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Riding the Stagecoach to Hell: A Qualitative Analysis of Racial Discrimination in Mortgage Lending

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Recent studies have used statistical methods to show that minorities were more likely than equally qualified whites to receive high-cost, high-risk loans during the U.S. housing boom, evidence taken to suggest widespread discrimination in the mortgage lending industry. The evidence, however, was indirect, being inferred from racial differentials that persisted after controlling for other factors known to affect the terms of lending. Here we assemble a qualitative database to generate direct evidence of discrimination. Using a sample of 220 statements randomly selected from documents assembled in the course of recent fair lending lawsuits, we code texts for evidence of individual discrimination, structural discrimination, and potential discrimination in mortgage lending practices. We find that 76 percent of the texts indicated the existence of structural discrimination, with only 11 percent suggesting individual discrimination alone. We then present a sample of texts that were coded as discriminatory to reveal the way in which racial discrimination was embedded within the social structure of U.S. mortgage lending, and to reveal the specific microsocial mechanisms by which this discrimination was effected.

INTRODUCTION

Quantitative work has shown that the level of black–white segregation powerfully predicted the number and rate of foreclosures across U.S. metropolitan areas during the Great Recession (Rugh and Massey 2010), and that African Americans and Latinos were much more likely to receive high-cost, high-risk loans than white borrowers during the housing boom, even after controlling for credit scores, loan to value ratios, subordinate liens, income, assets, expense ratios, neighborhood characteristics, and other relevant variables (Bayer et al. 2014; Been et al. 2009; Bocian et al. 2011; Rugh et al. 2015).

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Although the quantitative findings were convincing enough to compel several large mortgage lenders to settle lawsuits alleging discrimination, the evidence they offer is ultimately statistical and indirect. After controlling for the characteristics of borrowers, properties, and neighborhoods, racial differences in lending outcomes are *presumed* to indicate racial discrimination. The discriminatory behavior is never directly observed.

Here we endeavor to supplement existing quantitative studies by developing direct qualitative evidence of the racial discrimination during the recent housing boom. To accomplish this goal, we compiled a sample of interviews, depositions, and statements made by borrowers, mortgage brokers, loan officers, credit managers, due diligence employees, investment bankers, and others who were involved in subprime lending and securitization in the years leading up to 2008. We then systematically coded the statements to identify specific reports of racial discrimination and generate a sample of associated texts to reveal the nature of the racial bias and the mechanism of discrimination. The selected passages speak directly to the racialized knowledge, intent, and motivations of those who marketed high-cost, high-risk lending products to minority borrowers during the housing boom. We offer these qualitative data as powerful direct evidence of racial discrimination in U.S. lending markets, complementing the strong indirect evidence provided by earlier quantitative studies.

We begin by discussing the historical evolution of racial discrimination in U.S. real estate and lending markets and then move on to describe the qualitative database we constructed from recent fair lending cases and the analytic methods we applied to code these data to identify instances of discrimination described in the texts. Our findings lead us to conclude that racial discrimination was quite common in the institutions under study. We end by discussing the microsocial processes by which black and Latino individuals and communities were channeled into high-cost, high-risk loans that left them uniquely exposed to risks of default, foreclosure, repossession, and the loss of home equity, thus serving to exacerbate already skewed racial inequalities in the distribution of wealth.

HISTORICAL SEGREGATION AND DISCRIMINATION

Prior to the Civil War, African Americans were not very residentially segregated in either the north or the south (Massey and Denton 1993). In southern rural areas slave populations were housed on plantations with their masters and in urban areas of the south they typically lived “downstairs” in servants’ quarters or in cottages located on side streets and alleys near white-owned homes and businesses. In northern cities, African Americans were small in number and not highly concentrated spatially. Although black residents were generally relegated to poor neighborhoods, within them they mingled with poor white urbanites, both native and immigrant. The small number of elite African Americans were by no means accepted as social equals, but if they could afford it they were often tolerated in higher status white neighborhoods.

The situation changed dramatically in the late 19th century with industrialization and urbanization, which increased the size, density, and heterogeneity of U.S. cities to elevate the potential for spatial segregation (Massey and Denton 1993). As immigrants from Southern and Eastern Europe flowed into burgeoning industrial areas, they experienced far higher levels of segregation than earlier waves of immigrants from Northern and Western Europe (Hershberg et al 1981). Black rural–urban migration was small at first but picked up around the turn of the century and accelerated after 1914 when the First World War curtailed immigration from Europe and increased the demand for unskilled workers in manufacturing centers. The demand for black workers increased further when national origins quotas were imposed on immigrants from Southern and Eastern Europe in 1921 and 1924 despite soaring labor demand during the economic boom of the Roaring Twenties.

As black migration into urban areas surged, color lines hardened, especially in the Northeast and Midwest, as successively higher levels of residential segregation were imposed on African Americans (Lieberson 1980). Although immigrants from Southern and Eastern Europe were also segregated within the industrializing landscape, their levels of spatial separation and isolation never reached the heights experienced by African Americans. At first, city governments sought to manage racial tensions by mandating separate areas for black and white residents, and systems of de jure residential segregation spread rapidly throughout the nation until 1917, when the Supreme Court declared them to be unconstitutional (Massey and Denton 1993).

Despite this legal ruling, white resistance to coresidence with African Americans intensified and blacks daring to cross recognized residential color lines were met with hostility, ostracism, and increasingly violence. As densities rose to new heights within black neighborhoods during the years of wartime housing scarcity, African Americans were increasingly forced across the color line, prompting a wave of urban race riots that culminated in the Great Chicago Riot of 1919 (Chicago Commission on Race Relations 1922).

In response to wanton property destruction during the riots (though not to the toll in black lives), the real estate industry took control of the situation and created new legal mechanisms to restrict and control black residential expansion (Massey and Denton 1993). Deed restrictions were developed to prohibit the rental or sale of any property to unwanted outsiders, which always meant African Americans and at times other groups. Realtors also invented racially restrictive covenants, private contracts between property owners within a defined geographic area who agreed not to rent or sell their homes to black home seekers. Violation of these terms would spur a lawsuit for breach of contract. Model covenants were drawn up and distributed for use by real estate agents nationwide, and a provision against the introduction of “unwanted population elements” into residential neighborhoods was enshrined in the profession’s code of ethics (Helper 1969).

With these legal mechanisms in place, levels of violence subsided though never entirely disappeared. Neighborhoods still regularly underwent racial transitions from white to black but usually at times and places chosen by the real estate industry; and the process of “blockbusting” was perfected to maximize rents and profits. Whenever the existing ghetto filled to capacity, an adjacent neighborhood was targeted for managed turnover and the color line shifted outward in space (Duncan and Duncan 1957; Taeuber and Taeuber 1965). Black confederates of real estate agents were typically sent into white neighborhoods to sow fears of racial change and induce panic selling. Since banks generally refused to lend to black borrowers, these transitions were organized and financed by unscrupulous agents who extracted high rents from incoming movers or imposed onerous sales terms that led to foreclosure and serial sales of the same property (Massey and Denton 1993; Satter 2009).

These institutionalized private mechanisms of discrimination built the modern black ghetto and perpetuated segregation through the 1920s, but with the advent of the Great Depression the federal government was compelled to intervene to stabilize the housing and banking industries and it adopted the private sector's discriminatory practices (Jackson 1985). Two of the first agencies established under Franklin Roosevelt's New Deal were the 1933 Homeowners Loan Corporation and the 1934 Federal Housing Administration, which created new loan programs in which the government guaranteed 90 percent of the value of a home loan, provided it conformed to federally specified criteria, such as 10 percent down and a 30-year amortization period.

As in the private sector, the HOLC and the FHA discouraged lending to black borrowers and recommended the use of restrictive covenants. In addition, however, federal authorities developed a new discriminatory tool known as the "residential security map," which was used to color-code neighborhoods in a given city according to their credit worthiness. Red indicated ineligibility for a federally insured loan and black neighborhoods were invariably coded red (Jackson 1985). Although banks had avoided lending in black neighborhoods before the New Deal, the practices of the HOLC and the FHA gave them a federal seal of approval and contributed to the institutionalization of redlining throughout the lending industry. According to Jackson (1985), neighborhoods that were coded red were much less likely to receive federally insured loans, though research by Hillier (2003) in Philadelphia found that redlining had a greater effect on interest rates than on loan provision itself, at least in that city.

HOLC's discriminatory lending practices were taken up by the Veterans Administration when it established its own lending program for returning soldiers in 1944 and became the standard for private lending during the suburban boom of the 1950s and 1960s (Katznelson 2005). With white Americans being federally subsidized to move to the suburbs by FHA and VA loan guarantees, spending on freeways from the Interstate Highway Trust Fund, and the tax deductibility of mortgage interest payments, blacks moved into the homes and neighborhoods they left behind in central cities. Once a neighborhood became black, of course, it was substantially cut off from capital and credit, both public and private, thereby creating underserved and financially unsophisticated communities of people living in deteriorating circumstances (Massey and Denton 1993; Squires 1992).

This status quo persisted through the 1960s and 1970s and served to perpetuate racial segregation and create the classic American configuration of "chocolate cities and vanilla suburbs" (Farley et al. 1978). Racial discrimination in the rental or sale of housing was not outlawed until the 1968 Fair Housing Act; and although this legislation also prohibited discrimination in lending, it was not until the 1974 Equal Credit Opportunity Act that discrimination in mortgage lending was firmly enjoined, and not until the 1977 Community Reinvestment Act that banks were actually required to make loans to underserved minority neighborhoods (Metcalf 1988).

As a result, when Massey and Denton (1987) undertook their initial analysis of black residential segregation using the 1980 census they found that levels of black residential segregation had barely changed. Discrimination did not end after the passage of civil rights legislation in the 1960s and 1970s, of course (Yinger 1997). Traditional forms went underground and became clandestine while new mechanisms of discrimination were invented (Massey 2005). In real estate, outright refusals to market or show housing were increasingly replaced by steering, the systematic channeling of black home seekers to black or already integrated neighborhoods (Charles 2003). In banking, categorical denials of access to credit were replaced by the systematic offering of credit on unfavorable terms to black individuals and neighborhoods (Squires 2003). As time passed, financial institutions increasingly sought out black individuals and neighborhoods explicitly to market them high-cost, high-risk loans and boost their own profits (Engel and McCoy 2008; Immergluck 2009).

During the 1980s and 1990s, the mortgage industry shifted from direct lending by banks to the origination of loans by intermediaries—independent brokers and retail lenders who marketed mortgages and then sold them to investment banks that, in turn, bundled them together to create payment streams that backed securities that were then sold to investors, a process known as securitization (Stone and Zissu 2012). Under the new system, profits for financial organizations depended on the size of the gap between the prevailing interest rate and the rate paid by borrowers, known as the "yield spread." Brokers, retail banks, and investment banks made greater profits when the gap between a loan's interest rate and the prevailing interest rate was wide, creating incentives for loan originators to charge as much as possible for the loans (Botein 2013).

In this new context, minority communities shifted from being seen as a pool of borrowers to be avoided to being perceived as an attractive market for loan sales that might expand the number of mortgages available for securitization. Historical disparities in wealth and access to credit could now be profitably exploited to fuel a boom in subprime lending, thus yielding a new mechanism of racial discrimination known as "predatory lending," in which minority borrowers and neighborhoods were targeted for costly and risky lending products (Rugh and Massey 2010; Squires 2011). In this context, historically underserved black and Latino communities came to be seen as a lucrative untapped market characterized by established home equity, ample room for increased home ownership rates, and a pool of potential borrowers with little financial experience who could be deliberately targeted for the marketing and sale of subprime loans (Botein 2013; Rugh et al. 2015).

These loans not only contained higher rate spreads, but also included other provisions that drove up the cost to borrowers while increasing the profits of lenders at the expense of home owners and other borrowers, who assumed greater financial risk. Securitization, for example, created new incentives to push borrowers into loans with adjustable rates so that if interest rates rose, investors would maintain their yield spread and thus their income streams. It also led banks and brokers to favor loans with high prepayment penalties to prevent them from paying off their loans early or refinancing at a better rate, again maintaining cash flows for investors in mortgage backed securities (Steil et al. 2015).

In the end, predatory lending practices evolved from ostensibly neutral technologies that were manipulated to take advantage of racial segregation, racial prejudice, and a large population of underserved and unsophisticated borrowers, thus ensnaring otherwise creditworthy black and Latino homeowners and into high-cost, high-risk loans. Estimates suggest that during the middle 1990s anywhere from 10 to 35 percent of the people put into subprime loans were, in fact, eligible for prime loans (Mahoney and Zorn 1996). As the housing boom accelerated, this percentage grew until by 2006 as many as 62 percent of subprime borrowers, disproportionately black and Latino, actually qualified for prime loans (Brooks and Simon 2007). As a result, African Americans not only lost money by paying higher fees for more costly products than did equally qualified whites during the boom; but during the bust these products also put them at greater risk of default, foreclosure, and the catastrophic loss of assets through repossession, as quantitative studies have amply demonstrated (Rugh and Massey 2010; Rugh et al. 2015).

DATA AND METHODS

In order to develop direct qualitative evidence of how discrimination in mortgage lending functioned, we assembled statements from publicly available documents in civil rights cases brought before federal courts alleging violations of fair lending law. We began by seeking to identify the universe of cases alleging predatory lending and reverse redlining violations of the Fair Housing Act and the Equal Credit Opportunity Act over the past decade. Cases were identified through a Westlaw search of state and federal cases bringing claims pursuant to the Fair Housing Act or Equal Credit Opportunity Act and alleging reverse redlining. Table 1 presents a list of public and private lawsuits alleging discrimination in lending that were filed against financial institutions over the past two decades, which does not include administrative complaints filed with HUD or with state and local agencies.

Many of the lawsuits were brought by the Civil Rights Division of the U.S. Department of Justice and were settled before going to trial, leaving little in the public record aside from the lending violations alleged and the terms of the consent order. Other cases settled quickly or were dismissed early in the litigation process, likewise leaving a sparse public record. We identified four cases, however, that both survived preliminary motions to dismiss and included a wealth of publicly available documents that could be analyzed.

The first of these cases, Barkley v. Olympia Mortgage, was brought in federal court by eight first-time homebuyers in Brooklyn, New York, who alleged that a real estate investor purchased properties, performed cosmetic repair work, and then conspired with mortgage lenders, appraisers, and attorneys to resell the homes to black and Latino first-time buyers using high-cost loans appraised at far more than a property's true value. After a three-week trial, the jury found the real estate investor and mortgage companies guilty of fraud, conspiracy to commit fraud, and deceptive practices. The verdict was upheld on appeal by the United States Court of Appeals for the Second Circuit, yielding a record of more than 25 depositions by key actors in the trial, with some interviews lasting for eight hours or more.

The second and third cases were brought against Wells Fargo Bank by the City of Baltimore and the City of Memphis (in partnership with Shelby County, Tennessee). Both plaintiffs alleged that Wells Fargo intentionally targeted minority communities and used discriminatory and deceptive methods to steer minority customers into predatory mortgages, resulting in extraordinarily high rates of foreclosure that caused local governments to lose property tax revenue and spend additional resources maintaining vacant homes. In both cases, the federal district court denied Wells Fargo's motions to dismiss and the bank ultimately chose to settle both cases, agreeing to pay millions of dollars to borrowers who were overcharged and to the municipalities that brought suit. The public record in these cases includes multiple declarations made by employees at various positions in Wells Fargo from several different regions.

The fourth case, Adkins et al. v. Morgan Stanley, was brought by black residents of Detroit who alleged that they were fraudulently steered into subprime loans by New Century Financial Corporation, the second largest originator of subprime mortgages in the United States in 2006. The plaintiffs argued that the investment bank, Morgan Stanley, acting as a warehouse lender for New Century, encouraged the latter to issue mortgages that ignored fair lending principles, and violated the Equal Credit Opportunity Act in

TABLE 1. Fair Lending Cases Filed by Plaintiffs Alleging Racial Discrimination in Lending 1994–2014

Plaintiff	Defendant	Court
Alleyne	Flagstar Bank, FSB et al.	D. Mass.
Barkley	Olympia Mortg. Co.	E.D.N.Y.
Barrett	H&R Block	D. Mass.
City of Birmingham	Argent Mortgage Company, LLC et al.	Alabama
Commonwealth of Massachusetts	Countrywide Fin. Corp.	Suffolk Cnty. Sup. Ct.
Consumer Financial Protection Bureau	National City Bank	W.D. Pa.
Cook County	Bank of America	N.D.III.
Cook County	HSBC	N.D. III.
De Kalb	HSBC	N.D. Ga
Garcia	Countrywide Financial Corporation	CD. Cal.
Guerra	GMAC LLC et al.	E.D. Pa.
Hargraves	Capital City Mortgage	D.C.
Hoffman	Option One Mortg. Corp.	N.D.III.
In re GreenPoint Mortgage Co.		New York
In re Wells Fargo		N.D. Cal.
Johnson	EquiCredit Corporation et al.	N.D.III.
Lathern	NationsBank Corporation et al.	D.D.C.
Los Angeles	JP Morgan Chase	CD. Cal.
Los Angeles	Wells Fargo Bank, NA	CD. Cal.
Los Angeles	Citigroup	CD. Cal.
Los Angeles	Bank of America	CD. Cal.
Matthews	New Century Mortg. Corp.,	S.D. Ohio
Miami	Bank of America	S.D. FIa.
Miami	Citigroup	S.D. Fla.
Miami Gardens	Bank of America	S.D. Fla.
Miller	Countrywide Bank, N.A.	D. Mass.
NAACP	Ameriquest Mortgage Company et al.	CD. Cal.
Ramirez et al.	GreenPoint Mortgage Funding, Inc.	N.D. Cal.
Stackhaus et al.	NationsBank Corporation et al.	D.D.C.
Steele	GE MoneyBank	N.D.III.
Taylor	Accredited Home Lenders, Inc. et al.	S.D. Cal.
United States	AIG Federal Savings Bank and Wilmington Finance, Inc.	D. Del.
United States	C&F Mortgage Corporation	E.D. Va.
United States	Chevy Chase Bank, F.S.B.	E.D. Va.
United States	Countrywide Financial Corporation	CD. Cal.
United States	Delta Funding Corporation	E.D.N.Y.
United States	Fleet Mortgage Company	E.D.N.Y.
United States	GFI Mortgage Bankers, Inc.	S.D.N.Y.
United States	Huntington Mortgage Company	N.D. Ohio
United States	Long Beach Mortgage Company	CD. Cal.
United States	Plaza Home Mortgage, Inc.	S.D. Cal.
United States	PrimeLending	N.D. Tex.
United States	Security State Bank	W.D. Tex.
United States	Southport Bank	E.D. Wis.
United States	SunTrust Mortgage, Inc.	E.D. Va.
United States	Wells Fargo Bank, NA	D.D.C.
United States	Shawmut Mortgage	D. Conn.
Watson et al.	EquiCredit Corp. et al.	N.D. Miss.

order to generate large numbers of high-cost mortgages to realize greater profits from securitization. They alleged that borrowers were more likely to receive such high-cost, high-risk loans if they were African American or lived in African American neighborhoods. They also argued that the loans fraudulently extracted short-term fees and extra costs from borrowers in ways that unfairly diminished the wealth of black borrowers and exposed them to an elevated risk of foreclosure and repossession.

The federal district court denied a motion to dismiss the case against Morgan Stanley and the plaintiffs filed briefs seeking certification as a class of borrowers. The public record includes hundreds of pages of exhibits and depositions by key individuals in the case, including internal emails, data about the characteristics of the loan pools, as well as bid stipulations and purchase agreements for Morgan Stanley's purchase of loans from New Century along with other documents. The federal district court recently denied the plaintiffs' motion for class certification, but litigation is ongoing.

The declarations, depositions, and other exhibits from these four cases provide a valuable window into the organizational context of mortgage lending during the pre-2008 housing boom. The cases involve different types of mortgage originators, ranging from small regional nonbank lenders to nationally dominant firms and industry-leading banks. The depositions include interviews with actors at every step of the lending process, from borrowers to mortgage brokers, to loan officers, to credit managers, to due diligence employees, to investment bankers. The depositions also include interviews with appraisers, closing attorneys, and real estate investors, and other actors involved in the lending process. Together, the hundreds of pages of interviews offer a unique opportunity to analyze the social processes underlying the quantitative evidence of discrimination developed to date.

To conduct our analysis, we randomly selected a sample of deposition statements and testimonies stratified on the geographic area of the mortgage lending, which yielded a dataset of 220 statements that were subject to a systematic content analysis. Of the depositions and declarations selected, 63 percent were witnesses for the defendants and 37 percent were witnesses for the plaintiffs. Among the latter, 60 percent were borrowers, 20 percent were loan officers, and 20 percent were credit managers. Among the former, in contrast, 24 percent were investment bankers, 20 percent were realtors, 16 percent were bank officers responsible for due diligence, underwriting standards, or valuations, 16 percent were lawyers, 12 percent were loan officers, and another 12 percent were senior executives at lending institutions, real estate firms, or other organizations (12 percent).

The resulting sample obviously is not a random sample of all lenders active during the housing boom. Those shown in Figure 1 represent cases where discrimination was formally alleged, a charge unlikely to be filed without substantial prior evidence of discrimination; and of course most of the defendants listed in the table never went to trial or settled early in the litigation process. The four cases we analyze, however, did go trial, which suggests that the defendants and their lawyers believed the behavior in question was defensibly nondiscriminatory, a suggestion supported by the fact that 63 percent of the declarations in our sample were by witnesses for the defense; and the vast majority of these worked in the real estate or banking industry, people who presumably would not have been deposed had the defendants feared there was something to hide. In this sense, our sample may understate the degree of discrimination prevalent in the lending industry during the mortgage boom.

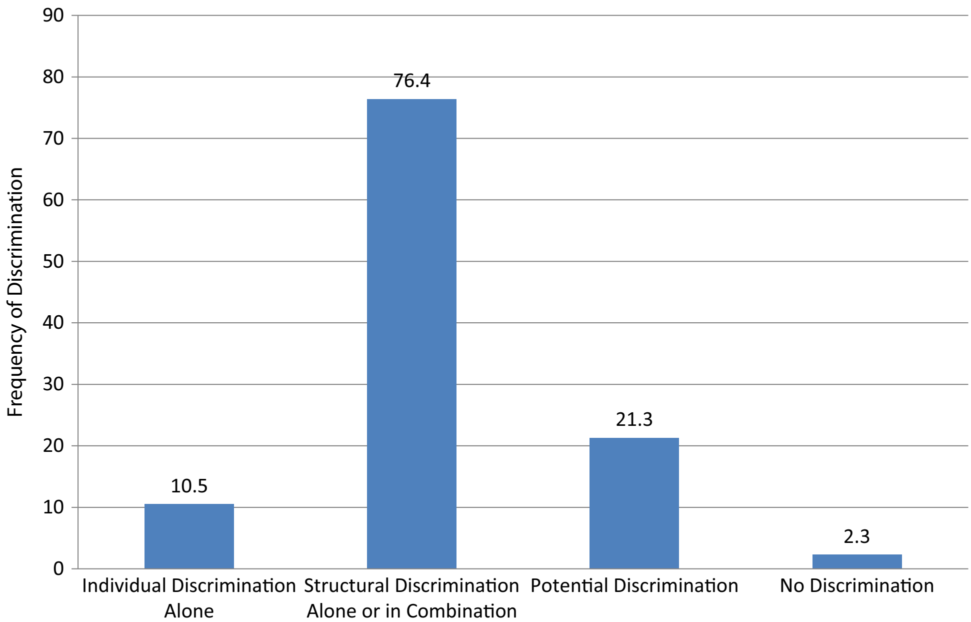

FIG. 1. Percentage of statements coded into content-categories of racial discrimination.

Whatever one concludes about the likely direct of bias in the sample, the fact remains that it is nonrandom, and thus we do not seek to generalize our findings to the entire lending industry. Instead we draw on the testimonies to identify the means and mechanisms by which discrimination was carried out in cases where it probably did occur. We began our analysis by coding the 220 sampled statements to identify specific instances of either individual or structural discrimination. Individual discrimination was coded if the behavior in question increased the likelihood that a minority borrower received a high-cost or high-risk loan and the action appeared to stem from the motivations of the individual rather than the firm. Structural discrimination was coded when standard institutional procedures and practices in effect guaranteed that minority borrowers would receive disadvantageous lending products, irrespective of individual motivations.

Statements that described a discriminatory institutional structure in which individuals were nonetheless required to act in a biased manner to carry it out were *not* coded as individual discrimination if the policy was fixed by the institution but were coded as individual discrimination if institutional policies allowed for discretion. If neither individual nor structural discrimination was detected in the text, we coded for "potential discrimination," defined as behavior that *could* contribute to a pattern of structural discrimination but did not necessarily provide direct evidence that structural discrimination had, in fact, occurred.

Cases identified as discriminatory were subcoded into the following content categories to identify the specific mechanisms by which discrimination was effected: racial targeting for subprime lending, loan approval when available information indicated nonapproval, withholding information from the borrower, deceptive marketing practices, ensnaring customers in debt to entice them into equity loans, incentive structures that encouraged discrimination, the use of customer leads obtained from lists of borrowers in debt to neighborhood businesses, existence of a workplace culture tolerant of racism, unethical management structures, racial stereotyping of minority customers, segmented marketing of loan products to consumers by geography, use of technology to facilitate discrimination, inclusion of fraudulent information in paperwork, lack of effective management oversight, and use of social networks within segregated neighborhoods for consumer prospecting.

Data coding and analysis were conducted independently by two of the authors (Steil and Albright), with each coder labeling the text with “Evidence Present,” “Evidence Not Present,” or “Not Applicable.” Intercoder reliability was cross-checked utilizing the ReCal2 Online Utility to compute Krippendorff’s α on a 10 percent sample of the 220 texts yielding an inter-rater reliability coefficient of 0.86 (see Freelon 2013; Hayes and Krippendorff 2007). From this 10 percent sample, we then extracted texts coded as showing individual, structural, and potential discrimination and assembled the relevant passages into a table to demonstrate the nature of the reported discrimination, which we then interpret to reconstruct the underlying social processes. By drawing on multiple cases involving different lenders and originators, we are able to undertake a small-N comparison that combines “the interpretive and narrative subtlety” of archival analysis with the “analytic strength that echoes standard causal analysis” (Abbott 2004: 58).

THE MICROSOCIOLOGY OF MORTGAGE DISCRIMINATION

Figure 1 presents the result of our content coding of the textual materials to demonstrate that discrimination in our sample was overwhelmingly structural in nature and not attributable to individual biases or solo acts of racism. Whereas at least one coder identified discrimination as being structurally embedded in 76 percent of the transactions being described (many in combination with individual discrimination), only 11 percent of the transactions were similarly coded as displaying individually motivated racial discrimination alone, yielding a total of 86 percent of the 220 cases in which some form of discrimination was judged to have occurred. Another 21 percent of the cases were coded as describing actions or behaviors that potentially could yield racially discriminatory outcomes, leaving just 2.4 percent displaying no indication of discrimination at all. From these data we conclude, at least in this sample, that racial discrimination was structurally embedded within the mortgage lending industry and was systematic rather than the consequence of individual prejudices or personal racism.

Table 2 extracts from the 22 coded statements selected for the computation of Krippendorff’s α. Since 98 percent of the full dataset of 220 passages displayed evidence of actual or potential discrimination, it is not surprising that all 22 in the subsample were judged to display some indication of discrimination, with 11 coded as structural, 9 coded as both structural and individual, and 2 coded as potential. In looking over the texts included in the table, readers should remember they are extracts and that codes were assigned based on a reading of the entire statement, so that the context in which the coding judgment was made is largely absent. The first panel of Table 2 contains the ten extracts judged to display structural discrimination; the second contains those judged to display both structural and individual discrimination; and the final panel displays the two

TABLE 2. Specific Examples of Texts Describing Structural and Individual Discrimination in a Random 10 Percent Sample of 220 Coded Passages

Structural Discrimination	
(1)	Would your split be higher if the—if the borrower paid a higher interest rate? A. If the company made a little more money, I would make a little more money.
(2)	The commission and referral system at Wells Fargo was set up in a way that it made it more profitable for a loan officer to refer a prime customer for a subprime loan than make the prime loan directly to the customer.
(3)	The trading desk also set the bid terms and purchase agreement terms for those loans. The trading desk's decisions were not the workings of some lone, rogue employees. Instead, it was essential to Morgan Stanley's business model to vest the trading desk with the ultimate power to decide which loans to buy—regardless of their quality—because doing so maximized the supply of New Century loans and the cash flow from those loans.
(4)	I complained many times about what I thought were unethical or predatory loan practices that Wells Fargo was engaged in. Managers never took any actions to respond to my concerns. In my office we morbidly joked that we were "riding the stagecoach to hell."
(5)	Another practice that I thought was especially unethical was the use of "live" draft checks. Wells Fargo would mail checks in the amount of $1,000 or $1,500 to leads. Once these checks were deposited or cashed, they instantly became loans with Wells Fargo at very high interest rates. Individuals who cashed these checks became an instant "lead" target for a home equity refinance loan, which of course would end up placing the borrower's home at risk.
(6)	I was constantly butting heads with my district manager. I told him repeatedly about the practices I objected to. He knew that loans were being falsified; and he knew that many of the aggressive practices he instructed us to follow were causing borrowers to get behind on their loans. Yet he still pressured us to engage in the most aggressive loan practices and threatened employees with their jobs if they did not do things his way. The bonus system was lucrative, so there was plenty of financial incentive to engage in high-pressure and deceptive sales practices, even if one knew they were wrong.
(7)	Since loan offers made more money when they charged higher interest rates and fees to borrowers, there was a great financial incentive to put as many minority borrowers as possible into subprime loans and to charge these borrowers higher rates and fees.
(8)	Credit managers targeted African American borrowers in several different ways. One way was to partner with local businesses that were located in African American areas ... to identify customers who had financed purchases at these stores. Credit managers would "cold-call" people off of these lists or simply show up at these individuals' homes or businesses. Managers identified African American customers by talking to them over the telephone, or by meeting them in person. Most of the leads on the lists that managers were given to call were African American.
(9)	Most (80 percent or more) of the leads on the lists I was given were African American. I know this both from meeting these individuals, and from talking with them on the phone. The people on the list of the leads did not represent a random cross section of the people who lived in the area around the office, because our office was located in an area where a lot of white people lived.
(10)	Approximately 80–90 percent of the leads I was given turned out to be individuals who were African American. Although I don't know exactly how Wells Fargo came up with the leads, I believe that Wells Fargo targeted African Americans for these subprime loans. The prevailing attitude was that African American customers weren't savvy enough to know they were getting a bad loan, so we would have a better chance of convincing them to apply for a high-cost, subprime loan.
(11)	Wells Fargo also discriminated against minority loan applicants by advising to them that the interest rate on their loan was "locked," when in fact, Wells Fargo had the ability to lower the rate for the applicant if the market rates dropped prior to the loans closing.
Both Individual and Structural Discrimination	
(12)	Wells Fargo management tolerated a culture of discrimination.
(13)	Wells Fargo discriminated against minority loan applicants by not offering them their better or new products which had lower fixed interest rates and fees.
(14)	Another technique would be to tell the customer that the only way to get the loan closed quickly would be to submit it as a subprime loan.

Continued

TABLE 2. Continued

Both Individual and Structural Discrimination, Cont.

(15) Wells Fargo loan officers also discriminated against minority refinance applicants by encouraging them to take out more cash on their home equity. By taking out more cash, the borrower would unwittingly increase the commission the loan officer received on the loan while at the same time eliminating his ability to qualify for a prime or FHA loan.

(16) Elderly African American customers were thought to be particularly vulnerable and were frequently targeted for subprime loans with high interest rates. I remember one instance where an elderly African American woman who was over 65 could not qualify for subprime loan that a credit manager wanted to put her into, so the credit manager convinced her to transfer the property to her son so the subprime loan could be made in the son's name

(17) It was the practice at the Wells Fargo offices where I worked to target African Americans for subprime loans. It was generally assumed that African American customers were less sophisticated and intelligent and could be manipulated more easily into a subprime loan with expensive terms than white customers. I heard employees joking with one another about the race of customers, saying things like: "You know that guy isn't so smart—is it because he's black?"

(18) They (loan officers in the Mortgage Resources division, known as MORE) referred to subprime loans in minority communities as "ghetto loans" and minority customers as "those people who have bad credit," "those people who don't pay their bills," and "mud people."

(19) I believe that Wells Fargo did not promote me for two reasons. First, Wells Fargo's management culture is white. Second, Wells Fargo management knew that I treated Wells Fargo customers well by offering them to refinance to prime and FHA loans when they qualified for these products.

(20) Wells Fargo also targeted African Americans through special events called "wealth building seminars." . . . I remember preparing for a wealth building seminar to be held in Greenbelt, Maryland. It was understood that the audience would be virtually all black. The point of the seminar was to get people to buy houses using Wells Fargo Loans. At the seminar the plan was to talk about "alternative lending." This was code language for subprime lending, but we were not supposed to use the word "subprime." I was supposed to be a speaker at this seminar but was told by the emerging markets manager that I was "too white" to appear before the audience. I was offended by these statements and complained to several higher ranking managers about what had been said. The company did not respond to my complaints and no action was taken.

Potential Discrimination

(21) I also worked during much of this period as a community development representative. In this capacity, I contacted and worked with community groups in the goal of expanding Wells Fargo's business, particularly in African American communities. I as an African American.

(22) As a credit manager, my job was to find as many potential borrowers as I could for Wells Fargo and get them to apply for a loan. Credit managers were given a list of what were called "leads." These were names of people we were supposed to call to encourage them either to come into the office so we could get them to apply for a loan, or to apply directly over the telephone. We were instructed to make as many as 35 calls an hour and to call the same borrower multiple times each day.

instances of potential discrimination. Readers may judge for themselves the degree to which the statements indicate discrimination.

EVIDENCE OF STRUCTURAL DISCRIMINATION

The first six extracts in the first panel do not mention race explicitly, but the statements appeared in the context of a broader discussion about race and were considered to indicate the existence of structural discrimination. The extracted statements essentially describe institutional features of the mortgage lending industry that promoted exploitive practices that were disproportionately directed at minority borrowers. Extracts (1)–(3), for example, speak to the incentives for fraud and deception that were built into the organizational structure of the lending institutions in question, incentives that made discrimination against underserved minority borrowers especially attractive. In extract (1), for example, a loan officer admits that both he and the loan company made more money by steering borrowers into loans with high interest rates, noting that "if the company made a little more money, I would make a little more money." In the second extract the speaker describes the commission and referral system at Wells Fargo, a leading retail bank that was a major player in the origination of mortgages for securitization, asserting that it was "set up in a way that it made it more profitable for a loan officer to refer a prime customer for a subprime loan than make the prime loan directly to the customer."

In describing the relationship between one investment bank and the retail lender where he worked, the speaker (3) stated that "it was essential to Morgan Stanley's business model to vest the trading desk with the ultimate power to decide which loans to buy—regardless of their quality—because doing so maximized the supply of New Century loans and the cash flow from those loans." In other words, the investment bank pushed its principal mortgage retailer to include in their referred pool of mortgages loans known to be of poor quality—those with incomplete documentation, questionable sources of income, poor loan to value ratios, bad credit ratings, and other problems pointing to a greater risk of default.

The passage also suggests that the loan originator felt compelled to acquiesce to this pressure in order to maintain its cash flow and remain in business. Indeed, when Morgan Stanley ultimately declined to purchase a set of New Century loans in early 2007, the firm promptly went bankrupt, indicating the degree to which the pressure to generate more loans irrespective of risk was built into structure of the system, thereby making easily located, unsophisticated minority group members a juicy target.

The structural nature of the exploitation is underscored by the reported reaction of bank executives when suspicious, risky, or unethical lending practices were brought to their attention. The speaker in extract (4), for instance, stated that he "complained many times about what I thought were unethical or predatory loan practices that Wells Fargo was engaged in. Managers never took any actions to respond to my concerns. In my office we morbidly joked that we were 'riding the stagecoach to hell.'" Another loan officer complained to a superior about the use of "live draft checks" to ensnare borrowers, which he found "especially unethical." As speaker (5) explained:

> Wells Fargo would mail checks in the amount of $1,000 or $1,500 to leads. Once these checks were deposited or cashed, they instantly became loans with Wells Fargo at very high interest rates. Individuals who cashed these checks became an instant "lead" target for a home equity refinance loan, which of course would end up placing the borrower's home at risk.

The deponent in extract (6) reported that he "was constantly butting heads with my district manager":

> I told him repeatedly about the practices I objected to. He knew that loans were being falsified; and he knew that many of the aggressive practices he instructed us to follow were causing borrowers to get behind on their loans. Yet he still pressured us to engage in the most aggressive loan practices and threatened employees with their jobs if they did not do things his way.

The structural nature of the resulting exploitation is confirmed by the speaker's conclusion that "the bonus system was lucrative, so there was plenty of financial incentive to engage in high-pressure and deceptive sales practices, even if one knew they were wrong."

The speaker in extract (7) explicitly links the systemic incentives for exploitation to the targeting of minority group members, noting that "since loan offers made more money when they charged higher interest rates and fees to borrowers, there was a great financial incentive to put as many *minority* borrowers as possible into subprime loans and to charge these borrowers higher rates and fees" (emphasis added). Speaker (8) explained that the credit managers who oversaw mortgage sales agents "targeted African-American borrowers in several different ways":

> One way was to partner with local businesses that were located in African-American areas... to identify customers who had financed purchases at these stores. Credit managers would "cold-call" people off of these lists or simply show up at these individuals' homes or businesses. Managers identified African-American customers by talking to them over the telephone, or by meeting them in person. Most of the leads on the lists that managers were given to call were African-American.

In extract (9), a sales agent confirms the disproportionate targeting of black borrowers by stating that "most (80% or more) of the leads on the lists I was given were African Americans":

> I know this both from meeting these individuals, and from talking with them on the phone. The people on the list of the leads did not represent a random cross section of the people who lived in the area around the office, because our office was located in an area where a lot of white people lived.

Speaker (10), another sales agent, reported roughly the same frequency of black prospects in the leads he was given, stating that "approximately 80–90 percent of the leads I was given turned out to be individuals who were African American" and frankly stated that "I believe that Wells Fargo targeted African Americans for these subprime loans."

Lies and deception were often used as tactics to steer minority borrowers into high interest loans. According to extract (11), "Wells Fargo also discriminated against minority loan applicants by advising to them that the interest rate on their loan was 'locked,' when in fact, Wells Fargo had the ability to lower the rate for the applicant if the market rates dropped prior to the loans closing." The systemic nature of racism at Wells Fargo is indicated by speaker (10)'s observation that the "prevailing attitude" in the organization "was that African-American customers weren't savvy enough to know they were getting a bad loan, so we would have a better chance of convincing them to apply for a high-cost, subprime loan."

EVIDENCE OF STRUCTURAL AND INDIVIDUAL DISCRIMINATION

In many cases, the coders saw evidence of both individual and structural discrimination in the passages they read, extracts from which appear in the second panel numbered 12—20. The coders both felt that the deponent in extract (12) was referring to both individuals and the institution in reporting that "Wells Fargo management tolerated a culture of discrimination." Statements coded as displaying both structural and individual racism contained a number of examples of the mechanisms by which racial discrimination was enacted in the marketing of mortgage loans. Extract (13), for example, pointed out that "Wells Fargo discriminated against minority loan applicants by not offering them their better or new products which had lower fixed interest rates and fees." According to extract (14), "another technique would be to tell the customer that the only way to get the loan closed quickly would be to submit it as a subprime loan."

Similarly, in extract (15) the speaker reported that "Wells Fargo loan officers also discriminated against minority refinance applicants by encouraging them to take out more cash on their home equity," even though "by taking out more cash, the borrower would unwittingly increase the commission the loan officer received on the loan while at the same time eliminating his ability to qualify for a prime or FHA loan." Another common technique was to target elderly African Americans for special attention. As loan officer in extract (16) explained, older black homeowners "were thought to be particularly vulnerable and were frequently targeted for subprime loans with high interest rates":

> I remember one instance where an elderly African-American woman who was over 65 could not qualify for subprime loan that a credit manager wanted to put her into, so the credit manager convinced her to transfer the property to her son so the subprime loan could be made in the son's name.

With such practices embedded within the social structure of mortgage lending, it is not surprising that racist attitudes, stereotypes, and jokes were often bandied about by sales agents and loan officers. According to the Wells Fargo employee in extract (17):

> It was generally assumed that African American customers were less sophisticated and intelligent and could be manipulated more easily into a subprime loan with expensive terms than white customers. I heard employees joking with one another about the race of customers, saying things like: "You know that guy isn't so smart—is it because he's black?"

Similarly, the deponent in extract (18) reported that loan officers in the Mortgage Resource division "referred to subprime loans in minority communities as 'ghetto loans' and minority customers as 'those people who have bad credit,' 'those people who don't pay their bills,' and 'mud people.'"

Extract (19) offers another statement coded as displaying both structural and individual racism in the mortgage lending industry. In this case, a loan officer perceived himself to be the victim of discrimination because he was black and refused to engage in predatory lending:

> I believe that Wells Fargo did not promote me for two reasons. First, Wells Fargo's management culture is white. Second, Wells Fargo management knew that I treated Wells Fargo customers well by offering them to refinance to prime and FHA loans when they qualified for these products.

The loan officer in extract (20) also felt discriminated against, but this time it was because she was "too white" to participate in a "wealth building seminar" that was to be held in a black community, which she frankly admitted were nothing more than sales pitches for predatory loans:

> I remember preparing for a wealth building seminar to be held in Greenbelt, Maryland [a community in black-majority Prince Georges County, a suburb of Washington]. It was understood that the audience would be virtually all black. The point of the seminar was to get people to buy houses using Wells Fargo Loans. At the seminar the plan was to talk about "alternative lending." This was code language for subprime lending, but we were not supposed to use the word "subprime." I was supposed to be a speaker at this seminar but was told by the emerging markets manager that I was "too white" to appear before the audience. I was offended by these statements and complained to several higher ranking managers about what had been said. The company did not respond to my complaints and no action was taken.

EVIDENCE OF POTENTIAL RACISM

Two examples from the set of extracts included in Table 1 were coded as having possible discriminatory effects even though racial discrimination was not explicitly present in the statement under consideration. In extract (21), the speaker explains that as a Credit Manager, he was pressured "to find as many potential borrowers as I could for Wells Fargo and get them to apply for a loan" using a list of leads:

> Credit managers were given a list of what were called "leads." These were names of people we were supposed to call to encourage them either to come into the office so we could get them to apply for a loan or to apply directly over the telephone. We were instructed to make as many as 35 calls an hour and to call the same borrower multiple times each day.

This passage reveals the pressure sales agents were under to bring in subprime loans, though it lacks the specific racial language and intent of other statements.

The speaker in extract (21), an African American, described working as a "community development representative" in which he "contacted and worked with community groups with the goal of expanding Wells Fargo's business in African American communities—I as an African American." Although working with "community groups" carries the same potential for discrimination as the firm's "wealth building seminars," this statement did not include the explicit racial content of the prior extract. Nonetheless it illustrates an important technique employed by loan officers and credit managers to target minority individuals and communities for predatory lending: the recruitment of trusted members of minority communities to act as intermediaries in introducing lenders to community members.

In effect, the strategy involves using and manipulating leaders of nonprofit organizations and churches as pawns to unwittingly vouch for the legitimacy of loan originators, often by promising a donation to a charity of the borrower or community leader's choice for each referral that produced a new loan. Although not included in the sample of extracts reproduced in Table 2, in another coded statement the speaker in extract (20) explained the strategy this way:

> The Emerging Markets Unit specifically targeted black churches. Wells Fargo had a program that provided a donation of $350 to the profit of the borrower's choice

> for every loan the borrower took out with Wells Fargo. Wells Fargo hoped to sell the African American pastor or church leader on the program because Wells Fargo believed that African American church leaders had a lot of influence over their ministry, and in this way would convince the congregation to take out subprime loans with Wells Fargo.

In other words, the strategy in this and other examples emerging from our content coding was to tap into the social structure of minority communities, making use of central figures in community networks and organizations to build trust and develop prospects through these leaders' sets of interpersonal contacts and acquaintances.

CONCLUSION AND DISCUSSION

Although the data in Table 2 emerge from a small sample of the total number of statements included in our qualitative database, it nonetheless suggests the degree to which racial discrimination was systemic and not a result of a few racist "bad apples" in an otherwise race-neutral barrel. The fact that structural racism was judged to be evident in 76 percent of the 220 passages implies that racial discrimination was common in the institutions under investigation. In contrast, only 11 percent of all the texts were judged to display individual racism.

The statements presented in Table 2 also reveal the microsocial mechanisms by which discrimination was carried out by predatory lenders who peddled high-cost, high-risk mortgages to individuals and communities of color throughout the United States, an operation that black humorists in one retail lender mockingly termed "riding the stagecoach to hell." These mechanisms included deliberate deception and misrepresentation of lending terms; the falsification of loan documents; the recruitment of unwitting confederates within the social structure of minority communities; the use of "live draft checks" to ensnare unsuspecting consumers in high-interest loans; the targeting of the elderly for deceptive, high-pressure marketing; the encouragement of refinance borrowers to take out loans for more than their home's worth, thereby putting it automatically into the subprime category; using business records, church directories, and telephone exchanges to build lists of prospective borrowers for cold-calling; the organization of sales events in minority neighborhoods that were euphemistically labeled "wealth building seminars." The racialized nature of these mechanisms is indicated by the language used to describe the transactions, referring to subprime mortgages as "ghetto loans" and minority customers as "less sophisticated and intelligent," "easier to manipulate," and "people who don't pay their bills," and even "mud people."

These data supplement prior quantitative studies documenting racial differentials in mortgage lending by revealing some of the underlying mechanisms' racial discrimination. In their study of mortgage loans made by Wells Fargo in Baltimore (one of the sources of qualitative data for this study), for example, Rugh et al. (2015) showed that black borrowers paid an estimated additional 5–11 percent more in monthly payments than comparably qualified whites, resulting in some $1,739 in excess mortgage payments for the average black borrower from the time of loan origination and $1,861 in excess payments for the average resident of a black neighborhood, yielding respective figures $14,904 and $15,948 in excess payments over the course of a 30-year mortgage. The authors also estimate that as a result of predatory lending, in 2012 black borrowers in

Baltimore were threatened with $3.8 million in potential losses from foreclosure with nearly $2.1 million already forfeited through completed repossessions.

These examples concretely demonstrate how the racialized mechanisms elucidated here worked to produce an ever-growing cumulative disadvantage for African Americans during the U.S. housing boom and bust. Based on our qualitative data, which we see as a complement to this earlier quantitative work, we propose that the cumulative disadvantage in wealth experienced by African Americans today is no mere coincidence, but the outcome of systemic racism deeply embedded within the social structure of America's mortgage lending industry. If our conjecture is correct, then structural discrimination in the lending industry constitutes a prime reason why the racial wealth gap in the United States increased fourfold in the wake of the housing bust (see Shapiro et al. 2010).

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