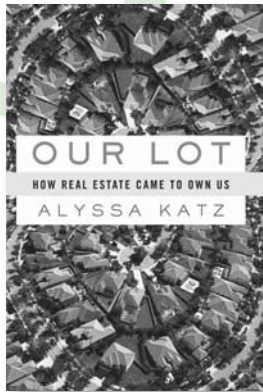


# the credit mines

by sarah quinn



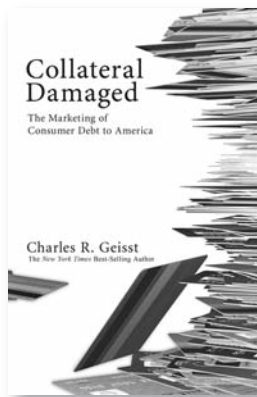
***Our Lot: How Real Estate Came to Own Us***

By Alyssa Katz  
Bloomsbury, 2009, 320 pages

The sheer size of it all is staggering. By 2008, according to professor and author Charles Geisst, American households had more than a billion credit cards and owed \$2.55 trillion to credit card companies. In a mere seven years we had doubled our mortgage debt, and Wall Street securitized most of the \$20 trillion in new loans. Financiers packaged those mortgages into pools, then sold off rights to the pools to investors around the world. An estimated 1.3 trillion of these mortgages had adjustable rates set to rise in 2008. Falling housing prices meant that 1 in 5 homeowners were saddled with mortgages worth more than the actual value of their homes, a number that would continue to rise as housing prices fell.

Unfortunately, our corporations were every bit as bad off as our households—a handful of the largest securities firms owed \$40 for every \$1 they held. There had been a great credit rush, and it ended in a bust. Realizing their excess, lenders slowed their lending, households slowed their spending, and the economy tumbled.

But how did Americans get so deep in the hole in the first place? Two new



***Collateral Damaged: The Marketing of Consumer Debt to America***

By Charles R. Geisst  
Bloomberg Press, 2009, 288 pages

books—one looking at housing, the other at credit cards—track the amazing ascent and terrible collapse of the United States' credit markets, cataloguing all the things lost along the way. Together, they offer a sobering account of how the struggling families who were supposed to benefit the most from the expansion of credit markets ended up bearing the brunt of its excesses. For those unfortunate enough to be at the center of the credit bubble, the shining promise of homeownership turned in to a dark reality of overwhelming debts, impossible choices, foreclosed homes, emotional traumas, and tarnished credit records.

In *Our Lot*, Alyssa Katz shines a light on the dark political history of housing problems in America. During the post-World War II era, government policies helped millions of families buy homes in the suburbs, but systematically excluded black families, those with the lowest incomes, and those who wanted to stay in the city. In response, community activists sought to obtain for poorer, urban, and minority families what had helped middle-class whites move up: a mortgage.

These activists aligned with execu-

tives of the federal mortgage agency Fannie Mae, who felt the double pinch of political and economic pressure; Wall Street traders and Main Street mortgage brokers, who saw a chance to profit; politicians looking for a cheap way to boost the economy; and, of course, renters, who just wanted to move up the social ladder. All these disparate groups could agree on one thing: more people should own homes. Egged on by experts, foundations, and credit rating agencies that improperly classified risky financial deals as safe, these people pushed, prodded, and pulled each other down the road of questionable loans until they all plunged off the subprime cliff together.

Katz guides us through the maze of policies and decisions that led to the credit boom, and then takes us on a tour of its destruction. We visit the shoddily constructed mega-homes of Sacramento and the fraud-infested communities of Atlanta. We meet New Yorkers squeezed out of rent-controlled apartments and Floridians duped into get-rich-quick investment schemes. Most poignantly, we sit with families in Cleveland who watch their communities fill with abandoned homes that are then stripped for parts.

Geisst's *Collateral Damaged* focuses less on American homes and more on American debts. For most of history, he argues, debt was onerous, lenders suspect, and high interest rates banned as usury. But in the United States things started to change in the 1920s. Companies realized that to sell big ticket items (like cars), they actually had to lend money to would-be customers. The age of consumer debt had begun. The Depression and World War II slowed its progress, but a new generation of economists in the 1950s and 1960s emerged to help revive it. Their theories redefined the firm as a bundle of assets to be managed and debt as a means to growth.

Corporate reticence about carrying debt crumbled. Soon, being highly leveraged—that is, having more debt relative to assets—made the leap from the firm to the household.

Banks, which had previously left to pawnshops and loan sharks the business of lending money to everyday people, got in the game. As credit poured into American homes, more conservative layaway deals gave way to installment credit, which gave way to credit cards for the rich, which gave way to credit cards for everyone. When the combination of low interest rates and usury laws threatened to choke off profits, Geisst writes, those companies came up with cleverly hidden ways to charge more: in lieu of raising interest rates they added a slew of fees, and they used minimum payments to encourage “perpetual indebtedness.”

In the 1980s and 90s credit reached new heights. Market deregulation swept usury laws aside completely, and the new financial technology of securitization allowed companies to sell off their loans and raise more money. That money was then used to take on even greater risks. By the 1990s, when almost anyone could qualify for a credit card, we barely stopped to congratulate ourselves for “democratizing credit” before we sucked our homes into the maw. Between 1996 and 2006, \$800 billion of home equity was used to pay off consumer debt. Geisst argues that families were using their home equity to pay off their debts and buy more things: we had been reduced to “cannibal consumption.”

Together these books show that our decade of excess was born of a century's worth of legal missteps, exploitative practices, and good intentions gone awry. Of the two, Katz's account is more personal and vivid. Her reliance on interviews allows for a surprisingly intimate look at the crisis, and her attention to community activists drives home that housing finance, for all of its complexity and abstraction, ultimately is a way of determining who gets to have what in America.

Geisst's look at credit markets is, on the whole, more abstract and technical. Readers broadly interested in credit will appreciate his willingness to spell out the fundamentals of credit cards and corporate debt, interest rates and tax structures, economic theory and usury laws.

The books differ in subject matter and tone, but suffer from the same problem: the complexity that makes these markets hard to govern also makes them hard to analyze and write about. Both authors do the crucial work of identifying major players, but it isn't always clear which actors had starring or supporting roles. While each writer offers provocative and thoughtful analyses, it may be years before we fully understand the relationships between the many contributing factors or know which of the books' many claims bear out under scrutiny. Rather than view these as definitive accounts, readers should approach them as points of entry into the crisis, ones that raise important questions for social scientists to discuss, research, and test.

The books do share a great insight about the hazards of the American Dream. It's clear that since the 1980s an incendiary mix of deregulation, low interest rates, tax breaks, and legal protections had set up twisted incentives to value short-term gains over long-term financial soundness. It's also clear these policies weren't aberrations, but instead emerged from a long tradition of American statecraft, going back at least to Herbert Hoover and Franklin Delano Roosevelt, that encouraged affluent and poor people alike to use debt to hoist themselves up—but also used discriminatory Federal Housing Administration programs to give richer, whiter people an extra boost along the way. Political leaders who married the American Dream to American debts paved the way for the American Dream to become, as Geisst argues, “a lure for predatory lending.” At each step, exploitative credit practices were hailed as the creation of new opportunities, as the democratization of credit, and even as the promotion of civil rights.

Of course, Geisst argues, “credit” is a euphemism for debt. The term makes an obligation look like a gift or an opportunity. But credit is a gift that must be paid off with interest—a burden that benefits investors and disproportionately lands on the doorstep of lower-income families. That high cost is heartbreakingly drawn in Katz's discussion of a Cleveland resident named Barbara Anderson.

“People come to strip the neighborhood,” laments Anderson, referring to more than the scavengers raiding abandoned houses for reusable parts like siding, plumbing, and wires. She's also talking about absentee landlords and Wall Street tycoons who raided the neighborhood from a more respectable distance. “The enterprise foundered on a contradiction,” Katz writes. “It's just not possible to transmit wealth to tens of millions of homeowners when the transaction depends on enriching investors and their fund managers to the fullest extent possible, with few boundaries.” Justice and unchecked greed aren't reconcilable.

Debt is a burden people are willing to take on because credit holds so much promise. The ability to borrow is the chance to own a home, get a car, pay off the doctor's bill, buy nice things, work less, and rest more. It's the dream of upward mobility. The problem is, firms made a killing on fees generated from the extraction of credit from American homes and families. Debt was extended without justice and care, and entire communities were strip-mined. Now the credit mines have closed, and many individuals have been left with little equity and no credit.

The task before us isn't just to cushion the blow—it's to rely less on credit markets as a solution to pervasive inequality and to make sure the credit markets we do use promote safer, more sustainable, and more just opportunities for all Americans.

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