition or "go". Yellow and orange are always warning signs for a transition to red; it is neither red nor green. Mortgage finance maps are no different. This paper gives account of the search for and use of mortgage finance maps in the Netherlands. It takes the city of Rotterdam as a case study. The key questions in this paper are: is there any evidence of redlining in Rotterdam? Which actors were involved in the formation of redlining in Rotterdam? And what is the rationale behind their involvement?

Since this is the first time such research has been undertaken in the Netherlands and because redlining did not play a significant role in scientific nor in the public debate, this paper is framed by the American experience, where research on redlining is all but a novelty, and where redlining plays an important part in debates on urban neighbourhoods (dynamics), housing and race. Theoretically, this paper is not only embedded in this US debate, but also in the more UK-dominated debate on financial exclusion. It is argued that redlining is a

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form of financial exclusion that hits certain social (including ethnic) groups harder than others.

In Section 2, I will briefly discuss the American experience with redlining. I will look at the empirical (economics-dominated) discussion, as well as at the broader issues at stake. This is followed by a discussion of the more recent, and mostly British literature on financial exclusion. The subsequent section deals with the "translation" of these literatures to the Dutch case, and discusses the case study that is the basis of this paper. Then, the case of Rotterdam and its peculiarities will be introduced, which is followed by the empirical part of the paper. The analysis takes place on the basis of interviews with key actors rather than on a (statistical) analysis of mortgage data. Lastly, the concluding section puts the results back in the debate and highlights some key issues.

2. Redlining in the US literature: racial and spatial conceptualisations

Redlining practices are widely documented in the US. [1] The earliest proof and discussion dates back to the 1930s:

> The Home Owners' Loan Corporation (HOLC) was created in 1933 to offer loans that would prevent foreclosures and help former owners regain foreclosed properties. The HOLC adopted and formalized a neighbourhood rating system consisting of four categories of financial risk to lenders. The third and fourth categories were thought by lenders to present the greatest risk. Almost all black neighbourhoods were classified in the fourth category (coloured red on maps—thus "redlining"), and ethnically mixed neighbourhoods were typically classified in the third category. (...) The scheme was institutionalised and given devastating impact when adopted by the Federal Housing Administration (FHA) and the Veterans Administration (VA). The FHA and VA rarely guaranteed loans in neighbourhoods classified in either of these two categories. (Holloway, 1998, p. 254)

This launched dozens of research papers on redlining. And, as in the 1930s, two trends would remain dominant. First, the role of federal and other state organizations; and second, and most important, the link between race and redlining. Many scholars argue that by restricting the flow of credit to central-city neighbourhoods, white suburbanisation was subsidized and disinvestments in central-city neighbourhoods was intensified (Massey and Denton, 1993; Holloway, 1998). The FHA, "which accounted for nearly half of all homes sold in the 1950s and 1960s, itself used explicitly racial (and racist) criteria about neighbourhoods in making decisions about whether to approve FHA loans. So redlining was not a phantasm of overzealous activists: it had been official government policy" (Dymski, in press).

Redlining is often associated with racial discrimination. Racial minorities usually inhabit redlined areas. Banks assume that members of certain racial groups are, on average, less able to fulfil their financial commitments:

> In either event, lenders will believe that minority applicants are more likely to default than are white applicants with the same observed credit characteristics and they have an economic incentive to discriminate against minority applicants. This behaviour is illegal—a lender must base his or her decision on the observed credit characteristics of an applicant—but some lenders may respond to the economic incentive instead of to the requirements of the law. (Ross and Yinger, 1999b, p. 100)

Protests by community organizations in general, and the Civil Rights movement in specific, prepared the US for the passage of both the Federal Home Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act (CRA) in respectively 1975 and 1977. The first opened up mortgage data for more research while the second required lenders to lend in all neighbourhoods from which they received deposits (by the threat of financial and legal sanctions). The passing of the HMDA enabled and facilitated redlining research.

Yinger (1995) distinguishes process-based redlining from outcome-based redlining (research). Process-based redlining, which loosely corresponds to disparate treatment, occurs when a specific discriminatory act by the lender can be identified during the mortgage-seeking process, while outcome-based redlining, which loosely corresponds to disparate impact, can be identified at any point of the application process, including during the initial inquiry. Disparate treatment takes place when a lender rejects a mortgage loan application simply for the reason of the location of the house (redlining according to a narrow definition); disparate impact also refers to discouraging people to apply, and to final outcome which can be that it is impossible to get a loan for any house in a specific neighbourhood (de facto redlining). [2] Most of these studies (predominately based on disparate impact research as it is considered hard to prove disparate treatment) found that it was harder—and often

[1] For a more extended overview and discussion, see Dymski, in press.

[2] The notion of "de facto redlining" holds that effect (disparate impact) is more important than intent (disparate treatment) (Kantor and Nystuen, 1982).

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