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Aalbers, M.B.

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Who’s afraid of red, yellow and green?: Geographies of redlining and exclusion in the Netherlands and Italy

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Faculteit der Maatschappij- en Gedragswetenschappen
Who’s afraid of red, yellow and green?: Geographies of redlining and exclusion in the Netherlands and Italy

Manuel B. Aalbers
This publication has been submitted as a PhD thesis in partial fulfilment of the requirements for the award of the degree of Doctor at the University of Amsterdam, the Netherlands, December 20, 2006.

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Foreword

When I started investigating redlining very few people had confidence in the usefulness of the research. “There’s no redlining in the Netherlands and even if it were there, you wouldn’t find it” pretty much sums up the reactions I encountered. Stubborn as I am, that didn’t stop me. The first result was a doctoraalscriptie [MA thesis] in Sociology and Urban Planning. Upon finishing I was asked to apply for a PhD position in the Amsterdam study centre for the Metropolitan Environment (AME) – currently known as the Amsterdam institute for Metropolitan and International Development Studies (AMIDSt). I declined. “Do I really want to work in a university?” is what I asked myself. Being doubtful I asked for a short term contract to see if the university as a work place would suit me. By and large it did. After the initial six months contract, I was offered a four year contract as a junior researcher. The plan was briefly as follows: for three years I would work on the EU-commissioned project Restructuring large housing estates in European cities (RESTATE) and I would use the additional year to ‘upgrade’ my RESTATE work to a PhD thesis. But plans change.

In the meantime, I had submitted my MA thesis to two thesis competitions. One was organized by Fortis bank and open to all theses on finance written by Belgian or Dutch students. Being a sociologist/planner I felt the odd man out at the prize-giving ceremony in the Antwerp IJspaleis. Of course Fortis did not grant one of its prizes to a thesis on redlining! But at least I was able to observe (a common habit among sociologists) all the young economists and business people in their fancy and less fancy suits. The second competition was organized by the Dutch newspaper Het Parool. This thesis competition was open to all university and hogeschool [college] graduates from the Netherlands. I won. Redlining was on the national map now and it was also back on my personal map.

I believe it was in the weeks after the prize-giving ceremony that I began to think that it might be good to switch topic for my PhD thesis. On the one hand, my attention was on redlining again and on the other hand, I felt that it would be difficult to write a truly ‘new’ thesis on urban restructuring in post-war neighbourhoods. Of course there were niches to be found, but some of the more interesting niches were already occupied and some of the others were too small and insignificant to allow me to make a real contribution to the literature. Like urban restructuring, redlining is about housing and cities. Yet, redlining has so much more to offer (as I hope to
demonstrate in this thesis). Perhaps most important, the subject was new to continental Europe.

More than a year into my contract, August 2003, I had convinced Sako Musterd that it was better for me to continue my PhD thesis on a different topic. With the switch of topics also came a switch of co-supervisors, as Wim Ostendorf made way for Robert Kloosterman. As many of you know, this was not an easy decision. But now, looking back, I can say it has been a good decision. Sako and Robert make a good team as PhD supervisors: their comments are largely complementary as they tend to cover different grounds. While Sako tends to focus on urban dynamics, Robert tends to focus on market dynamics. And while Robert is a star in literature suggestions, Sako is the more practical of the two, often suggesting small changes or easy ways out of contradictions. Although I was not always a happy man after our meetings (is there a single PhD student who does not recognize this situation?), the end result was always an improvement. Sako and Robert: thanks!

To get back to what happened after those meetings: usually I went back to my office – which has always been room G.2.24 – complained to my roommates, as they complained to me on similar occasions, and then started working on my thesis again the next day. Although I am perhaps one of the few PhD students these days that has not moved between offices in our department, I did have a wide variety of roommates. The first year, there were the experienced PhD students David and Luis. I already knew David from Rooilijn and he introduced me to Luis with the words “Manuel likes to talk”. I could hardly deny it, and still cannot. But luckily Luis was happy about that and only stimulated the talking whether it was with him in English or with David in Dutch. Luis hardly understood Dutch but was happy with the noise level which reminded him of his home country, Spain. After about a year David and Luis left and were replaced by Marjolijn and Rogier. In Marjolijn I met one of the few people who beat me in talking. As it turned out, Rogier was my office roommate for about four out of five years. He has become a confidant and we have had quite some fun over the years, along with countless observations and discussions on our work (very widely defined) – more often than not the two were intermingled. He is not the only colleague that became a friend. Next to Rogier, one other person stands out: Perry. Although we never shared a room, we shared a great taste in humour (at least, we think so). Perry and Rogier: thanks for softening the hard sides of university life and for enhancing the good sides of university life. This is the reason the two of you were singled out as parangynphants.
The last year Rogier and I, both of us now experienced PhD students, shared the room with ‘rookie’ Inge, who is almost always in a good mood. In between there were other people with whom we shared the room, like Anja and Enrica. It was good to share a room with all of you. The next group of people to thank are my other colleagues, especially the young ones, many of them PhD students. Because of the risk of forgetting anyone (after five years there is a long list), I would just like to thank all of you. I enjoyed the many lunches we shared, but also the drinks at Kriterion, the pizza’s we ate and the other things we did together. I really mean it when I say that I will miss you.

With many colleagues, but also with others, I cooperated in ‘making’ Rooflijn. I joined the group of editors as a student and have stayed on board ever since. I learnt a lot, especially those first years. Like my PhD, Rooflijn nurtured my love for writing. RESTATE, like Rooflijn, enabled me to work with many people, but in this case both in the Netherlands and abroad. I wrote papers and reports with about fifteen different people, but one of them in particular stands out. Ellen, you were a good colleague, and one of the most reliable ones as well! I enjoyed writing a couple of reports with you. Sako, Wim and Ronald: thanks for letting me work on this project!

Focusing on one or two things is good, but one should not only have hobbies outside the university, but also within. Redlining and urban restructuring were clearly my main topics, but there was also a host of pet topics. Some of these were personal pet projects, others were shared ones. With Ugo, I worked on a short series of papers on the Anglo-American hegemony in human geography and social science more widely. Ugo shares my passion for language and my fascination for how the academe, and in particular journals, really work. Sheila then jumped in with valuable comments and with free language editing services. She has also checked several of the chapters in this thesis, not because she was paid to do so, but because she enjoys it so much! Ugo and Sheila: thanks! Another ‘thank you’ goes to Els, who patiently drew and redrew several of the maps in this thesis. Most notably she personally placed the river Maas on a Rotterdam city map, that had been omitted in the GIS application.

One of my other pet projects took me to Italy – or, to be more precise, Yuri Kazepov invited me to work on the CD-Rom of his Urban Europe project in Urbino, in the Marche region of Italy. Besides the pleasure of working in Italy and working with Yuri (thank you!), I met two important people there. First, there was Nico, who has become one of my best friends and provides me accommodation
on my annual visit to Berlin. Second, there was Erica, my girlfriend for almost a year. Erica provided me with a good reason to come back to Italy and so I did. Yuri then sent Erica and me first to New York and later to London to do interviews. Shortly after breaking up with Erica, I met Iwona. We shared almost three years and lived together for almost two. It is hard to imagine this thesis without Iwona. Not that without Iwona there would have been no thesis, but the years of the thesis overlap so much with our years together, that they represent a joint time frame. Iwona supported me through those years and is also responsible for some of the maps in this thesis. Although we also went through hard times, I have so many good memories of our years together that you will always stay what you are to me: special. Thank you!

Finally, a word of thanks goes to close family members and to friends: thanks for being there in good and bad times (as Jimmy Page wrote, you know I had my share), both inside and outside the university. A special thanks goes to my parents who have always supported me and taught me the importance of many things in life, including my sense of social justice.

The five years at the University of Amsterdam have taken me many places and all in all, I guess I have spent almost one year abroad in total. Many months were spent in Urbino and Milan. In Milan I need to thank many people, but most importantly Enzo Mingione and Elizabeth Esteves who facilitated my stay there. Many days or even weeks were spent in many other places. Conferences and RESTATE meetings took me all over Europe and also occasionally outside the European borders. I would like to thank Sako and Robert, and through them the whole department and institute, for providing me with the opportunities to do this. Those working months, conferences and meetings abroad were often hard work, but they were also among the most enjoyable of those five years. It has been good for my development as an academic, but also for my social development. The people who knew me when I was a child know that making friends wasn’t easy for me in the past; the last years I have made more friends, both at home and abroad, than I would have thought possible. Thank you all!

Amsterdam,
November 2006,
Manuel
Chapter 1
Introduction

1 Introduction
In October 1999, it was discovered that various neighbourhoods in Rotterdam were excluded from mortgage capital, while in others mortgages were only issued under uneven conditions (high interest rates, high down payments, and short funding periods). Dominique Schrijer, a city councillor for the Charlois borough office in Rotterdam-South and a member of the Social-Democratic party PvdA, made this so-called ‘Rotterdam mortgage scandal’ public. In a local newspaper he claimed that banks were using a coloured map of Rotterdam for the provision of home mortgage capital. The map consisted of three colours: red, yellow and green. In ‘red’ neighbourhoods mortgages were not provided; in ‘yellow’ neighbourhoods mortgages were provided up to 70 or 80 percent of the liquidation value; in ‘green’ neighbourhoods mortgages were provided up to 125 percent of the liquidation value (Schrijer, 1999). In most cases 125 percent of the liquidation value is about 100 percent of market value, meaning that down payments only have to cover brokerage and transfer taxes. This is widely considered the normal way of providing mortgage capital in the Netherlands.

In response to Schrijer’s claims, a number of articles appeared in various Dutch newspapers. Several, but not all, Rotterdam-based brokers confirmed Schrijer’s claims, while brokers outside Rotterdam acted surprised and banks either denied or qualified Schrijer’s claims. Schrijer’s article fuelled a debate on fair housing in the Netherlands – but only for a few weeks. The banks denied redlining any neighbourhoods and the redlining debate vanished as quickly as it had surfaced three weeks before. Redlining was never a big issue in the Netherlands. Research in this field is sorely lacking and only small news items have appeared on redlining, all dated before 1990. Wagenaar stated in an article in the newspaper *Het Parool* that redlining does take place in the Amsterdam postal code areas 1011 and 1012 (including the red-light district in Amsterdam). He argued

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1 Transfer taxes in the Netherlands are relatively high at 6 percent of sold value. Basic home sale agreements state that the new owner has to pay the tax. It is suggested that this relatively high transfer tax is one of the reasons for the relatively low mobility rates among homeowners in the Netherlands (Van Leuvensteijn and Van Ommeren, 2003).
that banks ‘only’ indirectly withheld mortgage capital; redlining took place by insurance companies who excluded certain neighbourhoods. Banks had good reason to deny mortgage applicants in these neighbourhoods because fire and building insurance were often lacking: “no insurance, no mortgage” (Wagenaar, 1989). Banks also denied redlining then as they would a decade later in 1999. Wagenaar also admits that not every insurance company was redlining postal code areas 1011 and 1012. As a result, the impact in areas 1011 and 1012 was different from those in completely redlined neighbourhoods. In 1989, people denied insurance or mortgage loans could still apply to another insurance company or bank. According to Schrijer, this was no longer possible in Rotterdam in 1999.

Although there is no research on Dutch redlining practices, there is some research on housing discrimination in the Netherlands (for a short overview, see Aalbers, 2002). It is well known that Turkish and Moroccan immigrants were denied access to social housing in many municipalities in the Netherlands (e.g. Tesser et al., 1996). Some housing associations did not deny immigrants outright but only rented their least popular units to immigrants (Duyvendak and Veldboer, 2000). Immigrants were also excluded from some neighbourhoods or only accepted up to a certain limit, for instance 5 percent immigrant population (De Smidt, 1978; Musterd, 1984; Van Hoorn and Van Ginkel, 1986; Wilke, 1992; Tesser et al., 1996). In the 1980s, a survey by the Nationale Woningraad (branch organisation of housing associations) revealed that 35 percent of the housing corporations used nationality as a selection criteria. Responsible ministers have always condemned this policy, but never took legal action (Duyvendak and Veldboer, 2000). Moreover, immigrants were in an unfavourable position because apartments with more than one bedroom were reserved for families, but immigrants were only allowed to have their families migrate to the Netherlands if they lived in a house with a least two bedrooms (Tesser et al, 1996). Although it was hard to overcome this paradox within the social housing sector, many immigrants eventually improved their housing situation, often in this sector. Many other immigrants were ‘forced’ to buy a house (emergency buyers), in general properties in poor condition. In the owner-occupied market, cases of discrimination among brokers are also known (Rodrigues, 1997). Despite recent claims of decreasing discrimination in social rented, private rented, and homeownership markets (e.g., Bolt,
a less well-known paired testing study by Snijders and Langbroek demonstrates that housing discrimination still perseveres in the private rented sector (Snijders and Langbroek, 1994).

2 Redlining, a self-fulfilling prophecy
People are not only excluded on the basis of race, but also on the basis of place (Kasinitz, 2000). Redlining is the identification of an area, usually a neighbourhood or postcode area, where no home mortgages are to be issued, which is a form of place-based financial and social exclusion (see chapter 3). Mortgage applicants are excluded from obtaining housing by denying them mortgages in redlined neighbourhoods. Current homeowners are excluded through housing because they are unable to sell their house, becoming trapped in their neighbourhood. In the case of mortgage financing, the supply-side (i.e. the lenders) have the power to exclude part of the demand-side (i.e. the customers). Financial institutions can provide the essential underpinning for positive social development, but they also have destructive power – the power to deny credit loans. One possible method is to put certain neighbourhoods on a blacklist. A financial institution might blacklist a neighbourhood if it is already considered or expected to develop into a ‘slum’ (Jacobs, 1961). Almost without exception it is a self-fulfilling prophecy. These exclusions are the result of patterns of stereotyping and labelling, both indirect constraints which are based on the banks’ measures of respectability and expectations about behaviour (Harrison, 1998).

Financial institutions reject mortgage applications for neighbourhoods where they have no trust in the financial dependability of potential customers or in the (future) continued appreciation of the properties, expecting real estate prices to fall. The risk that a homeowner can only sell his house for a lower price than purchased, and as a result is unable to pay off the entire mortgage, is considered too big. Banks assume that members of certain groups are on average less able to fulfil their financial commitments. Banks 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 or minority neighbourhoods. 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 more to economic incentives than to legal requirements (Ross and Yinger, 1999: 100).
According to Merton (1968) perception alone is sufficient for people to act, prejudices may come into play when excluding certain subjected groups from mortgage capital. If the exclusion is based on aggregate data, it is a matter of statistical discrimination: individual members of a group are excluded simply by the fact that their group on average has a bad credit profile. The need to rationalise, simplify, and differentiate in the context of inequality leads to the institutionalisation of the stereotypical tendencies permeating society (Lipsky, 1980: 115; see also Bolan, 2000). Because potential homeowners can obtain a mortgage only with great difficulty, often not at all, in redlined neighbourhoods, current homeowners in these neighbourhoods cannot sell their houses for a decent price. Consequently, they are unable to move out and a minimum-choice neighbourhood is born. Then, real estate prices will fall. This is a matter of a self-fulfilling prophecy: because prices are expected to fall, people act accordingly, which in fact causes prices to fall. The principle behind a self-fulfilling prophecy is that people not only react to objective circumstances in a situation, but also, sometimes primarily, to the meaning that the situation has for them. Public definitions of a situation, like expectations and prophecies, become an integral part of that situation and influence future developments (Merton, 1968).

By defining a situation where certain neighbourhoods come with a large depreciation risk, and are therefore denied mortgage capital, banks evoke a chain of effects which eventually causes houses in these neighbourhoods to actually loose value. Because mortgages are constrained, a majority of the potential homeowners cannot buy a house in these neighbourhoods. Drop in demand leads to sinking real estate prices. The circle is closed. Real estate prices have dropped because it was impossible to get a home mortgage in redlined neighbourhoods — and not so much because these neighbourhoods were high-risk investments. They became high-risk investments because they were perceived high-risk investments.

Both redlining (exclusion of mortgages) and uneven home mortgage finance conditions strike low-income neighbourhoods and ethnic neighbourhoods in particular. However, redlining not only affects low-income families and ethnic minorities but also everyone applying for a mortgage in a redlined neighbourhood. As a consequence of redlining, sale periods are longer and real estate prices are lower. The people hit the hardest are not the ones denied a home mortgage, but those who are unable to sell their house.
3 On economic action and markets

In the first section of this chapter I presented the immediate reason for this study and elaborated on the concept of redlining in the second. Redlining can have many causes and many consequences, but is ultimately located in the actions of lenders active in the mortgage market. Before sketching a brief history of mortgage markets in general and redlining in particular (section 4), I will outline my view of economic action and markets, thus providing the framework for the analysis in the (empirical) chapters of this thesis.

The dominant view on economic action and markets comes from neoclassical economics. Neoclassical economic perspectives rest on a number of premises: (1) actors have complete information; (2) information is free; (3) therefore, all actors act in the same rational way according to exogenously given preferences; (4) actors are oriented towards profit or utility maximalization; (5) state intervention negatively alters the workings of the market; and (6) market equilibrium appears by itself as a result of market forces. All of these assumptions have been challenged by a large number of critics, both from within and outside economics (e.g. Amin, 1999; Bourdieu, 2005; Boyer, 2004; Courpasson, 1995; Fligstein, 2001; Granovetter, 1985; Hirsch et al., 1990; Hodgson, 1988; Kornai, 1971; Lawson, 1997; North, 1990; Scott, 2000; Smelser and Swedberg, 2005) and it is not my intention to repeat their arguments here. It is, however, important to briefly outline the alternative perspective I follow in this thesis, building on the works of institutional economics and economic sociology, in particular on the work of Geoffrey Hodgson and Neil Fligstein.

Both institutional economics and economic sociology do not deny that actors are rational, but they do take a much wider definition of rationality than neoclassical economists. For example, Weber and Polanyi define rational action as “choice of means in relation to ends” and argue that rational does not refer to either ends or means, “but rather to the relating of means to ends” (Polanyi, 1992: 31). Rationality in this broader sense does not necessarily refer to maximizing profit, but can also refer to the firm’s survival; in order to survive and reproduce, the owners and managers “will do anything to control others” (Fligstein, 2001: 19), whether these are other firms, customers or state institutions. Firms do no only aim to control state institutions, but also turn to state institutions to attain stability. In fact, this is not a paradox. In order to increase their own control, firms
need the state to intervene and (re-) define the borders and the rules of the market: “Once institutionalized, these rules both enable and constrain subsequent behaviour” (Fligstein, 2001: 19). Moreover, rational behaviour is learned rather than innate, or, as Hodgson (2004: 422-423) argues: “Rationality is not prior to, but requires an existing social structure. (...) Rationality depends and rests upon a complex foundation of habits, tacit knowledge and experience. Rationality is not detached from the world; it is situated in and operates through specific cues, triggers and constraints.” Rationality is motivated and guided by systems of shared beliefs, customs, norms and institutions (Weber, 1968); it is context-bound and embedded in interpersonal ties because human agency is “intendedly rational, but limitedly so” (Simon, 1957: xxiv) due to uncertainty, information asymmetry and imperfect cognitive ability (Nee, 2005). Rationality is not just bound due to lack of information, but also because there is often too much information to process and to use in making decisions. Information can take many forms and not all information can be easily codified into rational decisions in a neoclassical fashion. People are dependent on habits and other forms of routinized behaviour and there is “ample evidence that routine behaviour is very frequent in business life” (Katona, 1951: 230). Therefore, routines and habits are not what people resort to, but relying on routines and habits actually become rational – not in the neoclassical sense, but only in the broad sense – because the cost of changing them is perceived as too great (Hodgson, 1988; Katona, 1951; Veblen, 1934).

Routines and habits can be seen as social institutions. In short, institutions are formal laws, rules and informal practices, or to be more precise:

Institutions are durable systems of established and embedded social rules that structure social interactions. Institutions are social rule-system. They both constrain and enable behaviour. (...) Institutions are emergent social structures, based on commonly held habits of thought. Upon these structures, actual or potential patterns of social behaviour arise. Habits are the constitutive material of institutions, providing them with enhanced durability, power and normative authority. (Hodgson, 2004: 424-425)

Or, as Hodgson has argued elsewhere, an institution is
a social organization which, through the operation of tradition, custom or legal constraint, tends to create durable and routinized patterns of behaviour. (…) whilst social institutions are important in the processes of cognition and learning, in the formation of preferences and generally in the motivation of action, human activity is not completely or mechanistically determined by its institutional integument. (…) institutions are not simply relevant as barriers or constraints or even for estimating the likely behaviour of agents. In this sense individuals may respond to institutions in pursuit of their goals. But there is an additional sense in which institutions and culture are important: they play a part in actually influencing and moulding those purposes themselves. Factors such as institutional structure and routine, and social norms and culture, affect not only our eventual actions but also our views of the world and the purposes to which we aspire. (Hodgson, 1988: 10, 62-63)

In other words, institutions are the general normative patterns of social action, or embedded social codes of conduct, which influence and are further reproduced by the behaviour of actors (Salet, 2002). Social institutions and the meaning they have for people, shape economic action. Economic action or behaviour is often regular and predictable, not because it follows universal economic laws, but rather because it follows meaningful institutionalized scripts (DiMaggio and Powell, 1991; Scott, 1995; Dobbin, 2005). Economic action is influenced by social institutions in different realms: law and the state, the religious system and the class system. Economic customs are shaped by class, tradition and ideology (Weber, 1968; Swedberg, 1998). Institutions are not just ‘there’, but have developed historically and therefore institutions “persist while individuals come and go; they have a force of their own such that individuals who violate social norms not only do not change the norms but are punished as deviants” (Collins and Makowsky, 1972: 10, in a summary of Durkheim’s work).

Institutions not only “provide a conduit for collective action by facilitating and organizing the interests of actors and enforcing principal-agent relationships” (Nee, 2005: 55), but in addition, they also provide a conduit for individual action; actors “fall back on the judgement of the rest of the world which is perhaps better informed” (Keynes, 1973: 114; cited in Hodgson, 1988: 219). This behaviour
occurs because “people associate closely only with persons of similar outlook and that individuals modify their ideas to fit the groups they join” (Collins and Makowsky, 1972: 6). Hence, “actions flow from judgements about the future which often lack an objective empirical foundation other than by observation of ‘the convention’ that is formed by the actions of others” (Hodgson, 1988: 220; in a discussion of Keynes, 1973). In oligopolistic markets, such as mortgage markets, suppliers watch one another in order to know how to respond to uncertainty, in this case lenders; they are guided by signals and re-define their own practices their reactions to uncertainty, based on those signals (White, 1981). The function of social institutions is then to provide a basis upon which to form expectations and to act accordingly. Actors acquire information through the involvement in social practices and through the observation of the habits and routines of other actors (Lawson, 1985). Economic actors are socially embedded in a network with other market actors (Granovetter, 1985) and, at least in part, base their decisions on the decisions taken by other actors in the field. Not only routines but also formal institutions provide information to other actors because they shape human action establishing: patterns, boundaries, regulations, and constraints. “In other words, institutions and routines, other than acting simply as rigidities and constraints, play an enabling role, by providing more-or-less reliable information regarding the likely actions of others” (Hodgson, 1988: 132) thereby enabling the decision-making of other actors in the field.

By speaking of the embeddedness of markets, Granovetter (1985) argues that market relations, or in fact all forms of economic interaction, are centred in social relations, in particular network relations, and that market actions have to be understood in the context of these social relations. Bourdieu’s conception of markets as fields provides a suitable alternative to Granovetter’s embeddedness approach. Bourdieu has criticized Granovetter for ignoring the structural dimension, something which is clearly included in Bourdieu’s idea of the market as a field. The field, then, is a structure of actual and potential relations (Bourdieu and Wacquant, 1992). After having discussed the workings of institutions, we can

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2 Interestingly, one can even analyze the impact of neoclassical economics from such a network approach, by focusing on how the networks of the academic circles, think tanks, official government councils and government itself are interlinked, and how their social relations shape economic action.
define the market as a field (Bourdieu, 2005; Fligstein, 2001) which comprises:

a set of social institutions in which a large number of commodity exchanges of a specific type regularly take place, and to some extent are facilitated and structured by those institutions. (...) As we should expect with any other social institution, the market (...) has enabling as well as constraining functions. (...) Markets, like other social institutions, play a major role in transmitting information and forming and moulding individual preferences, expectations and actions. (Hodgson, 1988: 174, 178)

Since markets are institutions, it follows that markets are the outcome of an institutionalization process (DiMaggio and Powell, 1991; Polanyi, 1992) and that a large part of this process is finding ways to stabilize and routinize competition (Fligstein, 2001: 5). In this way, markets are social constructions, but to make the institutionalization successful, it requires an inherently political process (Fligstein, 2001). In the end, market organization is “a mix of the historical and the political. The chosen solutions for organizing for markets depend on who writes the rules and how these rules help a given set of actors” (Fligstein, 2001: 65). Markets depend on a ‘conception of control’, that is, “collective understandings about what the actions of other market actors mean” (Fligstein, 2005: 192; see also Fligstein, 2001). Both the stability and the dynamics of markets are made possible by this extensive social organization as “economic actors are totally dependent on social arrangements to make profits” (Fligstein, 2001: 23) whereby “market theories need non-market coordination to make them work” (Stuart, 2003: 68). Indeed, as Polanyi (1944) argues, regulation is not only a necessary component of (semi-) capitalist societies, but one that actually facilitates the workings of markets.

The mortgage market is an economic field structured by power relations between different actors, which are maintained through combinations of not only financial capital, but also social, cultural and symbolic capital. Decisions involve trust, and trust is shaped by the incorporated structure that generates a socially dispositioned perception and principles for action (this is what Bourdieu calls ‘habitus’). Within this field, and working through habitus, firms orient their actions toward one another (Bourdieu, 2005; Fligstein, 2001; White, 1981). The relations between firms can be characterized both
by a struggle of competition and by coordination (Weber, 1898). Coordination enables power and information advantages in the interest struggle, in this case between lenders and consumers. In this struggle lenders do not just respond to consumer demand, but provide ‘incentives and opportunities that pull and mould behaviours, locational preferences and choices of individual consumers’ (Gotham, 2002: 87; see also Feagin and Parker, 1990; Gottdiener, 1994). The mortgage market in most European countries is a market dominated by a few large lenders and has features of an oligopolistic market. Competition in such markets “is tempered by the recognition that if all prosper, all survive” (Fligstein, 2001: 50). Therefore, large lenders often come together to promote industry-wide rules. This form of self-regulation has two sides: first, to gain regulatory capture and discourage states from intervening, and second, to make market entry more difficult and complicated for new, often smaller, lenders.

In short, a mortgage lender that practises redlining is not just guided by rational choice in a neoclassical fashion, but also by the institutional and social environment. Rationality is context-bound and guided by systems of shared beliefs, customs, networks, norms and institutional arrangements. This also explains the dynamics of redlining, as the decision of one bank to redline certain neighbourhoods, impacts other mortgage lenders, but also the institutional environment, thus reshaping redlining practices. Lenders can push their agenda in favour of redlining, but other powerful (state) actors may also play a role in removing those constraints. The outcomes of the competition between different actors involved in this field shape the dynamics of redlining practices. The dynamics of redlining are the results of their actions within the institutional environment.

4 A brief history of mortgage markets and redlining

4.1 Universal principles of mortgage markets
Land underlies all real estate. The use of land, the desire to acquire it, and the need to regulate its transfer were among the fundamental reasons for the development of states. But land is also at the base of both power and wealth. Because land transaction administration and land surveys established the security and value of land, land not only became a secure investment, but it also became possible to borrow money based on the value of one’s land. This is the basis for the formation of mortgage markets. A mortgage is “a conveyance of an
interest in real property given as security for the payment of a debt” (Dennis and Pinkowish, 2004: 386); it “gives a lender contingent property rights over an asset of the debtor, and in the event of default the lender may activate those rights. Collateral reduces the creditor’s vulnerability and bolsters the debtor’s willingness to repay” (Carruthers, 2005: 365). Although the mortgage system has changed tremendously throughout the centuries, and continues to change the idea of the mortgage loan is still the same as it was thousands of years ago. The state secures property rights, including land ownership and homeownership, and owners can get relatively cheap loans (i.e., low interest rates) because in case of default the lender can take possession of the property. The value of property is vital. Lenders are only willing to provide loans on secure value; so if there is any doubt the present value or future growth in value of the property they will be less likely to grant a mortgage loan. Secure investments are low-risk investments. In addition, trust is important as lenders are more willing to grant mortgage loans to trustworthy borrowers than to dubious characters.

4.2 Early history
Although the ancient Egyptians were probably the first to have mortgage markets (Henry, 2002), it was the Romans who introduced mortgage markets on a wider scale. The Romans also introduced the term ‘hypotheca’, a pledge by which the possession of property remained with the borrower, unless s/he defaulted on a loan whereby the lender was entitled to take possession of the property. The word hypotheca is still easily recognisable in many languages, not only in Latin languages like Italian (ipoteca) and Spanish (hipoteca), but also, for example in Dutch (hypotheek). Even though the word ‘mortgage’ is used in English, the English language also knows the verb ‘to hypothecate’ which means ‘to take out a mortgage on’. After the collapse of the Roman Empire, the system of mortgage was sustained in most countries, for example in Germanic law under the name gage (loosely translating to ‘pledge’, but also to ‘pay’). William of Normandy introduced the Germanic ‘gage system’ into English law in the 11th century and the word ‘mortgage’ came into being; it originates from the German gage and the French mort, meaning ‘dead’ referring to the status of the land from which the owner could not derive income. It was also during this time that the Catholic Church proclaimed charging interest for money loaned as usury. As a result, mortgage loans become a rarity.
4.3 From the seventeenth century to the 1920s boom

In Europe, the mortgage loan acquires new impulses in the 17th century. Many of Amsterdam's famous canal houses were initially financed by mortgages. Masons and carpenters took out mortgage loans to buy the land and building material, selling the finished houses to merchants and others who could afford them. Subsequently, the loan was paid off and the masons and carpenters moved on to build new houses with new loans. In the US, the mortgage loan was revived with the westward expansion after the American Revolutionary War (1775–1783), also known as the American War of Independence. Land development banks, modeled after European examples, supplied mortgage loans for the purchase of land, but many of them went bankrupt as a result of speculative use of loans. Again, mortgage loans became rarer until individuals started supplying mortgages after the end of the American Civil War (1861–1865).

During the nineteenth century the first mutual savings banks and building societies were established on both sides of the Atlantic, but they only started granting mortgage loans on a significant scale at the end of the 19th century. In the Netherlands, for example, Samuel Sarphati – a doctor, economist, politician and organizer of all sorts – in 1864 founded the Nationale Hypotheekbank [National Mortgage Bank] to finance the development of his urban plan for the surroundings of the Paleis voor Volksvlijt, a combination of a Palace of National Industry and a sort of People's Palace. The Nationale Hypotheekbank was modelled after the French Crédit Mobilier [Real Estate Credit Bank], founded to finance Baron Haussmann's reconstruction plans for Paris.

Around that time, specialized mortgage banks were also set up in the US; these companies only originated loans and sold their portfolios to investors such as insurance companies, often from Europe (Dennis and Pinkowish, 2004; Immergluck, 2004). In those days most loans covered 40 percent of the value (loan-to-value ratio of 40) hence purchasing real estate required a very large downpayment. In addition, most loans had very short terms of five years or less. Since most loans were either not paid off or did not have any provisions for loan amortization (repayment of the loan in equal instalments of principal and interest), mortgage loans were usually refinanced after five years. In 1913 the US Federal Reserve Act allowed commercial banks to lend money on real estate, not permitted in most European countries until the second half of the
twentieth century. The entrance of commercial banks into the mortgage market coupled with the economic optimism of the 1920s led to a rapid growth of US mortgage markets.

The boom of the 1920s was followed by the Wall Street Crash of 1929 and the crisis of the 1930s. During this crisis homeowners lost their houses in two different ways. First, widespread unemployment made it impossible for many homeowners to pay off their mortgage loans, resulting in foreclosures and tax sales. Second, people who retained their job were often unable to refinance their loan after five years because of the withdrawal of financial institutions from the mortgage market, and therefore also lost their homes. In the early 1930s the average number of foreclosed mortgage loans was 250,000 per year and at some point exceeding more than 1,000 per day; half of all home mortgages in the US were in default (Dennis and Pinkowish, 2004; Immergluck, 2004). Also financial institutions failed and went bankrupt along with their borrowers, partly as a result of the massive withdrawal of savings.

4.4 The aftermath of the 1930s crisis and the origins of redlining

What follows is a crucial episode in the history of mortgage markets in general, and in the history of redlining in particular. Redlining takes place on a large scale for the first time and the modern mortgage market emerges, along with its standardized guidelines and the introduction of long-term, amortized mortgages. The state firmly enters the market in the US. As a reaction to the depression President Hoover organized a conference on home building and home ownership in 1931. The conference proceedings make four recommendations (cited in Jackson, 1985: 194):

1. the creation of long-term, amortized mortgages;
2. the encouragement of low interest rates;
3. the institution of government aid to private efforts to house low-income families;
4. the reduction of home construction costs.

Hardly ever have any policy conference proceedings’ been implemented as actual policies so quickly and comprehensively. Firstly, house construction became subsidized and the construction process less regulated. The Hoover administration in 1932 created the Reconstruction Finance Corporation (RFC) in order to provide liquidity to commercial banks. Later that year, the Federal Home
Loan Bank (FHLB) was created, providing a central credit facility to mortgage lenders. The FHLB is a classic case of state failure as,

it was not designed to give help in cases of emergency distress and was able to give aid only where risk was slight. The American public did not immediately perceive that, bureaucratic rhetoric aside, loans were only to go to families that did not need federal help, and within the first two years of the law’s operation, 41,000 applications for direct loans were made to the banks by individual homeowners. Exactly three were approved. Although we should not minimize the satisfaction that those three families received from this evidence of federal compassion, their own good fortune was not sufficient to reverse the downhill slide of housing conditions. (Jackson, 1985: 194)

By that time, Roosevelt has taken over the presidency from Hoover and shortly thereafter the House and Senate pas his Home Owners Loan Act (HOLA). This important legislation leads to the creation of the Home Owners Loan Corporation (HOLC), which was designed “to provide emergency relief to homeowners by refinancing or purchasing defaulted mortgages” (Dennis and Pinkowish, 2004: 7), in other words to forestall foreclosures. Thanks to the HOLC tens of thousands of borrowers were kept from losing their homes in the mid and late 1930s and, in addition, it refinanced more than one million mortgages, all on relatively low-interest rates (Gotham, 2002: 53). The HOLC “introduced, perfected, and proved in practice the feasibility of the long-term, self-amortizing mortgage with uniform payments spread over the life of the debt” (Jackson, 1985: 196) thereby replacing the five-years, non-amortizing mortgage with a balloon payment at the end of the loan period. It set the standards for mortgage lending till this day and systematized appraisal methods across the US:

With care and extraordinary attention to detail, HOLC appraisers divided cities into neighborhoods and developed elaborate questionnaires relating to the occupation, income, and ethnicity of the inhabitants and the age, type of construction, price range, sales demand, and general state of repair of the housing stock. The element of novelty (…) lay in the creation of a formal and uniform system of appraisal, reduced to writing, structured in defined procedures, and implemented by individuals only after
intensive training. The ultimate aim was that one appraiser’s judgment of value would have meaning to an investor located somewhere else. (Jackson, 1985: 197)

But the HOLC was not only instrumental in developing and applying uniform, standardized appraisals, but it was also instrumental in implementing and institutionalizing redlining practices. The HOLC developed a neighbourhood rating system comprising of four colours correspond to four different numbers and four different letter codes: green, First-grade or A referring to “homogeneous neighbourhoods (...) hot spots (...) in demand as residential locations in good times and bad (...) American business and professional men”; blue, Second-grade or B referring to “stable (...) still good (...) still desirable” areas that had “reached their peak”; yellow, Third-grade or C referring to “definitely declining (...) heterogeneous” neighbourhoods that attract “undesirable element[s]” and are “infiltrated by a lower grade population; and lastly, red, Fourth-grade or D referring to neighbourhoods “in which the things taking place in C areas have already happened” as a result of “detrimental influences in a pronounced degree” and where houses have “little or no value today, having suffered a tremendous decline in values due to the colored element now controlling the district” (cited in Jackson, 1985: 197-200; Hillier, 2005: 216-217). According to Jackson (1985), Jewish neighbourhoods, even the stable and affluent ones, would never be considered First-grade, while Black neighbourhoods were by nature considered unstable and declining or declined and habitually coloured red. Crossney and Bartelt (2005b), however, claim that the connection between ethnicity and lending is less strong, even though they admit it is clear that Black and mixed areas were more often redlined than homogenous White areas.

Although the HOLC is often blamed for introducing redlining policies and practices, it is important to note that the HOLC was simply following dominant ideas in the real estate and mortgage markets, already practiced at the local level. However, the HOLC did implement and institutionalize redlining practices (see and compare, Stuart, 2003; Hillier, 2003a; 2005; Immergluck, 2004; Crossney and Bartelt, 2005a; 2005b; see also Jackson, 1985; Gotham, 2002; Harris and Forrester, 2003):

3 An appraisal is a determination of “the value of the collateral securing a home mortgage loan” (Stuart, 2003: 29).
Some [lenders] used their own maps before HOLC existed, and most lenders did not have access to HOLC maps. Moreover, in the surveys used to construct the maps, surveyors used the avoidance of an area by lenders as an input into rating an area as undesirable or risky, thus suggesting the maps’ coding was a result rather than a cause of private-lender redlining. (Immergluck, 2004: 93)

It is unlikely that HOLC caused redlining. Redlining existed prior to the initiation of the City Survey Program, and areas colored red by HOLC were already suffering from a lack of mortgage funds before the maps were made. (…) the maps were not widely distributed or discussed in the major real estate and appraisal journals (…) HOLC was as much a follower as a leader when it came to neighbourhood appraisals. (Hillier, 2003b: 412)

Because of the limited role of the HOLC, Hillier (2003b) concludes that it was not the HOLC that institutionalized redlining practices. I tend to disagree. Hillier is right in arguing that the HOLC was not the first to introduce redlining policies nor was it the only organization to implement redlining practices; yet, as a government institution it did institutionalize already existing practices of redlining into government policies by designing Residential Security Maps for more than 200 American cities. Fourth-grade, red-coloured neighbourhoods were no exception, but rarer on some city maps than on others. While the map of St. Louis County only shows a small number of neighbourhoods coloured red, the map of Newark, at that time a city of more than 400,000 inhabitants, is full of redlined neighbourhoods and no single neighbourhood in Newark is coloured green (Jackson, 1985). In addition, in a few years time, the number and size of redlined areas could dramatically increase as an analysis of the HOLC Residential Security Maps for Philadelphia clearly shows: in two years time the share of city-land redlined almost doubled to 34% (Hillier, 2005) hitting an even larger share of housing units as redlined areas tend to be more densely built areas. Moreover, a survey by the FHLB demonstrates that lenders view public and private redlining practices as very similar (Jackson, 1985), while in reality clear differences exist between public and private redlining policies (Crossney and Bartelt, 2005; 2006).
The mortgage market can be characterised by a constant drive toward uniformity. As there was a consensus that the mixing of people by race, country of origin, and social class depressed real estate values, white and non-white neighbourhoods were to be considered separate housing markets. Although the language of appraisal changed over the years and the practices sometimes changed as well, the underlying logic of uniformity was a stable factor (Stuart, 2003). The principle of uniformity can only be applied with the use of boundaries which can divide the city in different seemingly uniform areas: “The practice of demarcating a neighbourhood is, therefore, a form of market coordination – the greater the consensus on the boundaries the greater the coordination. And the greater the coordination the greater the ability of the real estate industry to promote what it values – homogeneity” (Stuart, 2003: 155).

Redlining practices were adopted not only by the HOLC and private mortgage, but also by the Federal Housing Administration (FHA). The FHA, established in 1934 under the Roosevelt administration, was created to insure private mortgage loans; the Veterans Administration (VA), created in 1930, started doing the same in the late 1930s. A borrower pays a loan premium for an FHA- or VA-insured home mortgage loan; the premiums are used as reserves and would flow to the lender in case an insured borrower defaulted. Like the HOLC, the creation of the FHA changed the mortgage market and set standards and practices which are followed to this day. Jackson (1985: 204-205) mentions four ways in which the FHA revolutionized the mortgage and home construction market:

1. Before the FHA began operation, first mortgages were limited to one-half or two-thirds of the appraised value of the property. (...) By contract, the fraction of the collateral that the lender was able to lend for an FHA-secured loan was about 93 percent. Thus, down payments of more than 10 percent were unnecessary.

2. Continuing a trend begun by the HOLC, FHA extended the repayment period for its guaranteed mortgages to twenty-five or thirty years and insisted that all loans be fully amortized. The effect was to reduce both the average monthly payment and the national rate of mortgage foreclosure (...);

3. FHA established minimum standards for home construction that became almost standard in the industry. These
regulations were not intended to make any particular structure fault-free, nor even to assure the owner’s satisfaction with the purchase. But they were designed to insure with at least statistical accuracy that the dwelling would be free of gross structural or mechanical deficiencies (...);

4 In the 1920s, the interest rate for first mortgages averaged between 6 and 8 percent. (...) Under the FHA (and later the VA) program, by contrast, there was little risk to the banker if a loan turned sour. Reflecting this government guarantee, interest rates fell by two or three percentage points.

By 1972, the FHA had insured about 11 million loans-for-purchase and about 22 million loans-for-home-improvement. FHA’s standardization made it easier, less risky and cheaper to buy a home, thereby fuelling the development of the mortgage market, mirroring the idea that “when considering what market conditions may come out of a particular crisis, one must always bear in mind that governments will tend to intervene to protect capitalist interests” (Fligstein, 2001: 57). The FHA helped to encourage suburbanization, but also “hastened the decay of inner-city neighborhoods by stripping them of their middle-class constituency”, because “in practice, FHA insurance went to new residential developments on the edges of metropolitan areas, to the neglect of core cities” (Jackson, 1985: 206). The inner city areas were overlooked partly because they had lower appraised values for housing and FHA simply did not grant insurance in many of these areas. While FHA insurance was meant as a public back-up to ensure the provision of mortgage loans, the FHA, like the HOLC, redlined areas in which private actors were also less likely to grant mortgages, or would only grant mortgages under less advantageous conditions, such as higher down-payments and higher interest rates. Jackson concludes his groundbreaking work by claiming that the

FHA also helped to turn the building industry against the minority and inner-city housing market, and its policies supported the income and racial segregation of suburbia. (...) FHA exhorted segregation and enshrined it as public policy. Whole areas of cities were declined ineligible for loan guarantees; as late as 1966, for example, FHA did not have a mortgage on a single home in Camden or Paterson, New Jersey, both declining industrial cities. This withdrawal of financing often resulted in an
inability to sell houses in a neighbourhood, so that vacant units often stood empty for months, producing a steep decline in value. (Jackson, 1985: 213)

Gotham in his study of uneven development in Kansas city throughout the 20\textsuperscript{th} century arrives at similar conclusions arguing that the FHA’s “insurance system and home ownership subsidies established a racially dual home financing market by refusing to insure mortgages in areas not covered with a racially restrictive covenant, thus denying mortgages to Black families, and channelling capital into suburban housing construction” (Gotham, 2002: 63).

4.5 Redlining since the 1960s
In the mid and late 1960s the FHA was forced to change its policies and make mortgage insurance available in formerly redlined and yellowlined areas; today, FHA loans are actually responsible for increasing homeownership among Black households (Turner and Skidmore, 1999; Wyly and Holloway, 1999). However, even if we control for income, Black households significantly more often rely on FHA-insured loans. The assumption is that Black households rely on FHA-insured loans because it is more difficult for them to acquire loans in the non-insured mortgage market (Wyly and Holloway, 1999). Ross and Tootell (2004), in addition, demonstrate that applicants in low-income neighborhoods are more often forced to take out private mortgage insurance in order to have a mortgage loan application approved; redlining exists when loan applicants do not apply for private mortgage insurance. In 1968, discrimination in housing – including mortgaging – became legally prohibited through the \textit{Fair Housing Act}. Despite this act and the related move of FHA to the inner-city, research from the 1970s, 1980s and early 1990s clearly shows the existence of redlining, mostly in inner-city areas (e.g., Bradford and Rubinowitz, 1975; Ahlbrandt, 1997; Tomer, 1980; Dedman, 1988; Bradbury et al., 1989; Shlay, 1989; Dymski and Veitch, 1994). However community and legal struggles against redlining (see Squires, 1992; see also Immergluck, 2004) have been successful in diminishing redlining practices. The story of Atlanta, described superbly in an essay by Keating and colleagues (1992; see also Wyly and Holloway, 1999), illustrates the potential impact which can be achieved through cooperation between community activism, university research (in this particular case a MA thesis in city planning) and media investigations and reporting (in this case the 1988 Pulitzer Prize-winning articles by Dedman).
Recent research carried out in the US shows that race-based exclusion clearly takes place, but that redlining (place-based exclusion) is often harder to prove and more contingent on the metropolitan area researched and on individual bank policies (for an overview of the debate, see Ross and Yinger, 2002). Even though most research on redlining is carried out in the US, there are also a number of studies documenting redlining processes in other, mostly Anglophone, countries (Boddy, 1976; Williams, 1978; Jones and Maclennan, 1987; Kotze and Van Huyssteen, 1990; Engels, 1994; Harris and Forrester, 2003). For example, Kotze and Van Huyssteen (1991: 117) show that in Cape Town, South Africa “kleurlingbuurte dus in die opsig bo die ander bevoordeel, terwyl veral die ‘grys’ gebiede aan die kortste ent trek.”

4.6 The development of secondary mortgage markets and the use of credit scoring

Processes of redlining were very much connected to the general development of the US mortgage market. Both were to a large degree dependent on public actors and not just on private actors, as one could expect; Immergluck (2004) aptly speaks of the visible hand of government in the US mortgage market. Following the institutionalization of mortgage standards by the HOLC and the FHA, the next steps were taken by two private, yet government-created and ‘government-sponsored,’ institutions and one public institution: the Federal National Mortgage Association, known as Fannie Mae; the Federal Home Loan Mortgage Corporation, known as Freddie Mac; and, the Government National Mortgage Association, known as Ginnie Mae. They created a standardized mortgage instrument used in all US states and often used as a model in other countries. An elaborate discussion of these organizations is beyond the scope of this chapter (see Dennis and Pinkowish, 2004; Immergluck, 2004; Ross and Yinger, 2002; Stuart, 2003), but let me just briefly mention why they require special attention. They played a pivotal role in integrating mortgage markets throughout the US in one mortgage market, and were instrumental in implementing and institutionalizing three other important changes in mortgage markets: secondary mortgage markets (covered in chapter 5), credit scoring (treated

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4 “Coloured neighbourhoods in this respect are favoured over mixed/heterogeneous neighbourhoods that are worst off” (translation by the author).
extensively in chapter 4) and risk-based pricing (briefly addressed in both chapters 4 and 5).

In a primary mortgage market mortgages are closed between the borrower and the lender; in a secondary mortgage markets investors can buy mortgage portfolios from lenders. Fannie Mae, Freddie Mac and Ginnie Mae were created to buy such mortgage portfolios, but are not the only investors; pension funds, for example, have an important stake in this market. Nonetheless, not only lenders planning to sell their portfolios to the three big institutions, but in fact a large majority of mortgage lenders follow the guidelines of Fannie Mae and Freddie Mac who “continually set the industry standards” (Dennis and Pinkowish, 2004: 93).

Mortgage portfolios sold in the secondary mortgage market are usually classified by risk-profiles, because risk determines their selling price. Therefore, mortgage lenders classify loan applicants according to the risks that they pose to both lenders and investors. The calculation of housing costs and other financial obligations in proportion to income determines the likelihood that an applicant will be able to pay a mortgage, but moneylenders also attempt to assess whether they are willing to pay it back. Credit scoring uses available information to make predictions about future payment behaviour; a form of customer profiling. Credits coring is not only indispensable if lenders want to sell their mortgage portfolios in the secondary market, but it also facilitates risk-based pricing by charging higher interest rates for borrowers with low scores (‘bad risk’) and charging lower interest rates for borrowers with high scores (‘good risk’): “As lenders become more confident about their ability to predict default, they also become more willing to issue credit, at a relatively high price, to higher-risk borrowers” (Ross and Yinger, 2002: 23), as well as at a relatively low price, to lower-risk borrowers. Chapter 4 and 5 will not only discuss the issues of secondary mortgage markets, credit scoring and risk-based pricing in more detail, but will also show how such conventions and practices – i.e. institutions – in the mortgage market spread from one country to the next. Differences between national mortgage markets remain large, but many of the institutions of mortgage markets have actually become more similar – the global implementation of credit scoring systems, originally developed in the US, is perhaps the best illustration of this argument (see chapter 4).

5 Depending on which credit scoring system is used, high score can either refer to “bad risk” or “good risk” and vice versa.
5 Research problematic

While research on redlining is widespread in the US and not in Europe (for a discussion on the US literature see Ross and Yinger, 2002; or section 6.2 of this thesis); there is however a sizeable literature on financial and social exclusion in Europe and particularly in the UK (see chapter 3). This thesis aims to connect the literatures on social exclusion and financial exclusion, which oddly are usually not connected. Redlining has many dimensions; in order to explain and understand it, one should also consider its multi-dimensional character. As Fainstein indicates, the point is not to delineate a general process, occurring at all times in all places; but rather, the objective is to understand the mix of general and specific factors that create redlining in different contexts (cf. Fainstein, 2001: 26).

Redlining is not only multi-dimensional, but like most other social phenomena also has a multi-scalar aspect. The concept of redlining cannot exist without the notion of internally differentiated geographical space; without internal differentiation – i.e. without sub-markets – there is no redlining. Just like other processes of urban restructuring, redlining is part of the differentiation of geographical space at the urban level, but, although it is most visible at the urban scale, redlining is constituted at the interaction of several spatial scales: neighbourhood, urban, regional, national and global. One premise behind this study is that if we want to explain and understand redlining we should not only ask questions like ‘does redlining take place’ and ‘which variables explain redlining’, but also questions like ‘why does redlining take place here and not there’ and ‘which factors on the neighbourhood, urban, regional, national and global scales mould redlining processes.’ If we rephrase these questions, we derive at the central questions: how do institutions and processes at different levels or scales constitute a decision to redline? In the end it is of course necessary to confront existing theories on redlining with the empirical and analytical progress made within this study. Additional important questions emerge: ‘how can the empirical results be abstracted’, ‘which theory offers a valid and sufficient explanation of redlining’, and ‘how can existing theories be adjusted to offer a valid and sufficient explanation of redlining.’

The question of spatial scale is central to any relevant explanation. We can say that redlining is a product of the uneven development of capitalism, of the application of credit-scoring models, of prejudiced urban managers and gatekeepers, of the structure and regulation of the home mortgage market, of statistical
discrimination or of neighbourhood decline and the devalorization of capital invested in the built environment. In some way, it is of course, a product of all these forces, but this fact alone tells us very little. These processes occur at several different spatial scales, and previous explanations tended to more narrowly focus on one or the other trend. It is essential to understand both the relative importance and in particular the relationship between the various so-called ‘factors’, or better said institutions and processes.

6 Overview

|-----------------|------------------------|-----------------------------|--------------------------|-------------------------------|-------------|-------------|-----------------------|------------------------|---------------------|-----------------------|

Many of the chapters of this thesis have been, or will be, published in academic journals. Chapters 1-3 and 13, however, have not been submitted to a journal. Because this thesis consists of a collection of papers, there is some overlap between the chapters. Some of the issues treated at length in the first chapters will come back in shorter versions in the other ones. In addition, the concluding sections of the empirical chapters will all appear again in the concluding chapter. There is also a bit of overlap between some of the empirical chapters, as some papers build on other papers, but also had to be comprehensible separately.

In chapter 2 I will discuss five different research strategies. I will argue that the point is not to show which of these strategies is ‘correct’, but to show how these different strategies can help the researcher to accomplish different things, to answer different types of research questions. The central question in this chapter is how the different strategies can be applied in this thesis in order to answer the various research questions. At the end of chapter 2 I will discuss how the chapters of this thesis relate to the different research strategies and how they help to answer the research questions.

This thesis builds on different literatures, or if one prefers, different theoretical schools; the literatures on social exclusion and financial exclusion are among the most prominent and are therefore discussed in a separate chapter (chapter 3), but will also return in the more empirical chapters, most notably in chapters 6 and 10. The focus in chapter 3 is on the following question: how are the concepts
of social exclusion and financial exclusion defined and how does redlining relate to other forms of exclusion?

Other relevant literatures are not granted separate chapters, but will receive attention in one or more chapters. The present chapter has already paid attention to the literature on markets in general and mortgage markets in particular; a theme that will be picked up again in chapters 4, 8, 10 and 11, and in particular 5 and 13. Additionally, chapter 4 discusses the literature on risk, the risk society and credit scoring; chapter 5 refers to debates on globalization and de/re-territorialization. The socio-spatial approach, covered in chapter 9, was developed in reaction to the Chicago School and has its roots in urban sociology, human geography and political economy. One of the most important sources of inspiration to the socio-spatial approach, David Harvey, receives more attention in chapter 12. Finally, both chapter 9 and 11 pay attention to the issues of segregation, ethnicity, migration and neighbourhood effects, and relate these literatures to the issue of redlining. The different debates will be connected in the final chapter.

Broadly speaking, chapters 4 and 5 set the ground for the empirical analysis in the following chapters 6-12 (see chapter 2). Both chapter 4 and 5 are partly empirical in nature, but largely build on secondary data, while chapters 6-12 build on primary data. Chapter 4 presents a sociological analysis of how banks and other financial institutions value risk in general and in regard to mortgages in particular: how do lenders define risk and how do they try to limit risk; how do they select and construct risk categories? Banks assume that members of certain social groups are, on average, less able to fulfil their financial commitments. Applications for (mortgage) loans are subject to quantitative risk selection techniques such as profiling and credit scoring, tools used by financial institutions to minimise default and other types of risk. Chapter 5, on the one hand, examines the Europeanization and globalization of European mortgage markets, and, on the other hand, also demonstrates the differences within Europe by a comparison of the Italian and Dutch mortgage markets. As will be argued in chapter 2 and substantiated in chapter 5, the Italian and Dutch mortgage markets are in many ways contrasting cases, whether we look at the relative size of the mortgage market, the role of homeownership in society, or to the role of the family in connection to both mortgage loans and homeownership. This is the prime reason for selecting these two countries as case studies. Chapters 6-12 present the evidence on
the (non-) occurrence of redlining in various spatial contexts. What are the similarities and differences in redlining processes in Rotterdam, Amsterdam, The Hague, Arnhem and Milan? How is redlining affected by spatial distinctions and by differences in the housing and mortgage markets?

Finally, figure 1 presents the conceptual model. Each chapter in this PhD thesis zooms in to part of the model, and thereby helps to understand and explain redlining practices and processes. One will notice that the individual level is missing from the model. This is because redlining is, by definition, a social and a geographical phenomenon that surpasses the individual level. Mortgage loan applicants that are rejected because their income is too low or because they have not paid off previous loans are indeed excluded from mortgage loans, but this may have nothing to do with redlining. Of course, many individuals make a group, but only when lenders make calculations, valuations or decisions based on this aggregate level (for example on the neighbourhood level) does it become relevant to the present study. Chapter 4, and to a lesser extent also chapter 11, discuss this issue in more detail and show how loan applications of individuals are (not) connected to geographical matters. In addition, chapter 9 also looks at the individual level, but rather than focusing on individual loan applicants, the focus is on other individuals such as housing speculators. A simpler version of figure 1 would show only two boxes and one arrow: the arrow from ‘Mortgage market’ to ‘Redlining’. In the end, redlining is a decision made by lenders, and therefore this arrow is the central one. The point of this thesis is to show how the other boxes and arrows shape the decision context in which lenders decide whether or not to redline a neighbourhood. In that sense, figure 1 could be redrawn into a conceptual model in which one arrow points from the ‘Mortgage market’ to ‘Redlining’ and where all the other arrows point to the ‘Mortgage market’. I hope the following twelve chapters make clear why I printed figure 1 instead.
Figure 1. Conceptual model
References


Chapter 2
Research strategy

1  Introduction
This chapter will present the research design of this study. By research design I do not just refer to the research questions and the methods used to answer them. A research design starts with a research strategy to answer the research question. It refers to the logic of enquiry, to the steps involved in answering research questions. Ideally or typically we can distinguish between five research strategies: inductive, deductive, retroductive, abductive and anti-empirical. Although there is some overlap, each of these five research strategies includes a unique combination of ontological and epistemological assumptions (Baikie, 2000). I herewith borrow the classification of four research strategies by Blaikie’s (2000) and Danermark and colleagues (2002); the anti-empirical strategy is my addition, not because this is the strategy I favour, but because this strategy is increasingly popular in social science today. In critically discussing this fifth strategy I link it to the debate on the cultural turn in social science and in human geography in particular. Figure 1 shows a representation of the four empirical research strategies through the use of a simple example; Figure 2 then adapts this model to the cases of Rotterdam and Amsterdam, analyzed in chapter 10 (which follows the retroductive strategy). As one can see in Figure 1, the retroductive strategy has explicitly included something akin the so-called ‘empirical cycle’, in which the researcher moves between empirics and theory.

In the next sections I will discuss the five types of research strategies, including their ontological and epistemological assumptions. Ontology is the science or study of being. It refers to the claims or assumptions regarding the nature of social reality, claims about what exists, what it looks like and, what units make it up and how these units interact with each other. In other words, ontology is the philosophy which aims to answer the question ‘what must the world be like for science to be possible?’ (Bhaskar, 1998b). Ontological assumptions “are concerned with what we believe constitutes social reality”. Epistemology is “the theory of science of the method or grounds of knowledge” (Blaikie, 2000: 8). It consists of ideas about what can count as knowledge, what can be known, and which criteria such knowledge must satisfy in order to be called knowledge rather than belief.
After discussing the five research strategies, I will discuss which strategies, a.k.a. ontological and epistemological assumptions, are useful to answer the research questions. As Blaikie (2000: 10) argues: “When a research project includes a variety of research questions, more than one research strategy may be required to answer them. Because research strategies entail different ontological and epistemological assumptions, they may only be combined in sequence.” In this thesis I follow Blaikie in his claim that the choice of a research strategy depends on one’s ontological and epistemological assumptions. I do not want to focus on defending some of these assumptions against other assumptions, but I do think it is important to make them explicit. I also follow Blaikie’s suggestion of being pragmatic and adapting one’s strategy, not only to one’s assumptions, but also to the research question one wants to answer. In addition, combining different ontological and epistemological assumptions (i.e., different research strategies) within one stage of the research is impossible, but working from different research strategies in sequence is possible.

The discussion on research strategies is followed by some notes on explanation and understanding, as well as on what I will call ‘triple triangulation’. Triple triangulation not only involves combining methods, but also using different research strategies within one project and further focusing on different geographical levels within one project. Three others topics will also be discussed briefly in the second part of this chapter: exploratory research, case study research and comparative research. Subsequently, I will move to the different parts of this thesis and, rather than discussing the methods at length, I will discuss which strategies are applied in each part and only introduce the methods briefly. The research methods will be discussed in greater detail in each of the empirical chapters.

2 Inductive and deductive research strategies
The inductive and the deductive strategy share the same ontology, but not the same epistemology. Ontologically, the inductive and deductive strategies are based on assumptions about an ordered universe made up of discrete and observable events that can be represented by universal propositions.6

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6 What is described here refers to the strategies in their purest form. Many academics working with the inductive and deductive strategies, for example, would easily admit that these universal propositions are restricted and therefore not fully universal.
Figure 1  The difference between the four empirical research strategies
(Source: partly adapted from Wuisman, 2003)

<table>
<thead>
<tr>
<th>Example</th>
<th>Inductive</th>
<th>Deductive</th>
<th>Retroductive</th>
<th>Abductive</th>
</tr>
</thead>
<tbody>
<tr>
<td>All humans are mortal</td>
<td>Rule/law (3)</td>
<td>Theory (1)</td>
<td>Theory (2)</td>
<td>Understanding (3)</td>
</tr>
<tr>
<td>Sokrates is a human</td>
<td>Case (2)</td>
<td>Case (2)</td>
<td>Case (3)</td>
<td>Case (2)</td>
</tr>
<tr>
<td>Sokrates is mortal</td>
<td>Empirics (1)</td>
<td>Empirics (3)</td>
<td>Observed (ir)regularity (1)</td>
<td>Everyday knowledge (1)</td>
</tr>
</tbody>
</table>
The four empirical research strategies adapted to the comparison of the cases of Rotterdam and Amsterdam (see chapter 10):
Social reality is viewed as consisting of a complex of causal relations between events – usually represented as a network of relations between concepts. In this ontology, the causes of human behaviour are regarded as being external to the individual, and social phenomena exist independently of both the observer and social actors. It is the regularities or patterns in this reality that social research endeavours to discover and describe, and it is elements of this reality that determine social behaviour (Blaikie, 1993: 119).

The inductive strategy starts with data collection and data analysis, and is followed by the development of universal generalizations which, with further testing, can become law-like propositions to be used to explain social life. The plausibility of any general law is proportional to the number of instances it has been observed (Harré and Secord, 1972: 42). Explanation is achieved by locating a particular pattern within a known and more general pattern or network of relationships, “not by involving something beyond what might be described, but by putting one fact or law in relation to others” (Kaplan, 1964: 329). Blaikie (2000: 102) characterises the inductive strategy as the ‘commonsense view’ in which “meticulous and objective observation and measurement, and the careful and accurate analysis of data, are required to produce scientific discoveries.”

Induction is also the logic of positivism, originally developed by Bacon and later by people like John Stuart Mill and Durkheim. In this strategy, theory consists of generalizations derived by induction from data; therefore, research is focused on theory development. It begins with the collection of data and, hopefully, ends up with abstract descriptions of patterns in the data, that is, with generalizations. It involves “collecting data by operationalizing concepts, and then searching for patterns in this data. Patterns become generalizations, and networks of generalizations become a theory” (Blaikie, 2000: 178). The epistemological assumption behind the inductive strategy is that knowledge is produced through the use of the human senses and by means of experimental or comparative analysis:

The senses produce ‘observations; or data. Concepts, and generalizations about their relationships, are regarded as shorthand summaries of particular observations. Trained humans are assumed to be able to produce ‘objective’ data. By adopting ‘objective’ observation procedures, it is assumed that
reality can be recorded accurately. (...) What you see is what is there." (Blaikie, 2000: 102)

The inductive research strategy has received fierce criticism and many scholars, including Popper (1961), have also challenged the uses of the concepts of ‘objectivity’, ‘facts’ and ‘truth’. Others have argued that positivist application in the social sciences inevitably results in work which is abstracted from the day-to-day social reality. For example, there may be a world of difference between social practice and the responses to a questionnaire about one’s attitudes. Such positivistic models assumes tools are discrete entities (King, 1996; Silverman, 1993; 1998) and do not reveal the deeper layers of reality underlying the surface appearances. In effect, this kind of research is “orthodox, tending to accept and build on what has been gone before” as well as “invariably circular and self-supporting” (Gray, 1975, 229; see also Harvey, 1973: 120-124). In 1959, Mills already attacked the a-theoretical character of much inductive research, which he called ‘abstracted empiricism’. Blumer (1969) noted that academics who try to establish correlations between variables lack a clear understanding of how the people being studied define these variables.

The deductive strategy, which is seen as an important alternative to the inductive strategy even though is shares the same ontology, is known for testing theories by matching them with data, in order to eliminate false theories (Popper’s falsification principle). It begins with an observed regularity which needs to be explained; a tentative theory is then acquired or constructed; hypotheses are deduced and then tested by collecting appropriate data. The explanation is produced by constructing a deductive argument, to which the phenomenon to be explained is the conclusion.

Deduction is the logic of critical rationalism which was developed by Popper as an alternative to positivism: “The premises of the argument will be either well-established abstract propositions, or hypothetical propositions that are to be tested” (Blaikie, 2000: 76). As mentioned above, the deductive strategy shares its ontology with the inductive strategy, but not its epistemology:

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7 Cf. the quasi-scientific Dutch expression “meten is weten” which translates to “to know is to measure”.
In the *inductive* strategy, the activity of observing, and the possibility of establishing the truth of a theory, are accepted uncritically, whereas in the *deductive* strategy, the inherent limitations of observations and the impossibility of knowing whether a theory is true are recognized. In the *inductive* strategy, faith is placed in ‘objective’ procedures to arrive at the truth, while the *deductive* strategy involves the use of rigorous and critical evaluation of any theory that is proposed. The logics of their procedures are fundamentally different, as are their products. The *inductive* strategy produces descriptions of regularities that forms a hierarchy of generality; lower-level ‘conjunctions’ or correlations are explained as being specific cases of higher-level regularities. The *deductive* strategy, on the other hand, involves a search for causal explanation based on deductive arguments, the conclusions of which are rigorously tested. (Blaikie, 1993: 119)

As a result, theory plays a different role in inductive and deductive research strategies. In the inductive strategy theory is the outcome; while in the deductive strategy theory is something the researcher has to work with from the beginning, either borrowing it from other work (by taking it over or by adapting it) or by constructing a new theory. The purpose in the deductive strategy is to arrive at the correct theory and to replace inferior theories by better ones or to improve existing theories. This often refers to incremental improvements within one paradigm. It is only when there is a clear discontinuity that one can speak of paradigm shifts (Kuhn, 1962).

3 **Retroductive and abductive research strategies**

The retroductive and abductive research strategies were developed as alternatives to both the inductive and deductive research strategies. The retroductive strategy begins with an observed regularity, but this is followed by the construction of a hypothetical model of a possible structure or mechanism that could have produced this regularity. By observation and experiment, it aims to establish whether the explanatory structure or mechanism exists. It seeks to explain a pattern by locating the underlying, ‘real’ mechanism or structure which produce it. Retroduction is the logic of transcendental or scientific realism as developed in a structural version by Bhaskar and in a constructivist (or hermeneutic) version by Harré.
Harré’s (1979) version of retroduction shares his ontology with the abductive strategy (see below). Bhaskar (1979) presents an ontology which shares with positivism and critical rationalism the assumption that reality exists independently of social actors and observers. However, Bhaskar’s ontological critiques and his differing epistemological assumptions distinguish him from positivism and critical rationalism, bringing him closer to an interpretivist (yet not a social constructivist) approach. In both versions of the retroductive ontology, the ultimate objects of scientific enquiry exist and act independently of scientists and their activity. In retroductive ontology, social reality is either viewed as a socially constructed world in which social episodes are the products of the cognitive resources social actors bring to them (Harré, 1979) or as social arrangements that are the products of material but unobservable structures of social relations (Bhaskar, 1979).

Bhaskar here distinguishes between three ontological domains: the empirical, the actual and the real. The empirical domain consists of what we experience, directly or indirectly; the actual domain is where events happen, whether we experience them or not; and the real domain consists of mechanisms which can produce events in the world. The positivist view that statements about being can be reduced to or analysed in terms of statements about knowledge is called the ‘epistemic fallacy’, because it assumes that ontological questions can always be transposed into epistemological terms. In other words, the epistemic fallacy collapses the three ontological domains by reducing what is to what we can measure (Bhaskar, 1979: 1998b: 24-33; Danermark et al., 2002). Because the retroductive strategy is based on the idea that reality consists of three domains, it is possible to adopt different ontological assumptions in each domain, particularly the ‘empirical’ and the ‘real’ domains, rejecting the epistemological assumptions of the inductive strategy (Blaikie, 2000: 119-120).

The objects of knowledge in the retroductive strategy are “real structures which endure and operate independently of our knowledge, our experience and the conditions which allow us access to them” (Bhaskar, 1997: 25). Bhaskar’s version of retroduction places itself between induction and deduction on the one hand and abduction on the other: “science is not an epiphenomenon of nature, nor is nature a product of man” (Bhaskar, 1998b: 19). In the retroductive view, “both knowledge and the world are structured, both are differentiated and changing; the latter exists independently of the former (though not our knowledge of this fact).”
An important difference between the epistemology of retrodiction and that of induction (in its purest form) is that in the retroductive view, social laws need not be universal; they need only represent recognized tendencies. This view contrasts with the positivist view where causal laws are regarded as universal connections between events (Outhwaite, 1987: 45-46; Blaikie, 1993: 109). Many sociologists (e.g., John Urry, William Outhwaite), geographers (e.g., Andrew Sayer, Richard Walker) and economists (e.g., Tony Lawson, Steve Fleetwood) working in the structuralist version of the retroductive strategy consider the work of Marx to be retroductive *avant-la-lettre*, and they see the Marxian class structure as a typical example of an underlying social structure in the real domain. Pawson and Tilley (1997) have developed retroductive reasoning further to make it a more suitable strategy in the social sciences. They draw on realist work of Bhaskar and Harré, but also on Giddens’ (1979; 1984) notion of the duality of agency and structure. Explanation comes from an understanding of a mechanism acting in social contexts and consists of propositions about how the interplay between structure and agency has constituted the regularity. Within realist investigation there is also investigation of how the workings of such mechanisms are contingent and conditional, and thus only fired in particular local, historical or institutional contexts. (Pawson and Tilley, 1997: 71)

Social regularities are embedded in a wider range of social processes, within different layers of social reality. Furthermore, individual choices are constrained or enabled by characteristics of the social context in which the individual is located. In this way, both agency and structure enter the explanation.

Before introducing the abductive research strategy, it is important to take a step aside and briefly consider the difference between explanation and understanding. Explanation (*erklären*) and understanding (*verstehen*) are often confused. This is not so strange. One can argue that explanations produce understanding, but also that explanation is only possible after one understands something. Giddens (1979: 258), among others, sees explanation and understanding as different ways of answering questions in social science. An explanation, or causal explanation, identifies causes of
events or regularities and the factors or mechanisms which produced them. Understanding (i.e. reason or grounded explanation) is provided by the reasons or accounts social actors give for their actions. It was Weber (1898) who argued that to understand social reality one needs to imagine oneself into the experiences of men and women as they act out their own worlds. Understanding is also associated with the meaning of an event or activity in a particular social context. This meaning is either given by the social actors themselves or derived by researchers from the social actors’ own accounts. Giddens (1976: 55) argues that explanations are produced by researchers who look at a phenomenon from the ‘outside’, while understanding is based on an ‘inside’ view where researchers grasp the subjective consciousness (i.e. interpretations) of social actors involved in the conduct. Contrary to Winch (1958), who argues that the causal explanation is appropriate for natural science while the reason explanation is appropriate for human/social science, I follow Habermas (1972), Giddens (1976) and Blaikie (2000) who argue that both explanation and understanding are appropriate objectives in the social sciences, but that they produce rather different kinds of intelligibility.

The abductive strategy begins by exploring, through everyday language, the knowledge that social actors use in the production, reproduction and interpretation of the phenomenon under investigation. This is followed by a redescription of this everyday account into a social scientific account and possibly into a grounded explanation. It develops a theory from everyday lay concepts, meanings and motives testing this theory iteratively. In the abductive strategy, research becomes a dialogue between data and theory mediated by the researcher. Indeed, “theory is generated as an intimate part of the research process; it is not invented at the beginning [deduction] nor is it just produced at the end [induction]” (Blaikie, 2000: 181). One way to arrive at theories is the construction of ideal types. Where lay accounts are considered first-order descriptions, these ideal types are considered second-order descriptions. Theoretical propositions can be abstracted (a technique also promoted in the retroductive strategy) from these ideal types. Following Schütz (1962), ideal types can be regarded as models of social actors, social situations or social processes, and take the form
of models of mechanisms closely resembling those from a retroductive strategy.\(^8\)

While the other research strategies aim to derive an explanation, abduction is the only research strategy which specifically addresses the objective of understanding. Unlike the other three research strategies, the abductive strategy is unique to social science and humanities. Hence, it is considered anti-naturalist, that is, against the methods of the natural sciences. Abduction is the logic of inquiry in which the researcher, at least initially, takes on the role of learner and seeks to be educated by the people being studied. Understanding is concerned with the reasons and motives social actors give for their actions. Abductivists argue that statistical patterns or correlations are not understandable on their own; it is necessary to find out what meanings (motives) people give to the actions which lead to such patterns. The social world is the world interpreted and experiences by its members from the ‘inside’ while the other strategies are seen to apply ‘outsider’ views (Blaikie, 2000). Within social science and humanities, the abductive strategy is much less popular in disciplines such as economics and demography where the dominant schools are proponents of deductive reasoning, whereas it is more popular in anthropology and to a limited extent also in sociology.

Ontologically, the abductive strategy can be regarded as relativist (instead of absolutist). The concept of a single social reality is rejected in favour of the idea that there may be multiple and changing social realities. This implies that there is no independent or neutral way of establishing the ‘truth’; each social reality may be ‘real’ to its inhabitants. Epistemologically, the abductive strategy regards social scientific knowledge “as being derived from everyday concepts and meanings. (...) The social researcher enters the everyday world in order to grasp these socially constructed meanings” (Blaikie, 2000: 116).

The abductive strategy can be linked to hermeneutics and social phenomenology and is based on various branches of interpretivism – particularly the work of Schütz (1962) and Giddens (1976; 1979; 1984; 1987), but it is also influenced by Weber (1968) and neo-

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\(^{8}\) One can argue that Weber’s ideal types, which are seen as a major foundation of the interpretivism, often more resemble retroductive than abductive thinking. Weber’s ‘protestant ethic’, for example, is derived at through an historical analysis that leaves little room for abductive lay accounts (see Blaikie, 1994; cited in Blaikie, 2000).
Weberians, such as Winch (1958) and Rex (1961; 1974). In the interpretivists view, social actors have to interpret their activities together, and these meanings (embedded in language) constitute social reality: “Social reality is regarded as the product of processed by which social actors together negotiate the meanings for actions and situations; it is a complex of socially constructed mutual knowledge – meanings, cultural symbols and social institutions” (Blaikie, 2000: 115).

Here, the abductive strategy builds upon Giddens’ work, in particular his structuration theory, and therefore comes close to the retroductive strategy. Danermark et al. (2002: 147) even argue that “the border between abduction and retroduction is not very distinct as regards concrete research.” To Bhaskar (1998a: xvi), “society is both the condition and the outcome of human agency and human agency both reproduces and transforms society.” However, contrary to Giddens, Bhaskar claims that the social world is always pre-structured: “agents are always acting in a world of structural constraints and possibilities that they did not produce. Social structure, then, is the both the ever-present condition and the continually reproduced outcome of human agency” (Bhaskar, 1998a: xvii). As Bhaskar argues, “The properties possessed by social forms may be very different from those possessed by the individuals upon whose activity they depend.” To Bhaskar this effect of emergent properties implies that some ‘point of contact’ is required between the two and that their linkage depends upon a ‘mediating system’ consisting of “the positions (places, functions, rules, tasks, duties, rights, etc.) occupied (filled assumed, enacted, etc.) by individuals, and of the practices (activities, etc.) in which, in virtue of their occupancy of these positions (and vice versa), they engage” (Bhaskar, 1998c: 221). The distinction between positions and practices is crucial. Porpora (1998: 351) insists that “relationships do have independent power causal properties and, moreover, that such relationships, once established, are analytically prior to the subsequent rule-following behaviour of actors.” Societies are irreducible to people; thus, research which attempts to explain or understand society through aggregates of individuals is inherently misguided. In addition, “positions must predate the practices they engender” (Archer, 1998: 201). Bhaskar’s theory, as a result of its emphasis on material continuity, can sustain a genuine concept of change, and hence, of history.
4 The anti-empirical strategy and the cultural turn in human geography

Although the retroductive view diverges from the Weber-Schütz-Giddens school presented above as the abductive strategy, they are far from opposites. It must be noted, however, that the Weber-Schütz-Giddens school presents only one version of interpretivism (a school which focuses on understanding how people in life give meaning to the social world around them). Another version builds on what Bhaskar (1998b: 19) calls a transcendental idealist ontology and is often associated with postmodernism and hermeneutics (although its scope is wider). Kant and others who represent this school of thought argue that objects of scientific knowledge are artificial constructs, which are not independent of human activity. Contrary to the Weber-Schütz-Giddens school within interpretivism, the transcendental idealist school is by definition sceptical of empirical work because its followers see all knowledge as socially constructed (some even deny the possibilities of (social) science or reject the notion of reason altogether). The problem is that academics working in this school slip away too easily from the legitimate observation of reality as socially construed into the much more contentious assertion that it is socially constituted. Somerville and Bengtsson (2002: 121) call this the “subjectivist fallacy”.

In human geography, non-inductive and non-deductive approaches are often associated with the cultural turn. The cultural turn is arguably the most influential of the different turns in geography over the last twenty years or so, certainly in Anglophone human geography. Before criticizing (extreme versions of) the cultural turn, I will briefly explain the essence of the cultural turn in human geography. According to Mitchell (1995) the cultural turn is

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9 Bhaskar contrasts transcendental idealist ontology to classical empiricist ontology (which is associated with positivism and naturalism, and is more or less equal to the ontological standpoint of what we have called the inductive and deductive strategies) and transcendental realism (which Bhaskar favours and is equal to what we have called the structuralist version of the retroductive strategy). Note that Bhaskar includes Harré’s constructivist version of the retroductive strategy in transcendental realism, which according to Blaikie shares its ontology with the Weber-Schütz-Giddens school within interpretivism.

10 See also Fitzpatrick (2002). For a more elaborate critique of the application of postmodernist and social constructivist approaches, see Sayer (2000).
about the patterns and markers of differentiation between people, the processes through which these are made, and the ways in which these processes, patterns and markers are represented and ordered. “The cultural turn variously blends postmodernist philosophy, cultural theories of society, and poststructuralist philosophy” (Storper, 2001: 161); it signifies a heightened concern with language, discourse, meaning, identity, lifestyle, representations and situated knowledge\(^\text{11}\) (e.g. Barnes, 2001; Valentine, 2001); as well as, “a broadening of the discipline towards fields which traditionally belonged to philosophy” (Claval, 2004: 321). Culture is seen as inseparable from economics, politics, society and the environment (Valentine, 2001: 167); and knowledge is relativistic because it is culturally determined (Storper, 2001: 161). Although the cultural turn has many different faces (as Barnett, among others, acknowledges), the common thread is:

a commitment to epistemologies, often loosely labelled “poststructural”, that emphasises the contingency of knowledge claims and recognise the close relationship among language, power, and knowledge. Both epistemologically and in the construction of new empirical research objects, the cultural turn is probably the best characterised by a heightened reflexivity toward the role of language, meaning, and representations in the constitution of “reality” and knowledge of reality. (Barnett, 1998: 380)

The cultural turn and other associated developments in human geography embody a move from epistemological to hermeneutic theorizing (Barnes, 2001). In epistemological theorizing, “the central task of theorizing is to develop abstract vocabularies that mirror – albeit approximately – an external and independent reality” (546), while hermeneutic theorizing “has an openness both to a wide range of theoretical sources and to the very definition of theory” (547). The cultural turn and hermeneutic theorizing have led to and are distinguished by: a less formalized kind of theorizing; the awareness that the discipline is as much about writing as it is about the application of specific techniques and theories; its emphasis on the diversity of sources available for theorizing; the idea that theoretical truths are never absolute and final, but contingent and unfinished;

\(^{11}\) The question is if these vogue words present any new ideas or only ‘updated versions’ of the somewhat older interest in expression, perception, context and individual.
and, finally, the notion of anti-foundationalism inferring that theory need neither mirror the world nor require epistemological anchoring (Barnes, 2001: 557-559). Barnes and others often build on the ideas of Richard Rorty, who is associated with pragmatism, but also with the linguistic turn, his 1967 edited volume was one of the foundations of the cultural turn. Rorty (1979) also argues against epistemology as this to him presents a mistaken view of knowledge. Consequently, he argues that philosophy and humanities should not follow natural science in its empirical approach. As some work within human geography (just like some work within sociology and other disciplines) demonstrates, Rorty’s argument is also adopted by some social scientists.

The cultural turn has been a very healthy experience for the discipline of geography as it has enriched and widened the theoretical debate and contributed to the development of new and exciting ideas (e.g. Amin and Thrift, 2000). However, in some forms it has transformed the study of cultural difference in the “doctrine of culturalism.” (Storper, 2001: 167). Furthermore, within some sub-fields such as economic geography, it has also led to:

an excess of theory, too little empirical evidence, and empirical evidence too selectively drawn and narrowly analysed (…) economic geographers have been so busy deconstructing and constructing discourses that they have forgotten about building an empirical and analytical body around this theoretical corpus. (Rodríguez-Pose, 2001: 180)

Indeed, within economic geography proper, empirical studies are on the retreat: “When empirical evidence is used, it is often limited to a series of cases studies that are repeated almost ad nauseam and based on a limited amount of often anecdotal information” (Rodríguez-Pose, 2001: 180). In other words, some (but certainly not all) versions of post-cultural turn geography constitute an anti-empirical approach.

The effect of the cultural turn on geography is not only visible in ‘cultural geography’ or ‘new cultural geography’ but also in other sub-disciplines within geography. The cultural turn led to a preoccupation with immaterial cultural processes and differentiation, a dematerialization of human geography, and the demise of empirical work in favour of social theorizing (Hamnett, 2003; Philo, 2000; Smith, 2000; Thrift, 2000; Valentine, 2001). I agree with Smith (2000)
who has argued for a return to empirical work (especially fieldwork), refuting narrow forms of unthinking empiricism. The lessons of the cultural turn are embraced without ‘getting lost’ in the immaterial world providing a renewed focus on issues of material/structural inequalities.

With the ‘institutionalisation’ of the cultural turn in human geography, some in the discipline became more and more preoccupied with theorizing, which by itself “is a seemingly endless, expanding, and self-referential field” (Barnett, 1998: 387). These anti-empiricists see ‘testing’ as undoubtedly old-fashioned, yet it is hard to judge the ‘truth’ of their claims. ‘Hiding’ behind theory and behind the claim of ‘the false premises of empiricism and positivism’ is no better than hiding behind empiricism and ‘data’. However, many ‘non-empiricists’ (by practice or by preaching) have given up empirical work altogether and seem insusceptible to confronting their theories with empirics. This is why I argue for an empirical yet non-empiricist, non-positivist approach. The retroductive and abductive approaches are more useful because they take the criticism to the inductive and deductive strategies seriously; but, unlike the anti-empiricists, they maintain an idea of ‘empirics’ as belonging next to ‘theory’.

5 On explanation, understanding and triple triangulation

As suggested in section 3, explanation and understanding are different from each other and are arrived at through different research strategies. However, both explanation and understanding demand ‘why’ or ‘how’ research questions. Blaikie (2000: 121) claims that it is generally recognized that the abductive strategy is more suitable for answering ‘why’ and ‘how’ questions than the inductive strategy. What these two strategies share is that they are both suitable for answering ‘what’ questions (exploration and description); however, they do this in different ways. Which strategy is favoured depends largely on ontological assumptions although these assumptions are generally implicit. Because of the limitations of the inductive strategy, scholars working from this tradition have tried to

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12 See Barnett’s section on The Diffusion of “Culture” (Barnett, 1998: 382-385).
13 Kuhn (1962), among others, has argued that there are no completely neutral criteria for making choices between different empirical research strategies.
overcome these limitations by adopting Durkheim’s suggestions for operationalisation, where concepts are defined in advance of research: “Operationalism traditionally requires two levels of definition: a formal definition that states what the concepts means; and an operational definition that states how the concept will be measured” (Blaikie, 2000: 121). Defining a concept and locating it in a network of concepts implies taking in some deductive epistemological assumptions within an inductive epistemological framework. It also means admitting that “all description involves some point of view, and pure description is impossible” (Blaikie, 2000: 122). Academics working from a deductive or retroductive strategy (and even some working from an abductive strategy) have accepted that answers to ‘what’ question (derived in an operationalist inductive way) may be used as input for asking and answering ‘why’ and ‘how’ questions, in particular when using “these descriptions as a starting-point for research”. Nonetheless, they remain suspicious of ontological and/or epistemological assumptions on which the answers to ‘what’ questions are based.

My own ontological assumptions are those of the retroductive research strategy, while my own epistemological assumptions are at the border area between retroduction and abduction. Within the retroductive strategy, I do not feel the need to defend either the structuralist or the constructivist version; in the framework provided by Pawson and Tilley (1997) and by Danermark and colleagues (2002) they can easily be blended. Another advantage of the Pawson-Tilley/Danermark framework is that they highlight the overlap between the retroductive strategy and certain versions of the abductive strategy. Again, this is no wonder. The inductive and the deductive strategies share their ontological assumptions, and similarly so do the retroductive and abductive strategies. My epistemological stance follows from my retroductive ontological stance. Following Bhaskar (1979; 1998b) I believe different epistemologies may be used in different ontological domains and thus, following Blaikie (2000), also in different stages of the research project. Since an important part of my thesis is concerned with exploration and because the retroductive strategy is not the most useful strategy for this objective, I have applied abductive – and to a lesser extent retroductive and deductive – research strategies in different parts of my thesis. I claim that precisely the combination of different research strategies in different parts of this thesis enriches its value. The application of different strategies for answering
different kinds of questions also produces a better understanding and fuller explanation of redlining processes.

I propose something that I have dubbed ‘triple triangulation’. This does not only involve (1) triangulation ‘as we know it’, i.e. combining methods, but also (2) using different research strategies within one project, and (3) focusing on different geographical levels within one project. Triangulation ‘as we know it’ seeks to arrive at a better explanation by aiming/pointing at one object of research with different arrows.\(^\text{14}\) Triple triangulation is essentially doing the same, but it extends the points from which one can point arrows at the research object, in three parts: (1) Triangulation ‘as we know it’ is aiming arrows from differing position in a circle around the object of study; however, the distance to the object stays the same. (2) The different research strategies imply that one takes a higher stand or a lower stand. Different methods often imply a different research strategy, but this is not necessarily always the case. But because combining methods within one research strategy is different from using similar methods in different strategies (and also different from using different methods in different strategies), it is important to make an analytical distinction between, on the one hand, triangulation of methods within one strategy, and, on the other hand, triangulation of research strategies. It then also turns out that triangulation ‘as we know it’ actually often confuses (1) ‘combining methods’ with (2) ‘applying different research strategies in sequence’.

(3) The third form of triple triangulation consists of examining a research object from different distances. This may be possible with the same methods and within the same research strategy. Like triangulation ‘as we know it’, analysing a research object at different levels is all but a novelty. A large part of social science, in particular in human geography, applies such an approach. As Doreen Massey (1984; 1993) has argued in a number of publications, place or the local is no more real than space or the global. Both are mutually constituted in the creation of human experience and identity. Bourdieu’s concept of ‘habitus’, which sees ‘practice’ as conditioned and produced through time-space (Bourdieu, 1990), resonates with Massey’s ideas. Bourdieu’s concepts open up possibilities of seeing across a space of boundaries to imagine cities as the

\(^{14}\) See, however, Blaikie’s critique on the use of the term triangulation and on the use of triangulation in combining methods (Blaikie, 1991; 2000: 262-270).
interpenetration of global and local processes and to understand inter-city relations as both process and material space (Massey, 1993; Massey et al., 1999). In order to come to a fuller understanding and a better explanation, it is necessary to combine broad descriptive and theoretical generalizations/abstractions with detailed studies of the particular, whether these be local or sectoral case studies (Massey, 1984; 1993; Sayer, 1984; 1985).

In the remainder of this chapter, I shall briefly discuss the research questions asked in each part of this thesis, and the strategies and methods applied to answer them. Since each of the following chapters discusses the research approach and methods used in that chapter, I will limit myself in this chapter to discussing the research strategy followed in each chapter and how this strategy relates to the research questions. As I have already made some remarks on explanation and understanding, I will start with some notes on exploration. Given the fact that a number of the different parts of this study can be seen as a sequence of case studies, and because comparison is central to several chapters, there will also be some notes on case study research and on comparative research. Subsequently, I will present an overview of the different empirical chapters of this thesis. It is important to note that in practice exploration is not as clearly distinguishable from understanding, as it is in theory. After all, exploration, in some way, is the first phase of explanation and understanding; but it is naturally also the first phase of description. The empirical chapters of this thesis are organised according to the third step of triple triangulation, the geographical level of analysis. For each chapter I explain the aim and describe the applied strategy and method.

6 Exploratory research, contrasting cases and comparative research

We need to know what is going one before we can understand and explain it; and, we need to know why someone or something behaves in a certain way before we can be confident about introducing an intervention to change it (Blaikie, 2000: 61). While it is highly desirable to produce a well-formulated set of research questions as a part of an integrated research design, this is not always possible without conducting preliminary research. In exploratory research one of the aims is to provide information to assist in the development of research questions. Exploratory
research is necessary when very little is known about the topic – in this case redlining has never been investigated before in the Netherlands and Italy. The exploration comes to an initial, rough description and understanding of a social phenomenon. Blumer (1969), the advocate of symbolic interactionism, argued that exploratory or explorative research is necessary to counter the common tendency to move straight into research without an adequate understanding of the sector of social life being investigated:

Exploration is by definition a flexible procedure in which the scholar shifts from one to another line of inquiry, adopts new points of observation as his study progresses, moves in new directions previously unthought of, and changes his recognition of what are relevant data as he acquires more information and better understanding. In these respects, exploratory study stands in contrast to the prescribed and circumscribed procedure by current scientific protocol. The flexibility of exploratory procedure does not mean that there is no direction to the inquiry; it means that the focus is originally broad but becomes progressively sharpened as the inquiry proceeds. (Blumer, 1969: 40)

Different research approaches can be used in exploratory research. Instead of discussing the various options available to the researcher, I hope the reader will allow me to move directly to one of the most often used research approaches in exploratory research: case study research.

A case study can be conceptualised in different ways. Sometimes it is seen as a particular kind of research design alongside surveys, experiments and ethnography, or even as a particular qualitative research method. After the Chicago School had made one type of case study popular among social scientists, case studies often were contrasted to social surveys. When quantitative and statistical methods became more popular, researchers who preferred qualitative methods proposed the case study as an alternative. They became identified less with the Chicago School and more with anthropological research and techniques such as: participant observation, in-depth interviews, the use of informants and the study of personal documents and records. Case studies were confused with techniques of data collection and analysis, and it was not recognized that case studies may also adopt quantitative
methods or that a survey could be part of a case study. The case study, as Goode and Hatt (1952: 331) argue, actually is

a way of organizing social data so as to preserve the unitary character of the social object being studied. (...) it is an approach which views any social unit as a whole. Almost always, this means of approach includes the development of that unit.

And they continue to argue that the case study attempts “to keep together, as a unit, those characteristics which are relevant to the scientific problem being investigated” (Goode and Hatt, 1952: 331, 333). Mitchell (1983), in addition, argues that case studies can be used for extrapolation as long as one provides a thorough description of the context. Subsequently, Yin in his seminal work *Case Study Research* (1989: 23), defines a case study as an empirical inquiry which “investigates a contemporary phenomenon within its real-life context; when boundaries between phenomenon and context are not clearly evident; and multiple sources of evidence are used.” Furthermore, Yin stresses that a case study is not a method, nor is it limited to qualitative methods. The selection of a good case is of utmost importance, but within this case it is important not to limit oneself to researcher-created variables (Hammersley, 1992) in order to increase the potential for explanation, understanding, and in particular exploration. This does not infer selecting representative cases. Both Mitchell (1983) and Yin (1989) argue that the concern about the representativeness of case studies is based on a mistaken view of the logic appropriate for case studies:

The critics of the case study were operating from the logic of statistical inference appropriate to sample surveys. This is a very narrow view of generalizing, in which the selection of a number of individuals or units is used to represent the population from which they are drawn. This allows the use of statistical procedures to generalize the sample findings to the population. On the other hand, a different kind of logic is required to test a theory. This has been called ‘logical inference’ (Mitchell), ‘analytical generalisation’ (Yin) or replication logic. (Blaikie, 2000: 223)

Part of this thesis makes use of case studies. Following Mitchell (1983), Yin (1989), Blaikie (2000) and others, the cases were not
selected as representative, but as extreme, deviant and in some ways least likely. These authors argue that if a general theoretical or analytical principle can be shown to be applicable in an extreme case, its explanatory power and the possibilities for analytical generalization or abstraction may be greater. Rather than choosing ‘typical’ or ‘average’ cases, I have chosen contrasting cases in different parts of this thesis: first Amsterdam, followed by Arnhem and The Hague, are placed opposite to Rotterdam, and later, Italy is placed opposite to the Netherlands.¹⁵

Contrasting case studies can be considered a specific form of comparative research. However, it is important to stress that I do not present a comparative analysis. A comparative analysis is a form of comparative research which goes beyond identifying similarities and differences; it attempts to understand two or more cases in terms of one particular model. Often the comparative analysis has a real interest in the cases as such, while many other forms of comparative research, like this thesis, use comparative research to clarify one’s analytical or theoretical interest in a subject (Pickvance, 1986) and to minimize the possibility of geographical bias. This can be accomplished with a ‘small-numbers comparative design’ (Portes et al., 1997) where extreme cases are compared and contrasted to ensure that research findings “cannot easily be dismissed as idiosyncratic to a particular city or country” (Portes et al., 1997: 3). In comparison with the single case-study approach

the small-N approach is both more representative (has greater external validity) and is better able to rule out spurious explanations of effects (greater internal validity). However, it sacrifices the richness of historical detail and cultural nuances found in many case ethnographies. Relative to large-N quantitative analysis, the small-N design provides a better understanding of the specific characteristics of each instance and the subtler differences between them. These advantages (again making for greater internal validity) are obtained at the cost of lower generalizability of results. (Portes et al., 1997: 4)

Ragin (1989), following Mill (1843), characterizes such an approach as an ‘indirect method of difference’ in ‘case-oriented comparative

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¹⁵ In chapters 10-11 and chapters 5 and 12 respectively, I show why and how these cases are contrasting.
methods’ (see Ragin, 1989) while Skocpol and Somers (1980) speak of the ‘contrast of contexts’. The idea is that if a mechanism holds across contrasting settings (in this case within Europe, or within the Netherlands) it has greater scope and theoretical importance than those limited to similar units of analysis (Mill, 1843; Portes et al., 1997). This ‘contrastive comparison’ facilitates my multi-scalar approach by comparing redlining processes at different scales; my cases studies therefore are what is known as ‘multiple embedded case studies’ (Yin, 1989). As Cox and Mair (1989) have pointed out, context is necessarily multi-scalar. Any explanation of redlining should necessarily involve processes at different spatial levels and not just at the level at which the phenomenon manifests itself. Indeed, analysis in social science often proceeds at one level while the explanation is couched at another level (Ragin, 1989: 8). A contrasting case study stresses the importance of contextual factors; yet, it also problematizes these contextual factors. Thus a contrasting case study is a good tool to use for explaining and understanding redlining.

Scientific explanation is inherently contrastive. In accounting for a social phenomenon, the aim is not necessarily to provide its complete causal history. Rather, we can only aim to identify a (set of) underlying mechanism(s). Typically, this will involve identifying at least one mechanism which operates in one (set of) situation(s) only (Lawson, 1998: 154). In order to be able to make analytical generalizations of any value it is necessary to know which mechanisms come into play. Because in case studies, one has little control over events, we need to be able to make a geographical comparison. This research makes use of contrasting case studies to explore the relevant ‘factors’ involved and to explain the interaction between these factors at different spatial scales. Contrasting case studies are contrasting or uneven in two respects. First, this method by intention selects cases which are different (contrasting) in order to compare similar processes under different conditions. Second, this method does not ask the contrasting (or secondary) case to be as detailed as the primary case. This method can be compared to that of control groups in quantitative research design. The use of the contrasting case is only visible when compared to the primary case. Because of the unevenness of the cases, contrasting case studies are not very suitable for statistical generalization (just like single case studies), but they are very suitable for exploratory research as well as for research that focuses on institutions and processes located at
various spatial scales. Through the use of contrasting cases, I aim to come to an understanding of the importance of the different contexts, following Lawson’s suggestion to make use of ‘control groups’ to help identify the effects of specific mechanisms of interest. He argues that:

Any patterning, any ‘standing-out’, of phenomena which turns upon differences of some kind, whether primarily social, historical or geographical, can serve to alert us to the existence or way of acting of some item previously unknown, unrecognised or perhaps known only implicitly, in some taken for granted way. (...) And to this end the obvious strategy is to seek out two (or more) situations where the outcomes might have been expected to be related in some manner other than turns out to be the case, and to attempt to determine the reason(s). (...) The aim then is to identify a causal factor (including perhaps an absence) which contributed to the state of affairs pertaining, but which would not have facilitated the imagined or expected, or did not condition an actual, alternative. (Lawson, 1998: 153-155)

The goal is to posit a mechanism (typically at a different level to the phenomenon being explained) which, if it existed and acted in the postulated manner, could account for the phenomenon singled out for explanation (Lawson, 1998: 154-156; see also Keat and Urry, 1975). In following Lawson’s ‘guide’, I will also pay attention to the fact that the mechanisms or processes identified are themselves likely to be somewhat unstable over time and space. Thus, I will arrive at a more vertical explanation in terms of generative relationships regarding the issue of space (Archer, 1998: 196).

7 Overview of the chapters and research strategies adopted

The empirical part of this study is made up of different building blocks. Chapters 6-9 cover the details of the first of these building blocks, the case of Rotterdam. Chapter 6 will examine the formation of redlining in more detail and focus on the actors involved in the formation of redlining in Rotterdam. This is a highly exploratory research piece and to my knowledge unique and a first of its kind in Europe. The research strategy followed is that of abduction, as this method fits such exploratory research best. The research question was formulated as: is there any evidence of redlining in Rotterdam;
and if so, how did it come about; which actors were involved in the formation of redlining; and what is the rationale behind their involvement?

Chapter 7 builds on the exploratory research from chapter 6 by presenting a statistical analysis of redlining data. With the use of a deductive research strategy this chapter will answer the question: which types of neighbourhoods were redlined? This chapter will not present evidence of redlining nor will it explain the causes of redlining, illustrating instead the social-economic particularities and housing market characteristics of redlined neighbourhoods. It will demonstrate the relevance of some of the assumptions found in the existing literature on redlining and disaffirm the relevance of others.

Chapter 8, then, will present an historical overview of redlining in Rotterdam up until early 2006. This chapter builds on the research performed for chapters 6 and 11 as well as some additional research. This chapter will firstly describe redlining patterns from the early 1980s until 2006, and secondly explain the dynamics of redlining. Like in chapters 6 and 11, the research strategy is abductive as it starts from the views of actors involved and builds up from there to arrive at an explanation of the changes in redlining practices.

Chapter 9 focuses on a different level, that of the neighbourhood. The occurrence of redlining on a local level is related to the process of neighbourhood decline, as well as to factors like ethnicity, income, housing speculation, drug abuse and drug dealing. How do these (local) factors interact? How does redlining contribute to neighbourhood decline, and how does neighbourhood decline contribute to redlining? Rather than viewing neighbourhood decline as a natural process resulting from the in-flow of low-income households in an area, this chapter uses a socio-spatial approach to look at the structuration of neighbourhood decline by emphasizing the power of agents/actors, linking the structure of the real estate industry to the development of the neighbourhood. Even though the questions asked in this chapter have some reminiscence of the questions asked in chapter 7, they are fundamentally different. Chapter 7 uses a deductive strategy to depict the types of neighbourhoods redlined; on the other hand, chapter 9 uses an abductive strategy to describe and explain what happens in one of the redlined neighbourhoods, the Tarwewijk area in Rotterdam. Consequently, not only the research strategy, but also the research aim, the research methods and the level of analysis are different in
both chapters. While chapter 7 uses statistical methods, chapter 9 uses a case study approach containing: interviews with 59 people, observations made in the neighbourhood, and analysis of statistical data and written sources.

This thesis makes use of a double contrasting case. First, different cities in the Netherlands will be compared to each other. The cities discussed are different in several respects, but are also located within the same country, giving us the ability to compare ‘intra-national’ (or ‘inter-city’) differences, i.e. differences at the urban scale (chapters 10-11). Is there any evidence of redlining in the Netherlands? How is redlining structured by differences in time and space?

Chapter 10 aims to get a better understanding of the nature and the institutional context of redlining in the Netherlands. On a more empirical level, it will answer the question: why were several neighbourhoods within the city of Rotterdam redlined, while there were no redlined neighbourhoods within the city of Amsterdam? Several factors are instrumental in explaining differences in redlining practices, such as: socio-historical factors, the National Mortgage Guarantee, and the differences and changes in housing and mortgage markets. A small part of this chapter follows an abductive research strategy to answer the question: does redlining take place within the cities of Rotterdam and Amsterdam? After this question has been answered, the chapter moves on to explain these differences at a higher level of analysis, using a retroductive research strategy as it begins with an observed irregularity followed by the construction of a model consisting of structures and contingencies that could have produced this irregularity.

While chapters 6 and 10 are based on research into redlining practices between the late 1990s and 2001, chapter 11 is based on research in 2005 and 2006. Chapter 11 presents evidence from three Dutch cities: Arnhem, The Hague, and again, Rotterdam. It does not only focus on geographically-based, or place-based, exclusion but also on ethnically-based, or race-based, exclusion from mortgage loans. In this chapter I will clarify to what extent place-based and race-based exclusion take place in the Dutch mortgage market, and relate this to the debate on the importance of the neighborhood in exclusion processes. Although the prime aim is to describe exclusionary patterns, this chapter will also try to explain these patterns. This research is also exploratory in nature, but it had a precursor in the work done for chapters 6-10. Nonetheless, since
the focus was extended from assessing only place-based to assessing place-based and race-based exclusion from mortgage loans, and since the cases of Arnhem and The Hague were added to the case of Rotterdam, it is fair to say that this research can still best be described as exploratory. As in chapters 6 and 9 this research follows an abductive research strategy. It begins by exploring through everyday language the knowledge used by social actors in the production, reproduction and interpretation of redlining, followed by a redescription of this everyday account into a social scientific account, and a grounded explanation.

In view of the argument that redlining practices are not only dependent on differences between neighbourhoods, but also on differences between housing markets and mortgage markets, and in view of the fact that housing and mortgage markets are differently structured and regulated in different countries, chapter 12 will presents a non-Dutch case study in order to come of a fuller understanding of place-based exclusionary practices in the mortgage market. It is acknowledged that redlining is contingent on its spatial and institutional (including the market structure and regulation) context. As mentioned before, and will be substantiated in chapter 5, the case of Italy is chosen exactly because Italy and the Netherlands present contrasting cases on a national scale. Italy and the Netherlands, within the European context, represent two extreme cases in regard to their mortgage markets. The Italian mortgage market is significantly smaller than the Dutch mortgage market, despite the much higher degree of homeownership in Italy. In addition, within Western Europe, loan-to-value and loan-to-income ratios are the highest in the Netherlands and the lowest in Italy. Within Italy, Milan is a good place to study because, as will be argued in chapter 12, the rapid developments in the Italian mortgage market come down first in Milan as the country’s economic capital and the most dynamic metropolitan area. This chapter will focus on the uneven geographical conditions in the mortgage market of the Milan region, i.e. geographically contingent exclusion from, or less favourable conditions for, mortgage loans. The research approach followed in the Milan case is similar to the approach followed in chapter 6 for Rotterdam. It is exploratory research which follows an abductive research strategy, supported by information and analysis of: 25 interviews, newspaper articles, research reports, bank documents, real estate guides and advertisements.
The comparison between the Italian and Dutch cases will be handled in the concluding chapter (chapter 13). That chapter will also summarize the main argument of this thesis and draw the most important conclusions; it will connect the empirical cases to the existing literature on redlining, credit scoring, financial exclusion, social exclusion and the structure of mortgage markets. It will integrate the multi-scalar approach followed in this thesis, in view of the argument that any explanation of redlining should necessary involve processes at different spatial levels and not just at the level at which the phenomenon manifests itself. Such an approach will also allow me to abstract from the cases of this thesis and explain why redlining and exclusion manifest themselves differently across space.
References


Chapter 3
Social and financial exclusion

1 Introduction
Redlining is a form of financial exclusion, and financial exclusion is a form of social exclusion – this point was made in the first chapter of this thesis. Although a conceptualisation of redlining as a form of exclusion may seem plausible or even logical, empirical research has usually not conceptualised redlining as a form of exclusion, viewing it instead as a form of racial discrimination or as a form of rational action. I will not argue that redlining cannot be a form of racial discrimination or of rational action; it often is. Instead I will locate the concept of redlining, as discussed in chapter 1, in the literatures on social exclusion and financial exclusion. Indeed, literatures plural because social and financial exclusion have almost exclusively been discussed as two separate entities. Most of the social exclusion literature pays no, or at best scarce, attention to issues of financial exclusion. At the same time, the literature of financial exclusion includes many hints on social exclusion, on deprivation and on poverty, but in most cases only at a passing glance. My aim in this chapter is to highlight the linkages between the two literatures and to refer to financial exclusion as a form of social exclusion, framing redlining as one particular form of this financial exclusion, and consequently also of social exclusion. The point is to arrive at a more comprehensive understanding of redlining. To understand redlining, we need not only understand what is happening at the national, neighbourhood and city levels (chapters 6-12); but also we need to explore the functioning of mortgage markets (chapters 4-5), and the dynamics of exclusion processes, as they often – but not necessarily – reinforce one another.

This chapter will discuss the literatures on social exclusion and on financial exclusion, to examine how they work together on different scales, and to take the housing market as a relevant example of social and financial exclusion processes. Compared to the wide-ranging and voluminous literature on social exclusion, the literature on financial exclusion is rather focused and relatively small in size. The concept of financial exclusion is a more recent addition to the social science dictionary than social exclusion, a concept which also has its roots in much older concepts such as poverty.
2 Social exclusion

Concepts come and go. Sometimes they are themselves the latest fashion in social science; while new concepts try to embody the changing reality. Concepts in social science are not only influenced by academic debates, but also react to and are moulded by what takes place in the political and bureaucratic arenas. The meaning of concepts often changes, and at times concepts become increasingly vague and frustrating to use. In fact, concepts in social science are value-laden and contested (Gallie, 1995; Alden and Thomas, 1998: 8). The concept of social exclusion is no different. First used in France, adopted by Chirac’s government in 1974, the concept travelled and became increasingly popular among academics, politicians and bureaucrats alike. In recent years, especially the use of the concept by the European Union and by the UK government has received a great deal of attention. Many scholars attack the use of social exclusion as a concept, but just as many have embraced the concept and highlighted its usefulness in explaining and addressing exclusion processes.

It was René Lenoir, then Secrétaire d’État à Sociale in Chirac’s government, who in 1974 wrote Les exclus: Un français sur dix in which he identified up to 10 per cent of the French population as ‘the excluded’. They consisted of vulnerable groups which fell through the insurance-based social safety-net, for example: single parents, people with disabilities not fully protected under social insurance principles at the time, suicidal people, poor elderly, abused children and substance abusers (Lenoir, 1974; Cannan, 1997; Silver, 1994). The concept emanates from the French tradition of national integration and social solidarity. The opposite of social exclusion is ‘social inclusion’, with the idea of social bonds at its heart. In its French origins, exclusion refers to the rupture of the social bond (Lenoir, 1974; De Haan and Maxwell, 1998: 2). Exclusion itself is of course not a new term and was widely used in French sociology. Yet, the use of ‘social exclusion’ as a key concept in social policy (research) was new. During the 1980s the term gained wider currency in France (Martin, 1996). It was used to refer to various types of social disadvantage, related to a ‘new’ set of social problems: large-scale unemployment, ghettoisation and fundamental changes in family life (Cannan, 1997). While ‘old’ poverty programmes focused on the basic needs of the individual or the household, social exclusion programmes focused on society and addressed the individual’s ties to society, at least in theory (De Haan,
In the late 1980s and 1990s, there is what one could call the globalization, or at least the Europeanization of the concept of social exclusion (cf. Levitas, 1996) as the term gains use in many European countries, but also by researchers of the Global South (often Europeans) as well as by the European Union/Commission. So far, the concept has not been popularized in United States.

Room (1995) has traced the development of the concept from EU anti-poverty programmes. The first two (1975-1980 and 1986-1990) were based on the concept of poverty, but the third (1990-1994) was focused on the integration of the ‘least privileged’ and was explicitly discussed as addressing social exclusion. It was under the chairmanship of Jacques Delors, and under the influence of the French political debate, that the European Commission adopted the language of social exclusion. The EU included research on social exclusion within its Fourth Framework Research Programme, incorporating the term into the Maastricht and Amsterdam Treaties and also in the objectives of the Structural Funds as a commitment to combat social exclusion (Room, 1999: 166). For this reason, Berghman (1995) argues that it was at the European rather than at the nation state level that the concept was promoted and operationalised. One of the reasons for this Europe-wide hospitality towards the concept was that

member states adhered to different definitions of poverty and “consequently some denied that poverty was a problem within their borders. This hostility towards the idea of poverty was coupled to the enthusiasm of some member states for the notion of social exclusion. (...) The notion of social exclusion thus offered a way of avoiding a possible impasse by allowing member states to commit themselves to an imprecise, but nonetheless worthy-sounding, mission. (Marsh and Mullins, 1998: 751)

While its relative vagueness was a key quality leading EU member states to adopt the notion, the UK embraced the concept and gave it a British twist. In the UK, the concept turned out to be a rising star, as almost no social scientist or policy maker used it in 1990, while it was almost impossible not to use, or at least criticise, it in the year 2000. Originally the British saw the concept “as rather unhelpful,
combining as it did the traditional alleged imprecision of the French social philosophical debates with echoes of earlier, discredited right-wing accounts of the ‘underclass’” (Room, 1999: 166). In 1992, Room, who would later become one of the defenders of the concept, argued that “there cannot in any real sense be said to be have been a general debate concerned with ‘social exclusion’ in the UK” (Room et al., 1992: 33; in Silver, 1996: 118). But the election of the new Labour government in May 1997 changed this situation:

The Prime Minister has established in Downing Street itself a Policy Unit concerned with social exclusion; the Economic and Social Research Council has established at the [London School of Economics and Political Science (LSE)] a high profile Centre for the Analysis of social exclusion; and ‘social exclusion’ recurs as a central point of reference throughout a wide range of government policy documents. However, it remains too incoherent and confused to serve as a reference point for policy and research, despite various efforts at clarification. (Room, 1999: 166-167)

In a few years time, social exclusion obtained “a virtual monopoly position in policy discourse” (Marsh and Mullins, 1998: 749). As the UK took over the concept of social exclusion, the concept also changed in meaning. French solidarist connotations were replaced by British social conceptions of class-based ‘new’ poverty; questions of solidarity and community were dropped in favour of questions of citizenship as well as racial equality (Silver, 1996: 119-120). In the UK, social exclusion came to replace notions of poverty and Townsend’s (1993) relational conceptualisation of poverty is almost naturally included in the UK concept of social exclusion (Levitas, 1996: 7).

In effect, two different traditions provide different conceptualisations of social exclusion. The UK tradition seeks to measure and quantify the dimensions of the problem as a fundamental building block of knowledge. Counting the number of households in poverty and categorising them, is not what the French tradition focuses on, looking rather at social mechanisms, processes and the different elements which lead to exclusion (Room, 1995; see also Marsh and Mullins, 1998). Castel (1991; 1995) even argues that it is not so important what people are excluded from in the first place, as it allows flexibility in thinking about a social problem. This
viewpoint is heavily criticised by Martin (1996: 387) who argues that it is impossible to speak in terms of exclusion if it is unknown what one is excluded from. More generally, the literature on social exclusion suggests that we should acknowledge the multi-dimensional nature of exclusion and look at exclusions in plural (Somerville, 1998). I will return to this issue below.

The concept of social exclusion, which is more dynamic in the sense that it does not describe a condition (like poverty) but rather a process, provides an alternative (albeit a contested one). It is often confused with other concepts such as: poverty, marginalization, polarisation, fragmentation, segregation, unemployment, lack of participation, deprivation, hardship and ghettoization (Murie and Musterd, 2004: 1442; Room, 1995; Seyfang, 2003: 699; SEU, 2000) It is further used as an umbrella term or catch-all term to cover a wide diversity of ideas and is therefore open to multiple interpretations (De Haan and Maxwell, 1998; Ratcliffe, 1998; Williams and Hubbard, 2001). Like other umbrella terms, “the umbrella is open to anyone who wishes to place new meanings, or a variety of stereotypes, accusations and stigmas under it” (Gans, 1996: 151). Social exclusion is also seen as a problematic term by some critics who argue that it divides society into two groups and this involves a static view of the excluded and the neglected people at the margins (Blanc, 1998; Levitas, 1998; 2000); as long as those at the bottom of that structure have some economic, social or cultural functions to perform in the rest of society, they cannot be totally excluded (Gans, 1995: 91-102; Gans, 1996: 146). This last criticism can be countered by arguing that people can be less or more excluded or included. The umbrella problem is harder to tackle, but it can be asserted that social exclusion was meant as an umbrella term exactly because it aspired to show the multi-dimensionality of exclusion. Therefore, the ‘language of exclusion’ provides a bridge between research traditions which have developed in their own ways and have grown apart but essentially discuss related issues, such as poverty/unemployment and spatial segregation. The idea of social exclusion has allowed researchers from different traditions to approach one another.

The concept of social exclusion is often contrasted to that of poverty. Defenders of the concept of poverty have often argued that social exclusion is a useless concept as it is not clear what is meant by social exclusion; different authors adhere to different definitions. This problem is not unique to the concept of social exclusion. Indeed,
the concept of “poverty itself is a contested term, subject to many different definitions and interpretations” (De Haan and Maxwell, 1998: 4) and “overloaded with value judgements and prescriptive meanings” (Kazepov and Zajczyk, 1997: 151). As Baulch (1996: 2) notes, poverty is “a portmanteau term which has different meanings to different people.” For some, poverty is simply about levels of income; for others, it is about much wider concepts like well-being, security, autonomy and self-esteem (cf. Chambers, 1997). Critics then argue that social exclusion in its dominant form becomes similar to the concept of ‘new poverty’, a concept which, like social exclusion, encompasses multi-dimensionality and focuses on processes as well as outcomes. Contrary to new poverty, social exclusion puts institutional processes at the heart of the debate (De Haan and Maxwell, 1998); and more than new poverty, social exclusion goes beyond simplified understandings of inequality as low income, by addressing the multiple dimensions of inequality and deprivation. One could argue that poverty is an important and possible, but not a necessary, ingredient of social exclusion. Social exclusion deals with relational issues, i.e. social participation, lack of social integration and lack of power (Room, 1995: 105; Murie and Musterd, 2004: 1441; Kesteloot et al., 2006), also further referring to health, housing, education and training. The focus on processes and institutions becomes clear in Berghman’s (1995: 19) definition of social exclusion as a failure of one or more of the following systems: the democratic and legal system, for not promoting civic integration; the labour market, for not promoting economic integration; the welfare state system, for not promoting what might be called social integration; and, the family and community system, for not promoting interpersonal integration. In addition, Berghman (1995: 21) argues that ‘income poor’ and ‘multiple deprived’ do overlap but are not identical as poverty can be an atypical and temporary position for some households (e.g. students, people changing jobs). Poor people are neither necessarily multiple deprived individuals nor do they necessarily lack social integration. However, the border between the concepts of poverty and social exclusion should not be drawn too rigid. The rigid distinction, which is sometimes made, can be misleading given the breadth of thinking within both literatures (Walker, 1997; Marsh and Mullins, 1998: 752).

Some critics also argue that social exclusion echoes the idea of an underclass (Myrdal, 1962) or a culture of poverty (Lewis, 1968), two heavily criticised concepts (e.g. Gans, 1996). De Haan (1998:
14) argues that some definitions of social exclusion suggest that the poor are permanently excluded, and that French social exclusion policies are built on the fear that a permanent underclass may be formed. Defenders of the concept of social exclusion have argued that social exclusion is fundamentally different from the concepts of underclass and culture of poverty. Rather than ‘blaming the victim’ or proposing cultural explanations, the idea of social exclusion hinges upon more structural, institutional explanations (Marsh and Mullins, 1998: 753) and on issues of participation, redistribution and rights (Murie and Musterd, 2004: 1441). In a reply to the social exclusion critics, Room (1999) admits that some branches of the social exclusion literature are too close to cultural and ‘blaming the victim’ approaches, but he also contends that there is a larger part of the social exclusion literature which does show the added value of the concept. He distinguishes between five different elements, four of which are discussed here\(^\text{16}\), signifying a shift to social exclusion and argues that “none of these elements is sufficient by itself to justify the scholarly and political interest that the notion of social exclusion has generated, although together they probably can. None is so novel as to render irrelevant previous research into poverty. Nor does the notion of social exclusion provide some wondrous new approach as far as policy is concerned” (Room, 1999: 171). The four elements in Room’s (1999; see also De Haan, 1998) reconfiguration are:

1. A shift from financial to multi-dimensional disadvantage: “Financial indicators such as low income are insufficient as providers for general hardship: multi-dimensional indicators are needed, directly revealing different aspects of disadvantage. It is important (...) to disentangle different elements of hardship and to identify their interrelationships” (Room, 1999: 167). In other words, a social exclusion

\(^{16}\) The fifth element is “a shift from a continuum of inequality to catastrophic rupture”. I do not agree with Room (1999) that this is a fundamental element of the concept of social exclusion, and would even argue that it is not an element at all in most of the social exclusion literature. Room (2000: 413) himself contends that “at least in the British case, if the focus is widened from incomes to other aspects of living conditions as well, including levels of participation and social and economic relationships, few people are comprehensively excluded on a long-term basis (Burchhardt et al., 1999). Few, therefore, meet the stringent definition of ‘social exclusion’ in terms of catastrophic rupture which was recommended earlier.”
framework “goes beyond the analysis of resource allocation mechanisms. And includes power relations, agency, culture and social identity” (De Haan, 1998: 12);

2. A shift from a static to a dynamic analysis: “It is not enough to count the numbers and describe the characteristics of those who are disadvantaged; it is also necessary to identify the factors which can trigger entry or exit from this situation and to understand how the duration of disadvantage shapes how it is experienced and what are its consequences” (Room, 1999: 168);

3. A shift from a focus on the resources of the individual or household to a concern also with those of the local community;

4. A shift from distributional to relational dimensions of stratification and disadvantage: “The notion of poverty is primarily focused upon distributional issues: the lack of resources at the disposal of an individual or a household. In contrast, notions such as social exclusion focus primarily on relational issues: in other words, inadequate social participation, lack of social integration and lack of power. Relational approaches also tend to stress the role of the welfare state and welfare state bureaucrats in supporting or (to the contrary) disempowering people more than the distributional approach (Room, 1999: 171). Combing the second and the fourth, social exclusion “refers to processes, to the mechanisms by which people are excluded. The focus on the institutions that enable and constrain human interaction” (De Haan, 1998: 13);

One could argue that social exclusion focuses on processes and institutions, but it is also close to the idea of ‘multiple deprivation’. The strength of the concept of social exclusion is that it integrates these two ideas, by focusing both on processes of multiple exclusions (in different markets as well as in different geographical locations) and on processes and institutions (I will return to this idea later in this chapter).

Some authors are inspired by the work of Amartya Sen (1976; 1981; 1992; 1998) who stresses that the determinant of deprivation is not what people possess but what they are enabled to do. For Sen, it is not enough to study the economic resources (income) of people, arguing for a focus on how this income can be used to attain
the social objectives and life conditions held to be necessary. Schuyt’s idea of social exclusion is clearly influenced by Sen as he integrates Sen’s ideas in a wider conceptualisation of social exclusion. For Schuyt (2000: 14) the core of social exclusion is: (1) not being allowed to belong to, (2) not being able to belong to, and (3) not being willing to belong to. The first refers to people who are discriminated or subtly driven to the margins of society; the second refers to people who are unable to belong (for instance people with physical or psychological limitations), but also to people without a good steady job or the ability to maintain such a job and people without equity. In the case of people with clear limitations alienation is often the consequence (for both the excluded and the included), while the ‘other’ groups are often blamed for their own position (‘blaming the victim’). In both cases, this increases exclusion and feelings of exclusion; thus, it is not surprising that many people (3) decide to cease to belong to. Self-selection and self-exclusion is often a direct result of (1) the experience of rejection and disapproval, (2) earlier exclusion by parents, teachers, police and other moral gatekeepers, and (3) the exclusion by the ‘majority’. Self-exclusion and the process of ‘othering’ are inherently linked together. Social exclusion is an accumulation of no longer being admitted, not longer being able to, and no longer being willing to, belong. Social exclusion has four dimensions (Schuyt, 2000: 15-17):

1. Moral disapproval of people within society that are different (‘otherness’) which leads to putting these people aside, socially, symbolically and often also physically. Moral disapproval can also be shown by the de-decommodification (more commonly known as recommodification) of social services that are forced to work according to commercial principles;
2. Some people are considered to represent little economic value. This harsh economic verdict can often be disguised as a moral judgment (lazy, undisciplined, unruly) or as what are actually symptoms of exclusion, such as lack of education;
3. Low social defensibility of the excluded. On an individual level this refers to self-respect. On both the individual and the social level this is ‘attacked’ by stigmatisation and the other dimensions of exclusion. On the positive side this can lead to self-organisation and collectively standing up for mutual interests;
4. Weak legal position. This is not just the formal legal position of an individual or group, but also a resultant of the other three dimensions of social exclusion.

It is the collective configuration of these four dimensions which constitutes the exclusion of a group. Schuyt (2000: 20-21) argues that exclusion is produced by a system of social inequality. In general, more inequality leads to more exclusion. Social developments showed indicators of inequality which were both decreasing and increasing, e.g. in the late 1990s unemployment was going down in the Netherlands while at the same time inequality was increasing – not because the poor where getting poorer, but because the rich were getting richer (Schuyt, 2000). Schuyt suggests that a system with greater inequality usually ascribes the failure of the system to the excluded groups instead of to the system itself (‘blaming the victim’). Thus people get blamed for being unable to keep up with society, i.e. for not having a job, a house or a steady relationship. However, because of the complicated demands of the risk society in regard to education, comprehension, stamina and self-control, the risks have increased. What is needed, according to Schuyt, is not either a change in the system or a change in the excluded groups, but both: a structural change of social institutions as well as a strategy aimed at improving the life chances and conditions of excluded individuals (Schuyt, 2000: 20-21).

3 Financial exclusion

Andrew Leyshon (1995) (together with Nigel Thrift and Elaine Kempson and Claire Whyley one of the main authors on financial exclusion) expresses in an editorial that he was trying to make a “relationship between the financial system and the incidence of poverty”, but was surprised to find no entry on ‘poverty’ in *The Dictionary of Human Geography* (Johnston et al., 1994), only an instruction to look under ‘cycle of poverty’: “Here one finds just three references: two seminal works by Oscar Lewis on the much criticised ‘subculture of poverty’ (1966; 1969), and one by the writer of the entry, but which is really a more general urban geography text (Johnston, 1984)” (Leyshon, 1995: 1022). Leyshon’s anecdote is

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17 I do not intend to say that the victim can never be blamed for her/his situation. Schuyt simply observes that blaming the victim is more common in societies with greater inequalities.
exemplary for the weak connections between the literatures on social and financial exclusion (but see Kempson et al., 2000 for an attempt).

The financial exclusion literature has a much shorter history than the social exclusion literature. Financial exclusion is not about labour market exclusion (a form of income exclusion, and thereby a form of poverty); instead the focus is on the effects of the restructuring of the financial services industry on people and places, often with a focus on the UK and to a lesser extent on the US. The argument is that through the restructuring of the financial services industry in the 1980s and 1990s the financial market became more inclusive on the one hand, as it drew a larger proportion of the population into contact with the industry and enabled more people to use its services. On the other hand, the financial market became more exclusive as a result of cutting costs and placing (perceptions of) risk in the centre of decision making. Thus, for part of the population it became more difficult to obtain access to financial services. At the same time, wider social and economic changes made it more difficult for people to function outside financial markets (Leyshon et al., 1997). In some instances, alternative financial circuits were developed to include the financially excluded in at least two different ways. On the one hand, there are local responses to include the excluded, for instance through so-called 'local exchange and trading schemes' (LETS) which tend to have only limited success (Aldridge et al., 2001; Lee et al., 2004). On the other hand, there are so-called predatory loans, unsuitable loans designed to exploit vulnerable and unsophisticated borrowers (NCRC, 2002). Such loans are offered by those more popular known as loan sharks; these may include small financial institutions specialized in providing such loans, but it also and increasingly includes large and well-known banks (McCoy and Wyly, 2004; Squires, 2004). In both cases, they make profit “by stripping equity and wealth from home owners in underserved communities through high-cost refinance loans” (Squires, 2004: 27).

The restructuring of financial markets implied that financial institutions obtained “greater freedom to compete across a wider range of markets” (Leyshon and Thrift, 1997a: 205). Especially in ‘core capitalist countries’ like the US and the UK, but to a lesser degree also in ‘semi capitalist countries’, the financial services industry’s ‘flight to quality’ has severe social and economic consequences for those groups and localities at the wrong end of the process of financial exclusion. In these countries, such
developments are not unconnected to Thatcherism and Reagonomics; however, current neoliberal restructuring of financial services is not limited to the UK and US. Although these developments are arguably most advanced in the US and the UK, the emergence of spaces of financial exclusion has important implications for uneven development in many countries, because these spaces are associated with economic decline and social exclusion. I use the term ‘financial exclusion’ to refer to:

those processes that serve to prevent certain social groups and individuals from gaining access to the financial system. Although the criteria for exclusion may vary over time, the financial system has an inherent tendency to discriminate against poor and disadvantaged groups. In other words, the poorer and more disadvantaged an individual, the more likely it is that they will be excluded from the financial system. (Leyshon and Thrift, 1997a: 228)

Social exclusion in the financial realm – that is, ‘financial exclusion’ – refers to the failure of the formal banking system to offer a full range of depository and credit services, at competitive prices, to all households and/or businesses. The systematic exclusion of households and/or businesses from ‘financial citizenship’ – on the basis of race or ethnicity, geographic area, gender and so on – compromises their ability to participate fully in the economy and to accumulate wealth. (Dymski, 2005: 440)

Thus, financial exclusion processes are likely to reproduce social exclusion processes and in return fuel these. One of the reasons for this outcome is that the financial services industry operates in a way which favours the socially powerful. Even more than the literature on social exclusion, the literature on financial exclusion primarily focuses on processes and institutions, and only secondarily on the outcomes of these processes. Contrary to social exclusion, the focus is not so much on the multi-dimensionality of exclusion. This is not surprising considering the fact that financial exclusion is a form of social exclusion and thereby constitutes one of the many different dimensions of social exclusion.

Leyshon and Thrift (1997a) argue that the process of financial restructuring was a response to a downturn in financial markets and to the increasing problems of financial indebtedness. This restructuring
has its roots in the crisis of the international financial system. Interacting processes of financial re-regulation and restructuring (including market integration, capital centralization and state regulation) resulted in increased competition, consolidation, securitisation, innovation and growth in credit and debt, and a more sophisticated management of risk. Like part of the literature in social exclusion (e.g. Mingione, 1991; 1996), the financial exclusion literature follows the idea that exclusion is highly related to structural shifts in economy and society in general. Again like the social exclusion literature, it also discusses the piece-by-piece dismantling of the welfare state, a process which increased people’s dependence on private institutions, such as financial institutions. The financial exclusion literature also looks at how exclusion processes are spatialized. According to Leyshon and Thrift, the restructuring in the financial market has important geographical outcomes, of which two are particularly important:

The first is that new patterns of credit creation emerge as money and credit are redirected away from poorer to richer (and therefore “safer”) groups. The second is that new patterns of financial infrastructure develop as financial institutions restructure their operations over space to bring them into line with these new flows of credit and debt. (Leyshon and Thrift, 1997a: 225)

This can be witnessed on several geographical levels: on an international level (e.g. the less developed countries’ debt crisis of the early 1980s, a result of changing policies of international banks) but also on a national and metropolitan level, where the financial services industry has redirected credit away from poorer social groups and towards richer groups (as part of a risk avoidance strategy). On the national level, regulation and deregulation play an important role. As different countries have followed different ‘regulatory models of deregulation’ (banking structure, conduct rules, competition framework), financial exclusion has taken different forms in different countries (Carbó et al., 2005) and the progressed level of deregulation in the US (and to a lesser extent the UK) has more pronounced consequences than the more moderate takes on deregulation elsewhere in Western Europe. In addition, several Southern European countries with a tradition of a weaker state intervention than in Northern Europe (Esping-Andersen 1990;
Castles and Ferrera 1996), also have higher levels of financial exclusion. Several statistics show relatively low levels of financial exclusion in Denmark (followed by the Netherlands) and relatively high levels in Italy (followed by Greece) (European Commission, 2000; Carbó et al., 2005; Ruozzi and Anderloni, 2000).

On a metropolitan level, the financial services industry, following the strategy of risk avoidance, has redirected credit away from poorer social groups and towards richer groups. “Financial capital is retreating to a middle-class heartland”, and as a result, “it is becoming increasingly difficult for many citizens of developed countries to gain access to the financial system. Without access, the conduct of everyday life within contemporary capitalist society can become extremely problematic” (Leyshon and Thrift, 1997a: 226). According to neoclassical principles, new providers will enter the market if they see profitable opportunities. The problem is that actors may not see profitable opportunities; or even worse, they may see opportunities to exploit this weakness, by providing predatory loans for example, thus causing more harm than good. In addition, the neoclassical assumption may be wrong. Entering a financial market as a provider is not easily done, due to high entry costs and the enormous information deficiencies that new providers have to overcome.

Financial exclusion can mean exclusion from bank accounts, insurance, mortgage loans, pensions or any other form of financial services (access exclusion). It can also mean that these services are only accessible at less advantageous conditions for a segment of the population (condition exclusion) or that this part of the population has to pay higher entry fees (price exclusion) (e.g. Kempson et al., 2000). It is not only a result of barriers (for example requiring minimal balance or minimal income for opening a bank account) but also a result of: marketing (Boyce, 2000), credit scoring (Leyshon and Thrift, 1999; see also chapter 4), the financial illiteracy of consumers (Leyshon et al., 1998) and self-exclusion. The latter, as we have seen in the previous section, is often the result of earlier exclusion, ‘othering’ and the experience of rejection and disapproval (Schuyt, 2000).

Empirically, a large part of the financial exclusion literature is focused on economic decisions regarding branch provision in areas where few people need more than basic transactional banking and where people in general have little money to invest (Kempson et al., 2000). As Marshall (2004: 249) states: “financial institutions may
overlook opportunities for investment in these areas because of the lack of information and specialist knowledge, low levels of investor confidence, high transaction costs, and the attraction of alternative investment opportunities.” Consequently, as banks turn to alternative forms of market knowledge and centralize handling, the role of the branch in both the UK and the US is diminishing (e.g. Leyshon and Pollard, 2000). Similarly in the Netherlands, the number of full service bank offices in the Netherlands decreased from 4,250 to 3,280 in the years 1996-2001; 1,574 bank offices were closed while 601 bank offices were opened (often relocation). The overall decrease is in contrast to the increase in cash machines (Van Steen and Pellenbarg, 2002). Although bank closure often takes place in municipalities with a high bank density, the bank closures also have clear geographic exclusionary aspects as large cities and small villages have lost offices, while towns, smaller cities and suburbs have either seen a consolidation or increase in bank offices.

As Kempson and Whley (1999) demonstrate, one and a half million households in the UK lack even the most basic financial products (such as current accounts and home contents insurance) and a further 4.4 million have marginal provisions of financial services. The majority of people without financial products are excluded by a combination of marketing, pricing and inappropriate product design. Financial exclusion depends mainly on ‘who you are’ and ‘what you do for a living’, but ‘where you live’ is also important:

Those at the highest risk were those who were: on low incomes; claiming means-tested benefits; single non-pensioners; from the Pakistani or Bangladeshi communities; in rented accommodation; or had left school before the age of sixteen. People living in Scotland or in one of the 50 most deprived local authorities in England and Wales were even more likely to be excluded than their personal or economic circumstances would suggest. (Kempson and Whley, 1999: report summary)

If gaining access to credit from the financial system is determined largely by income and wealth, then the geography of income and wealth should shape the geography of access to the financial system. But, as the American scholars Dymski and Veitch (1992) state, the relationship is an interdependent and circular one; the geography of income and wealth is determined in part by the geography of access to the financial system. Through a process they
describe as ‘financial dynamics’, geographical variations in access to the financial system deepen and accentuate prevailing levels of uneven development (Dymski and Veitch, 1992). Thus, the process of restructuring of the financial services industry has distinct geographical consequences:

The financial system is abandoning low-income communities as a part of a strategy of risk aversion, a process which has important geographical consequences, for there would appear to be a correlation between a lack of access to financial services and an absence of local economic development. This process has clear implications for levels of uneven development and the incidence of poverty in abandoned areas. (Leyshon, 1995: 1021-1022; see also Leyshon and Thrift, 1997a)

The result of uneven development through financial exclusion is what Leyshon and Thrift (1997b) call ‘financial desertification’. The idea of financial desertification is closely related to the idea of ‘institutional isolation’: “the practice of stores, banks, churches and other commercial and public facilities moving away, even if their intent is to escape low profitability or slum conditions rather than, or more than, the people” (Gans, 1996: 147). Gans’ definition of ‘institutional isolation’ is wider than Leyshon and Thrift’s idea of ‘financial desertification’. As financial exclusion is a specific form of social exclusion so is financial desertification a specific form of institutional isolation. Both are also related to Wacquant’s concepts of ‘organizational desertification’ (Wacquant, 1998) and ‘state retrenchment’ (Wacquant, 1996). Where Wacquant focuses on the public part of institutional exclusion, isolation or desertification; Leyshon and Thrift focus on a specific form of the private part of institutional exclusion, isolation or desertification. Other concepts such as ‘supermarket redlining’ (Eisenhauer, 2001) and ‘food deserts’ (Williams and Hubbard, 2001) focus again on different forms of the private portion of institutional exclusion, isolation or desertification.

Wacquant often stresses that institutional exclusion takes a different form in the US than in Europe. While there are many places in the US that can be considered institutional deserts, institutional exclusion in Europe often remains partial. There, vital state institutions have not fully retrenched; some private institutions may be missing, but rarely have all of them disappeared. European
places of exclusion are not deprived places in almost every possible way, like the most extreme examples in the US (see Massey and Denton, 1993; Wilson, 1996). For example, in 1990, a particular district in Chicago, with a population of 66,000 (mostly Black), had one bank and one supermarket; yet, it boasted 50 credit counters and 99 legal liquor stores and bars (Massey and Denton, 1993). This is in no way comparable to the UK ‘sink estates’, the French ‘banlieues’, the Italian ‘quartieri periferici’ or the Dutch ‘achterstandswijken’.

The literature on financial exclusion explicitly mentions redlining as an example of financial exclusion through uneven development (e.g. Dymski and Veitch, 1996; Leyshon and Thrift, 1997a); yet, the empirical studies on financial exclusion have so far mainly focused on access to retail banking and exclusion from the same, in order to find ways to overcome this form of exclusion. Access to, and exclusion from, mortgage finance has only recently been included in the concept of financial exclusion, but I know of no empirical studies which explicitly analyse redlining as a form of financial exclusion, or social exclusion for that matter. This study will attempt to provide such an analysis.

4 How space and housing enter the idea of exclusion

Every market has its own individual and independent influence on stratification and exclusion, and these markets interact as well (Weber, 1946). It is often assumed that the various forms of social exclusion are interconnected; however, exclusion in one market (e.g. the labour market) does not necessarily lead to exclusion in other markets (e.g. the financial market) (Vranken, 2001). We should acknowledge the complex multi-layered character of exclusion processes. Exclusion in one market influences exclusion in other markets, reproducing and reinforcing other forms of exclusion, but not automatically. The different markets are interconnected but not necessarily in a strict causal manner.

More than poverty approaches, social and financial exclusion approaches focus on processes and institutions. In contrast to traditional conceptualisations of poverty, their conceptualisation of exclusion recognises that people’s living conditions depend not only on their personal and household resources, but also on the collective resources they can access (Room, 1999). The inclusion of these collective resources in the analysis also opens up the concept of exclusion to a more geographical approach. Social exclusion
includes forms of exclusion other than labour market exclusion and poverty. As Gordon et al. (2000) argue, social exclusion can be sub-divided into: exclusion from the labour market, exclusion from public and private services, exclusion from social relations, exclusion from a barely adequate income, and (I would like to add) exclusion from financial services. They recommend a division into sub-categories to convey meaning and to develop practicable means of empirically approaching issues of social exclusion. To analyse exclusion processes empirically, one should focus on the separate spheres of exclusion, by operationalising exclusion as multi-dimensional and by separating the different dimensions empirically, analysing them both separately and together. Analyses of any single dimension of social exclusion must be sensitive, nevertheless, to the complex relationships with other domains (Alden and Thomas, 1998: 9). Consequently, social exclusion not only includes poverty, but also increasingly covers financial exclusion (e.g., Leyshon and Thrift, 1994), service exclusion (e.g. Speak, 2000; Speak and Graham 2001) and other forms of exclusion. With such a “sub-divided conceptualisation” of social exclusion it is also easier to focus on exclusion within other markets than the labour market, such as exclusion in the housing and mortgage markets.

It is not possible to separate the way in which the economy functions from the way in which society organizes its common institutions and defines a common citizenship (Titmuss, 1973). We need to link the emergence of social and financial exclusion to deeper structural shifts in the affected economies and societies. Silver (1994) points to the global economic restructuring (active since the mid-1970s) and to the emergence of new social divisions within advanced capitalist societies; these developments dictat the need for new concepts such as social and financial exclusion. The reconfiguration of the boundaries between the realms of markets, communities and state – or the rise of the ‘risk society’ (Beck, 1992) coupled to the rise of what could be called ‘advanced capitalism’ (Gans, 1996: 45) or ‘organized capital’ (Lash and Urry, 1987) – has led to new forms of inequalities and insecurities. The results are: more erratic and insecure lifestyles, dependence on residual means tested programmes and people who fall outside of welfare safety nets altogether (Marsh and Mullins, 1998: 750/1). Each of these changes in the three realms have produced new forms of social institutions and relations (Andersen and Van Kempen, 2001: 4) and therefore new forms of inequality, requiring new concepts to describe
these inequalities. Exclusion is a child of its time. Even though the welfare state was partly designed to erase poverty, poverty has persisted (in spite of these interventions, sometimes even due to the same) and even acquired a new dimension, along with the new emerging differences between the ‘haves’ and ‘have-nots’ (Abrahamson, 2003: 281). Of course, the manner and strength of welfare states interventions make a difference, and this mitigating role of the welfare state partly explains the different forms and magnitudes of exclusion in different contexts. Nonetheless, a Titmussian lens allows us to see social and financial exclusion as expressions of the new tensions resulting from the impact of post-Fordist economic accumulation, based on: the globalization and the increased importance of services (Sassen, 1996; 2001; Mingione, 1991; 1996; Sayer and Walker, 1992; Esping-Andersen, 1999; Leyshon and Thrift, 1997a; Dymski, 2005), the decline in stable employment in big manufacturing firms and the increasing heterogeneity and instability of households (Kazepov and Zajczyk, 1997: 161).

Definitions of exclusion do not only depend “on the context in which they are embedded” (Kazepov and Zajczyk, 1997: 154). As we have seen in section 2, social and financial exclusion themselves depend on the context in which they are played out. Therefore, the roots of social and financial exclusion can only be researched adequately by looking at developments occurring on different spatial scales (Andersen and Van Kempen, 2001: 9; see also Burgers and Kloosterman, 1996; Murie and Musterd, 2004: 1445). Globalization, financial exclusion and social exclusion are related or, in Harvey’s (1989) terms, the excluded are the losers in the game of globalization and flexible accumulation. Yet, the relation is different in different places; partly because of the intervening role of the state, globalization “can have rather different local consequences” (Burgers and Kloosterman, 1996: 435).

Research on social and financial exclusion can, and should be, spatialized by analysing exclusion “at different spatial scales: individual, social groups (women, minorities, ethnic groups etc.), countries (or regions within countries) and world regions ((sub-) continents) (Bhalla and Lapeyre, 1997: 427). By definition, social and financial exclusion are associated with and concentrated in certain places, and located at all scales (Gough et al., 2006). If social and financial exclusions are caused by contemporary capitalism; if contemporary capitalism leads to inequality; and if capitalism can be
characterized by uneven development (Harvey, 1982; 1985; Smith, 1984); it follows logically that exclusion itself is spatialized. This does not mean that all of the excluded live in excluded places or that excluded places are only inhabited by the excluded. Such a dichotomy does not work well in real life. Rather, exclusion will be more common in some places than in others. Again, different scales are important here. Kesteloot and colleagues (2006), building on a framework provided by Polanyi (1944), argue that all forms of exclusion have a spatial dimension but that different forms are associated with different socio-spatial conditions:

The city and urban region are the most relevant spatial scales for the functioning of labour markets and thus for labour market [exclusion]. Of course, superimposed global economic restructuring processes are of major importance too. However, their effects will vary between different regions, dependent on the historically grown economic and social structures (…). Redistribution [through the welfare state] is multiple-scaled and, according to the states and the cities considered, differences in welfare state arrangement have to be pinpointed at the relevant set of scales. (…) Reciprocity is mainly a local sphere of relations and exchange. However, the search for networks cannot be confined within the neighbourhood. (Kesteloot et al., 2006: 225-226)

Kesteloot and colleagues continue to focus mainly on the level of the neighbourhood and argue that, although its importance for social exclusion is sometimes overstated, we should also not make the mistake of suggesting that the neighbourhood is irrelevant for processes of exclusion. The neighbourhood plays a different part in different countries and cities, in addition also being contingent on the physical and social structure of the neighbourhood itself (Kesteloot et al., 2006). If one takes an individualized definition of exclusion – i.e. an older definition of poverty – location is insignificant as it is merely a place where poor people live. Then ‘excluded neighbourhoods’ are simply seen as “an aggregate of the conditions of the people who live in them” (Spicker, 2001: 38). Neighbourhoods are then passive: they are places where poor people live, but they have no influence on poverty itself. Yet, there is another possibility, which is that neighbourhoods cause, affect, or intervene in exclusion processes in such a way that exclusion becomes exacerbated or limited (!),
depending what happens on the neighbourhood level. We can then speak of neighbourhood effects (see also chapter 11), a point I will return to shortly.

Before we continue it is useful to differentiate between exclusion through housing and exclusion from (decent) housing’ (e.g., Cameron and Field 2000). People are not only excluded from (decent) housing. Through their housing situation they can also be excluded from other things, like home mortgage finance. Housing can act as a key element in social exclusion. In its most extreme form, one can think of homelessness and rough sleeping, but more widely we need to recognize that the housing system plays a role in shaping social exclusion (cf. Marsh and Mullins, 1998: 750). Access to housing and the cost of housing, for example, make a big difference in what exclusion implies; while the condition of the housing stock and its environment directly influence the experience of exclusion. When speaking of the environment, we turn to exclusion through housing and to what we call ‘neighbourhood effects’.

Exclusion through housing does not focus on the lack of access to adequate housing, but rather on the role played by housing or by the neighbourhood as a causal factor generating other forms of social exclusion, especially from the labour market and civil society. Neighbourhood effect studies have often looked at the effects of the neighbourhood on social mobility and employment, but the effects of the neighbourhood go much further as demonstrated by many other studies (e.g. Briggs, 1997; Ellen and Turner, 1997; Musterd and Andersson, 2005). The fear of crime, for example, is directly associated with perceptions of the physical deterioration of an area (Painter, 1992: 182) and this fear may intensify already existing patterns of exclusion. In addition, neighbourhoods may be “avoided or viewed with apprehension where a stereotype of a despised group combines with and reinforces a negative stereotype of place” (Sibley, 1998: 120). In this way, “the reputation of an area may also have an effect on its resources. People who live in ‘bad areas’ may find it difficult to get credit; insurance premiums may be higher there; and residents may not be able to get commercial deliveries or taxi services” (Spicker, 2001: 33). The welfare state may have an intermediating role in lessening the neighbourhood effects on exclusion (Musterd et al., 2003). Yet, “even in centralized welfare states the provision of public services and goods will vary between localities” (Van Kempen, 2002: 244) as hidden mechanisms also
lead to unintended, local differences in the quality of the services and non take-up (Engbersen et al., 1998; Schep and Bommeljé, 1994; Van Kempen, 2002). In other words, neighbourhoods bring a distinctive set of resources to the production of social exclusion. They may contribute by increasing the entrapment of households or reducing their opportunities because local facilities are poorly resourced or they may contribute to mitigating some of the effects of exclusion or providing opportunities for more effective coping strategies or for long-term social mobility. (…) the distinctive resources provided by the neighbourhood do make a difference at least to the experience of social exclusion. This is because of differences associated with the local welfare state and the impact of local policy interventions and the importance of the services that are provided locally in terms of shops, doctors, dentists, community activities, or in terms of faith- and kinship-based networks. It may also be because of discrimination in various spheres and cultural factors are also likely to be important. (…) Finally, the neighbourhood may affect the experience and quality of life of households. (Murie and Musterd, 2004: 1455-1456)

Indeed, the concentration of excluded people in a neighbourhood may have an influence by itself on exclusion processes, and Spicker (2001: 34) therefore rightly claims that “the problems of poor areas cannot be reduced to problems of poor people within those areas.”

Another connection between housing and exclusion (which is often made or assumed) is the relation between housing tenure and social exclusion; the connection between housing and exclusion is often seen as one mediated by tenure. Renting is portrayed as a factor exacerbating social exclusion, while homeownership is seen as a weapon against social exclusion. In recent years, there has been a growing awareness that homeownership is ‘riskier’ than it once was, a result of events which undermine the ability to meet mortgage payments (Boelhouwer et al., 2005; Burrows, 2003; Doling and Ford, 2003; Ford et al., 2001). Not only personal events (such as unemployment, divorce or illness) may make homeownership an increasingly risky endeavour but also falling real estate prices may make life hard, in particular for those who have high outstanding mortgages loans. In the UK for example, about half of the poor are homeowners, resulting from the growth of low-income
homeownership (partly due to the Right To Buy policy). Consequently we can witness an emerging coincidence between unemployment, homeownership and exclusion (Burrows, 2003). It is therefore not only wrong the use tenure as a measure of poverty or exclusion (Burrows, 2003: 1240), but it is also wrong to encourage owner-occupation as the principal answer to housing exclusion. Homeownership does not guarantee a sense of social inclusion (Hawtin and Kettle, 2000: 124). This is another way how ‘the financial’ enters the idea of social exclusion. Redlining serves as a prime example of exclusion from and through homeownership. For people who are denied a loan, redlining means exclusion from owner-occupation; for people who are unable to sell their house at a ‘decent’ price and are forced to suffer a loss or are forced to give up their ambition to sell and relocate, redlining means exclusion through owner-occupation. In both cases the neighbourhood plays an important role; neighbourhood based factors may exclude anyone willing to buy in that neighbourhood, as well as those planning to sell.

With the restructuring of the financial sector on the one hand and the restructuring of the housing sector on the other, housing becomes increasingly subject to swings in financial markets. More than ever before, financial markets and housing markets are interlinked. Not only has the tremendous growth of the mortgage market (only partly a result of the increase in homeownership) made homeownership more dependent on financial markets; but, at the same time, the increase in real estate prices seems to be responsible for a significant part of the economic growth. This growth refers not only to the capital markets but also to the wider real estate market (construction, intermediation, assessment et cetera) and to increased consumer spending. Mortgage markets are not just important because most homeowners depend on them, but also because they fuel the economy both directly and indirectly (through equity withdrawal) and because they serve an ideological purpose in the neoliberal age. Mortgage markets in the western world – and credit markets more generally – have been ‘liberalized’ in order to widen access to mortgage markets and thus to foster economic growth and increase homeownership rates. In this process, households have become more dependent on financial markets (see also chapter 5). This is what Martin (2002) refers to as the ‘financialization of daily life’, as financialization first integrates markets that were separate and then “asks people from all walks of life to accept risks into their homes that were hitherto the province of
professionals. Without significant capital, people are being asked to think like capitalists” (Martin, 2002: 12). The expansion of access to credit markets resulted not only in price booms in the housing market, but also in the inclusion of more ‘risky cases’ in this market. In other words, although financial deregulation increased access to housing financing and allowed higher loan-to-value ratios, it also expanded the financial market to include groups which carry higher risk (see chapter 4; Stephens, 2003). Consequently, financial institutions, such as mortgage lenders, needed to find ways to exclude borrowers who potentially carry a high-risk, while not depressing their own expansion. The present patterns of exclusion are thus related to earlier rounds of deregulation and restructuring of financial markets. The restructuring of the financial services industry opened up new possibilities for people who were formerly excluded from credit markets but, at the same time, it also made people dependent on credit markets in such a way that their subsequent exclusion from these markets will have severe consequences.
References


Chapter 4
‘The quantified customer’, or how financial institutions value risk

This paper is published in Peter Boelhouwer, John Doling and Marja Elsinga (eds.) Home ownership. Getting in, getting from, getting out, pp. 33-57. Delft: Delft University Press, 2005.
Chapter 5
The geography of mortgage markets

Abstract
Do globalization and Europeanization lead to the deterritorialization of European mortgage markets? Neither economic globalization nor EU policies have resulted in one European mortgage market. The various European mortgages markets are still quite different from one another in many respects; in most countries national companies continue to dominate the market even though regulation itself has been internationalized to some extent. Deterritorialization has been slow for various reasons: tax, law, cultural and structural differences play a part, but the limited market share of mortgage intermediaries and the unequal treatment of foreign mortgage lenders in some countries also form a barrier. Path dependent trajectories are highly important, but can sometimes be bypassed by global processes or downplayed by the entry of foreign firms. Partly due to mortgage value chain unbundling and securitization, mortgage funding will increasingly become globalized, while markets for mortgage lending, distribution and servicing will remain largely national, even though mortgage firms will become more and more Europeanized and globalized.

Key words: mortgage market, globalization, deterritorialization, banking, financial markets, European Union, regulation, securitization, value chain unbundling

* This paper is submitted for review.
Chapter 6
Who’s afraid of red, yellow and green?: Redlining in Rotterdam

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. 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].

Key words: Redlining, Mortgages, Financial exclusion, Social exclusion, Homeownership, Discrimination, Neighbourhood, Case study research, Rotterdam, The Netherlands

Chapter 7
What types of neighbourhoods are redlined?

Abstract
This paper presents a case study of lending behaviour in the city of Rotterdam, the Netherlands. It shows what types of neighbourhoods are redlined by comparing and analysing redlining data of the two largest suppliers of mortgage loans to social-demographic and housing market neighbourhood-level data. Although this approach cannot explain redlining, it can show which factors are related to lending behaviour. Low income, unemployment and ethnicity are strongly positively correlated to redlining. A discriminant analysis shows that the interaction between low income, unemployment or ethnicity on the one hand, and the average value of sold units on the other hand can best approximate redlining. Lastly, this paper also highlights the importance of scale.

Key words: credit, discriminant analysis, ethnic minorities, homeownership, housing market discrimination, mortgage loans, neighbourhood, redlining, Rotterdam, the Netherlands

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See: http://www.springerlink.com/content/1573-7772/
Chapter 8
The high and low tides of redlining in Rotterdam

Abstract
Redlining practices have rational motives behind them, but that does not mean rational action theory provides an adequate explanation. Context-bound rationality guides the exclusion of high-risk areas, the social and institutional environment is important in explaining when redlining occurs and which form it takes. As lenders watch one another and act based on signals, they may adjust their policies up to the point where a market leader’s actions may be copied by other mortgage lenders. This paper presents, in chronological order, the story of the high and low tides of redlining in the city of Rotterdam. The purpose is not to describe and explain redlining as such, but to explain changes in redlining practices.

Key words: redlining, Rotterdam, mortgage market, context-bound rationality, exclusion

* This paper is submitted for review.
Chapter 9
‘When the Banks Withdraw, Slum Landlords Take Over’: The Structuration of Neighbourhood Decline through Redlining, Drug Dealing, Speculation and Immigrant Exploitation

Abstract
Rather than viewing neighbourhood decline as a natural process resulting from the in-flow of low-income households, this study uses a socio-spatial approach that looks at the structuration of neighbourhood decline by emphasizing the power of agents/actors, linking the structure of the real estate industry to the development of the neighbourhood. Landlords and banks are not merely automata of the price mechanism that steer the natural operation of the market, but should be seen as intentionally and unintentionally restructuring the local structure of the real estate market, and thus possibly producing, or contributing to, processes of neighbourhood decline. This paper presents the Tarwewijk (Rotterdam, the Netherlands) as a case study of neighbourhood decline. Attention is paid to the social and physical decline of the neighbourhood, drug dealing, undocumented immigrants and processes impacting the housing market such as speculation, blockbusting, milking and redlining. It is argued that the retreat of ‘formal’ actors, such as banks and bona fide landlords, stimulates the rise of the underworld in both the housing and drugs markets.

Key words: undocumented immigrants, housing speculation, private rented housing, neighbourhood decline, redlining, drug dealing, discrimination, Rotterdam

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See: http://www.ingentaconnect.com/content/routledg/curs/2006/0000043/00000007/art00003;jsessionid=52n5evogos0s1.alice.
Chapter 10
Place-based social exclusion:
Redlining in the Netherlands

Abstract
‘Redlining’ is a form of place-based exclusion. It is widely documented in the US, but not in Europe. This paper focuses on a comparative analysis of redlining practices in the two largest cities of the Netherlands: Amsterdam and Rotterdam. It shows that redlining was common practice in Rotterdam in 1999. In 2001, no signs of redlining were found in Rotterdam. However, ‘yellowlining’ (lower loan-to-value ratios) was still common in some parts of Rotterdam. In Amsterdam, no neighbourhoods were faced with redlining in either 1999 or 2001. However, in 1999 some neighbourhoods were yellowlined. This paper aims to get a better understanding of the nature and the institutional context of redlining in the Netherlands by explaining how the differences in redlining practices between Amsterdam and Rotterdam, and between 1999 and 2001, can be explained. The National Mortgage Guarantee as well as socio-historical, and housing and mortgage market differences and changes, are instrumental in explaining these differences in redlining practices.

Key words: Amsterdam, Rotterdam, the Netherlands, mortgages, neighbourhood, social exclusion, redlining

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Chapter 11
Place-based and race-based exclusion from mortgage loans:
Evidence from three cities in the Netherlands

Abstract
Do place and race matter in mortgage loan applications? This paper presents evidence from mortgage markets in the Dutch cities of Arnhem, The Hague and Rotterdam, suggesting that place, and to a lesser extent also race, do matter. In general, race and place are not factors of direct exclusion, but (1) zip codes are included in credit scoring systems, and (2) both place and race are significant factors in the assessments by loan officers because applicants who do not meet all formal criteria are more often accepted (“overrides”) for indigenous Dutch and low-risk neighborhoods than for ethnic minorities and high-risk neighborhoods. In addition, a “national mortgage guarantee” is compulsory for loan applications in high-risk neighborhoods and thereby used as a substitute for redlining, comparable to the compulsoriness of private mortgage insurance in the US. Some lenders also engage in direct redlining by rejecting low-risk “national mortgage guarantee” loans in high-risk neighborhoods, a practice potentially explained by transaction cost economizing. Since the high-risk neighborhoods in all three cities accommodate relatively large shares of ethnic minority groups, they are hit twice: through place-based and through race-based exclusion. In other words, place-based disparate treatment results in race-based disparate impact. The neighborhood does matter; place-based exclusion in the mortgage market has a neighborhood effect.

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See: http://www.blackwell-synergy.com/loi/JUAF.
Chapter 12
Geographies of Housing Finance:
The Mortgage Market in Milan, Italy

Abstract
The geography of financial exclusion has mainly focused on exclusion from retail banking. Alternatively, and following the work of David Harvey, this paper presents a geography of access to and exclusion from home mortgage finance. The case of Milan shows that capital switching to the built environment is partly a sign of economic crisis and partly a sign of the intrinsic opportunities that the built environment provides. A major factor in both is the deregulation of the mortgage market that has enabled the loosening of historically stringent lending criteria, leading to a tremendous growth of the mortgage market, while leaving the co-evolution of family and homeownership intact. In addition, capital switches within sectors of the economy and between places. In Milan, once “unattractive” but currently gentrified nineteenth century districts underwent cycles of devalorisation and revalorisation. Even though access to mortgages has increased throughout Milan, geographical disparities in mortgage lending persist: at present, yellowlining (differential access, based on less favourable terms) is common in parts of the Milanese periphery. The creation of boundaries makes the realization of class-monopoly rent possible; while the subsequent redrawing of these boundaries creates new submarkets in which surplus value can be extracted. Based on the Milan case, one cannot explain the timing and geography of formation and reformation of submarkets in other cities, but it helps us to see how Harvey’s abstract ideas of class-monopoly rent, submarket creation and capital switching take place in the real world.

Key words: Mortgage market, Redlining, Financial exclusion, Home ownership, Credit, Capital switching, David Harvey, Milan, Italy

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See: http://www.blackwell-synergy.com/loi/GROW.
Chapter 13
Summary and conclusions

1 Introduction
Redlining is the refusal of mortgage lenders to grant mortgage loans in particular neighbourhoods. Redlining is a form of place-based social and financial exclusion. There are many possible reasons for lenders to redline an area, but most basically they redline an area if they see it as a non-profitable investment. They are afraid that either homeowners will default on their loans, or that the value of the houses these homeowners inhabit will go down. In addition, it is possible that mortgage lenders assume that yields in certain areas will be too low because of the small loan volumes (due to low real estate prices). Often redlining will itself produce the effect that the lenders anticipated: due to the redlining of an area, real estate prices will go down and it will become harder to sell a house and pay off a loan. The people who are hit hardest by redlining practices are not the ones who are denied a mortgage loan, but those who are unable to sell their houses. Redlining works as a self-fulfilling prophecy (Merton, 1968): because prices are expected to drop, lenders take action, causing prices to indeed drop. The principle behind a self-fulfilling prophecy is that people not only react to the objective characteristics of a situation, but also, and sometimes mainly, to the meaning the situation has for them; that is, they anticipate possible future developments and thereby encourage those developments. Public definitions of a situation, like expectations and prophecies, become an integral part of that situation and influence future developments (Merton, 1968). In the end, mortgage lenders can claim that their decision to redline was justified because prices have dropped as they expected. But in fact, it is their actions that, at least partly, have caused prices to drop.¹⁸

So far, we have assumed that redlining is something that takes place at the level of the city, where mortgage lenders decide where to grant and where not to grant mortgages. And in fact, the actual decision to redline often takes place at this level. Yet, the decision taken at the city level by mortgage lenders depends on many factors,

¹⁸ Of course, falling prices are possible without an area being redlined, but the redlining of an area increases their likelihood.
some of which are located at the city or neighbourhood level, while others are located at other levels. Central to this thesis is the question how institutions and processes at these different levels or scales constitute a decision to redline. It seems that mortgage lenders compare different neighbourhoods within a city or metropolitan area, look at which neighbourhoods have low and/or falling real estate prices, look at the default rates per neighbourhood, and then decide which neighbourhoods to redline. But then, why is redlining something that only takes place in some cities and not in others? Why is redlining more common in some countries than in others? And why is redlining more common is specific years or decades than in others? If we want to explain and understand redlining we should not only ask questions like ‘does redlining take place’ and ‘which variables explain redlining’, but also questions like ‘why does redlining take place here and not there’ and ‘which factors on the neighbourhood, urban, regional, national and global scales mould redlining processes.’

The idea of redlining cannot exist without a notion of internal differentiation of geographical space that occurs at different scales: no internal differentiation – or to put it differently, no sub-markets – no redlining. The question of scale is central to any relevant explanation. We could say that redlining is a product of the uneven development of capitalism, of the application of credit scoring models, of prejudiced urban managers and gatekeepers, of the structure and regulation of the mortgage market, of statistical discrimination or of neighbourhood decline and the devalorization of capital invested in the built environment. It is, of course, in some way, a product of all these forces. In this thesis I have discussed the forces at work at the different scales, and in this chapter I will summarize and connect these different forces and scales in order to understand what makes and shapes redlining. In the next section, I will first discuss redlining as a form of exclusion, and I will briefly summarize earlier research on the incidence and consequences of redlining. Subsequently, I will present the research approach that provides the foundations for this thesis, and then, analyze the loan application process, before summarizing the main empirical results of this study. After that, I will discuss how processes and institutions at different scales contribute to the process of redlining, and to our understanding of redlining.
2 Redlining, financial markets and exclusion

For most contemporary geographers, the most influential perspective on the spatial dynamics of credit and finance comes from the work of David Harvey. Harvey argues that for financial institutions, the built environment is seen as an asset in which money can be invested and disinvested by directing capital to the highest and best uses, and by withdrawing and subsequently redirecting capital from low pay-offs to potentially higher ones (Harvey, 1982; 1985). Capital switching then entails the flow of capital from the primary circuit (production, manufacturing, industrial sector) to the secondary circuit. The secondary circuit comprises the built environment for production (e.g., infrastructure) and for consumption (e.g. housing).\footnote{Harvey also identifies a tertiary circuit, the circuit of social infrastructure identified by investment in technology, science, conditions of employees, health and education (Harvey, 1982, 1985).} Even though Harvey stresses capital switching between the primary and secondary circuit, capital not only switches between different sectors of the economy, but also within sectors of the economy, between forms of property and between places (geographical capital switching) (Harvey, 1985: 13) and on different scales – from one neighbourhood to another, from central city to suburbs, from periphery to “prime city”, or from one country to another – in order to exploit uneven development. Both appreciation and devaluation of prices are part of this logic, as embodied for example in gentrification and redlining processes. The formation of submarkets and the dynamics of, and between, the different submarkets are therefore necessary before profits can be extracted from the built environment (Harvey, 1985).

This switching of capital to the built environment may suggest that credit is widely available in the secondary circuit. Yet, one of things Harvey showed in his more empirically oriented work was that banks were redlining inner city areas; that is, banks did not grant mortgages for home purchase in certain parts of the city. Contrary to the beliefs of neoclassical economics, Harvey argued that geographical variations in mortgage lending are not merely a reflection of underlying demand-side variations; rather there are intrinsic contradictions in the structure of relations between different agents as well as between the individual agent and the structure of capital. This results in, or better, reinforces, existing uneven geographies, but the existing geographies of uneven development
do, of course, also influence the geography of mortgage finance and the segmentation of urban mortgage markets (Harvey and Chatterjee, 1974; Harvey, 1977; 1985).

Harvey’s analysis is without doubt a useful starting point for analyzing the geography of housing finance, but we should be careful not to take his argument too far by providing too little room for the contingency of urban development and the role of agents that act within the structure of the real estate industry. Urban development is no neutral, and certainly no natural development, but is steered by agents who institutionalize certain developments, regulations and ‘rules of thumb’. These agents exercise power on existing structures, but these existing structures, in return, are partly shaped by the previous actions of these agents (cf. Bhaskar, 1979; Giddens, 1984; Harvey, 1985; Smith, 1996; Stuart, 2003; see also chapter 9). In addition, Harvey has been criticized for arguing that real estate investment is a “kind of last-ditch hope for finding productive uses for rapidly overaccumulating capital” (Harvey, 1985: 20). His critics have argued that the built environment is an investment channel in its own right (Feagin, 1987; Beauregard, 1994; Fainstein, 2001). Investments in the secondary circuit are not made because there are no opportunities in the primary circuit, but because the secondary circuit possesses an intrinsic dynamic that attracts investment rather than being externally driven by capital switching from the primary to the secondary circuit (Haila, 1991).

The literature on financial exclusion builds upon Harvey’s analysis. Following Harvey, the literature on financial exclusion has investigated the relationship between financial crises and the spatiality of the financial sector (Leyshon and Thrift, 1997). It is argued that the restructuring of financial markets has resulted in new geographies of exclusion on a variety of scales. Redlining could be seen as an example of financial exclusion, and since financial exclusion is a form of social exclusion, it is also a form of social exclusion. More than poverty approaches, social and financial exclusion approaches focus on processes and institutions; and contrary to traditional conceptualisations of poverty, the conceptualisation of exclusion recognises that people’s living conditions depend not just on their personal and household resources, but also on the collective resources to which they have access (Room, 1999). To analyse exclusion processes empirically, one should focus on the separate spheres of exclusion, by operationalising exclusion as multi-dimensional and by separating
the different dimensions empirically, while analysing them both separately and together. Redlining serves as a prime example of exclusion from and through homeownership. For people who are denied a loan, redlining means exclusion from homeownership; for people who are unable to sell their house at a ‘decent’ price and are forced to suffer a loss or are forced to give up their wish to sell and relocate, redlining means exclusion through homeownership.

Most of the literature on redlining comes from the United States, although some studies have also been carried out in other, mostly Anglophone, countries. Discussions on redlining in the US have been connected to debates on the causes of segregation and forms of racial discrimination: redlining is often seen as a form of (institutionalized) discrimination and as one of the causes of segregation (Galster, 1992; Kaufman, 1998; Massey and Denton, 1993). Together with many other mechanisms and policies, redlining is understood to be one of the causes of the ‘erosion of cities’, the ‘decline of (inner-city) neighbourhoods and the ‘mass exodus to the suburbs’ (e.g. Gratz, 1989).

Redlining can be traced back to the US of the 1930s. The depression led to mass unemployment, but also to the bankruptcy of many financial institutions. Many homeowners were not able to keep up with mortgage payments themselves or, because their banks went bankrupt, they were forced to refinance. But this was virtually impossible since many financial institutions withdrew from housing finance. To provoke a positive turning point, the US government established the Home Owners’ Loan Corporation (HOLC) to buy up defaulted mortgages. Although the HOLC kept tens of thousands of borrowers from losing their homes, it has also been accused of instigating redlining because it produced city maps on which neighbourhoods were rated by desirability and level of risk (Jackson, 1985). Recent research, however, shows that the HOLC was simply following dominant ideas in the real estate and mortgage market: redlining was not in fact introduced by the HOLC, as it was already being practiced at the local level; yet, the HOLC did implement and institutionalize redlining practices (Stuart, 2003; Hillier, 2003; 2005; Immergluck, 2004; Crossney and Bartelt, 2005; 2006).

In the wake of the social rights movement, redlining returned to the political and research agenda’s in the late 1960s and 1970s. Community-based organizations in particular claimed that banks were redlining large parts of American inner cities. The US government responded by implementing the Home Mortgage
Disclosure Act (HMDA) in 1975, and the Community Reinvestment Act (CRA) in 1977, acts that require lenders to report granted loans by census tract and to provide credit to the local communities within the states in which they are active. Research from the 1970s, 1980s and early 1990s often uses HMDA data to demonstrate the continuation of redlining, but recent evidence of de facto redlining is scarce (see chapters 6 and 7; see also Ross and Yinger, 2002). Moreover, lenders can easily adjust their spatial lending policies: since redlining is measured on the district level, they can engage in cherry-picking by redlining part of a district as long as they grant mortgages in others parts. Yet, studies of discrimination in lending show that social groups as defined by race or area fare poorly in obtaining mortgage loans: e.g. white neighbourhoods receive three to four times more loans per 1,000 mortgageable structures when compared to minority neighbourhoods; even after controlling for factors such as income, a wide gap remains between different racial groups and between the neighbourhoods they inhabit. Although this does not necessarily prove the existence of redlining, it does show that disparate treatment on the basis of both race and place is indeed taking place.

Although the US literature has been successful in showing how loan discrimination hits non-whites harder than whites, and how loan discrimination is connected to specific characteristics of neighbourhoods by establishing correlations, most of the literature does not address how, why and when those in power make their decisions. Recent redlining research in the US has mostly focused on models designed to predict redlining, not on the discovery and understanding of redlining: “Researchers’ elusive search for the ideal statistical model to test for the ideal statistical model to test for redlining takes attention away from efforts to identify actual neighbourhoods – not just neighbourhood profiles – where redlining occurs” (Hillier, 2003: 164). Thus, we need to pay more attention to when and why a financial institution decides to redline a neighbourhood, and why it does not happen in all metropolitan areas. In this thesis I have used such an actor-centred view, in combination with a focus on the structural components of the spatial dynamics of credit and finance.
3 Research design
Since this thesis is built on the idea that redlining takes place at the city level, but is constituted through processes and institutions at different levels, this thesis has investigated the processes taking place at different levels or scales. On the city level, this study has focused on the Dutch cities of Rotterdam, Amsterdam, The Hague and Arnhem, and on the Italian city of Milan. On the neighbourhood level, I have compared different neighbourhoods within the city of Rotterdam and in particular looked at the Tarwewijk neighbourhood in Rotterdam-South. On the international level, I have compared the Dutch with the Italian situation. I have chosen an ‘extreme cases’ or ‘contrasting cases’ approach. Because my interest is in understanding why redlining takes place in certain places, but not in others, this approach was favoured over an ‘average cases’ or ‘similar cases’ approach. On all levels, the difference between redlined and non-redlined places prompts the researcher to look for explanations for this difference, and therewith for explanations for redlining. On the other hand, but again at all levels, redlining practices that produce similar results prompt the author to look for either similar causes and triggers, or settings that are different but which nonetheless trigger the same processes. Interestingly, if redlining takes places in two cases situated at different poles of the continuum (e.g., in terms of relative size and importance of the mortgage market within Europe), it is likely that redlining also takes place in less extreme cases on the same continuum (e.g., within Europe). In other words, I have adopted a ‘small-numbers comparative design’ in which extreme cases are compared and contrasted to ensure that research findings “cannot easily be dismissed as idiosyncratic to a particular city or country” (Portes et al., 1997: 3).

It is clear that in this thesis Rotterdam is the primary and dominant case of this study. Rotterdam is the point of reference to which the other cases are compared. It is within Rotterdam that I compare neighbourhoods, it is one Rotterdam neighbourhood to which one long chapter is dedicated, and it is Rotterdam to which the other Dutch cities are compared. Milan is also compared to Rotterdam, and here the Italian national institutional context is

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20 Of course, we cannot conclude that if redlining takes place in two extreme cases, it must take place in more average cases. Yet, it indicates that we should be open to the possibility of redlining taking place in other cases.
compared to the Dutch. Rotterdam was originally selected for quite pragmatic reasons: because there were indications that redlining was taking place. Such a pragmatic reason is not necessarily irresponsible from a research perspective; Segers (1999) even argues for and advocates a search-oriented approach. Amsterdam was then selected as a contrasting case, as there were no indications of redlining. Within Rotterdam, the Tarwewijk was selected as an extreme case; it was one of the neighbourhoods that was redlined first, and was consistently redlined on almost all maps and postcode lists. A few years after the Rotterdam-Amsterdam study, I compared Rotterdam to the cities of The Hague and Arnhem. The latter two were chosen for different reasons. The Hague was selected because there were indications that redlining might be taking place. Arnhem was selected as a contrasting case: a medium-sized city outside the highly urbanized Randstad area of the Netherlands (where the Dutch ‘big’ cities of Amsterdam, Rotterdam and The Hague are located). Arnhem was favoured over other medium-sized cities because it is known to accommodate more ethnic minorities who also live in more segregated neighbourhoods than in other smaller Dutch cities.

In comparing the Netherlands to another country, Italy was selected, again in order to have access to contrasting cases. As shown in chapter 5, Italy and the Netherlands, within the European context, represent two extreme cases as regards their mortgage markets. Although both are relatively rich countries, the mortgage market of Italy is significantly smaller than the Dutch mortgage market, despite the much higher degree of homeownership in Italy (80%, compared to 53% in the Netherlands). In absolute terms, the value of outstanding mortgage debt in the Netherlands is more than 2.5 times bigger than in Italy; mortgage debt per capita (i.e. in relative terms) in the Netherlands is more than nine times as big as in Italy, and the mortgage debt to GDP-ratio in the Netherlands is almost eight times as big as in Italy. In relative size, the Dutch mortgage market is only comparable to the Danish market; and, within the EU, the Italian market only to the Greek market. In addition, within the EU, loan-to-value and loan-to-income ratios are the highest in the Netherlands, followed by Denmark and the UK, and the lowest in Italy, followed by Belgium and Germany. While contrasting two countries within Europe, I have chosen to select a somewhat comparable city within Italy. Since income and economic development differences are quite large within Italy, I have chosen a
higher-income, more developed Northern Italian city. Milan, although bigger than the Dutch ‘big’ cities, was selected because it is considered a former industrial city that is today once again at the centre of the Italian economy, with high shares of people employed in trade and services, just like the cities of the Randstad.

In this study, I have applied different research strategies (see chapter 2) in different parts of this thesis. The different strategies all have their strengths and weaknesses, and some are better for answering a particular type of question than others. For this reason, I have used different research strategies for the different parts of this research project in sequence. Many of the empirical chapters rely on the abductive strategy. Within this strategy the main method applied was interviews with key actors. In all of the selected cities, a number of informants, mostly real estate agents and mortgage intermediaries, but also bank managers and local councillors have been interviewed (semi-structured in-depth interviews). In total, almost 90 in-depth interviews (of which 25 were done in Italy) and about 40 short interviews (all in the Tarwewijk neighbourhood of Rotterdam) have been undertaken. In addition to interviews other methods have been applied, such as document analysis and observation. Other research strategies used are the deductive and retroductive strategies. Chapter 6 uses a deductive strategy and applies discriminant analysis to find out which types of neighbourhoods are redlined. Chapter 10 uses a retroductive strategy to find out why redlining took place in Rotterdam, but not in Amsterdam. Chapters 4 and 5 also use a retroductive strategy to analyse mortgage markets. Chapter 4 combines a literature review with material from the above-mentioned interviews, while chapter 5 builds on research and statistics from mortgage market organizations.

4 The loan application process and credit scoring: The silent globalization of the mortgage market

Each time someone applies for a loan, the lender wants to make sure that the borrower will pay the interest on the loan and will eventually be able to pay off the loan. In today’s consumer finance market, it is rare for a lender and a borrower to know each other personally. But as the lender runs risks by lending money, s/he will try to get information about the potential borrower. This is also in the best interest of the borrower because the limitation of risk for the lender will first, increase the likeliness of getting the loan, and
second, may limit the interest rate charged. In addition, the lender will look for other ways to limit the risk. In the mortgage market, one way of doing this is through collateral. Collateral is a guarantee for a loan provided by the borrower. A borrower who applies for a mortgage loan to buy a house may bring in the value of the house as collateral. In effect, the lender may take possession of the collateral if the borrower repeatedly defaults on her/his loan. As a result, the value of the house is important for two reasons: first, because the ability to pay off the loan may depend on the value of the house in the case where the borrower moves out, and second, because the value of the house represents the value of the collateral functioning as a guarantee for the lender against the risk s/he runs. The value of the house is not static, but dynamic, and changes in value will depend on not only on factors such as maintenance, but also on the value of other houses in the same neighbourhood. Because of the importance of the value of the house in a mortgage loan, lenders usually require a valuation report. Lenders will be less likely to give loans on properties with a low value or a high chance of declining value.

Likewise, lenders prefer to give loans to secure borrowers. The security of borrowers depends on many factors, but the income level and the permanence of income are most important. Next, lenders will collect information on how the borrower has handled loans in the past: if a borrower has defaulted on loans in the past, the lender may be less willing to grant a mortgage loan. In addition, the lender will map the social environment of the person and may therefore look at factors such as age, ethnicity, gender, household type, type of job, bank account and credit cards and geographical location. For legal reasons, lenders may not always be able to map all of these factors, but they will collect as much information as possible. All data on potential borrowers – both on an individual level (e.g. income) on a group membership level (e.g. geographical location) – are computed together in a credit scoring system. Credit scoring is “the evaluation of loans according to statistical models that correlate borrower and mortgage characteristics and the likelihood of default” (Golding, 2005: 105). By quantifying more precisely the probability of default, credit scoring enables lenders to more accurately predict, and consequently price, borrower risk. Credit scores usually fall into one of three categories: accept, decline, and review. The last category means that applications are too risky to grant a loan directly, and will be assessed by a loan officer. The loan officer has a gatekeeper role.
in assessing these ‘in-between’ applications and makes the final decision based on additional guidelines, rules of thumb, gut feeling and what is considered common knowledge in the field (or in other words, based on informal lending institutions). Mortgage lenders and loan officers do not just act in a rational, conscious, logically quantifiable manner; exclusionary practices are rooted in culture and in social institutions (Bradford and Shlay, 1996; see also chapter 4; Lipsky, 1980; Stuart, 2003). An alternative to the system of accept-decline-review is that a lender will apply a different interest rate to each credit score. This is called risk-based pricing and implies that only very high-risk applicants will be denied a loan, while medium high-risk borrowers will be granted a loan with a high interest rate, and low-risk borrowers will be granted a loan with a low interest rate. In the Netherlands and Italy, the application of risk-based pricing is the exception rather than the rule.

But how does this relate to redlining? At first sight, it might seem that credit scoring systems have been so well developed to accurately predict borrower behaviour that lenders no longer need such crude methods as redlining to limit risk. Although this may very well be the case, this does not necessarily mean that redlining has in fact become obsolete. Firstly, redlining may take place next to credit scoring: this way formal application procedures that generate the input for credit scoring systems have to make no mention of ‘postcode policies’, while lenders can still enact redlining policies. Secondly, lenders may use geographical location as an additional criterion, in particular when reassessing ‘review cases’. Thirdly, because geographical location may be included in credit scoring systems, redlining may take place through those credit scoring systems, as geographical location may be the decisive factor in turning down an application, in particular if geographical location gets a relatively large weight in a credit scoring system. Even though geographical location will not be the only factor predicting exclusion or inclusion, the result nonetheless is de facto or actual redlining. In this way, credit scoring systems reinforce forms of financial exclusion, and the perceptions of financial organizations become ‘self-supporting social constructs’ (Leyshon and Thrift, 1997; Stuart, 2003: 173). It has been demonstrated in chapter 11 that redlining clearly takes place after and next to credit scoring in the cases of Rotterdam and The Hague.

It is important to realize that credit scoring and redlining take place through a process of quantification in which non-quantitative
information (alongside quantitative information) is translated into quantitative information,\textsuperscript{21} and subjective information becomes objectified in order to enable lenders to deal with individuals as risks. Quantified information may appear to be objective, but is actually a social construction, an objectified truth (Porter, 1995).\textsuperscript{22} Although all information systems are arguably social constructions, the aspect that sets quantified information systems apart is the fact that they fail to consider contextual information (e.g. individual and local circumstances). Paradoxically, the application of credit-scoring models disregards geographical differences among individual consumers while simultaneously reducing them to the status of members of assumed groups (see chapter 4). Although social-geographical differences are used as input for these models, credit-scoring models simultaneously ignore the local context by applying similar models in different contexts (cf. Scott, 1998). Credit scoring was originally developed in the US to analyze credit card applications, but is now used for all kinds of assessments, not only in the US but all over the world, and its application has seen a fast advance in Europe (see also Thomas, 2000). The spread of credit scoring from the US to other parts of the world can be seen to embody the globalization and standardization of financial regulation.

Yet, mortgage markets in Europe do not seem to be very globalized or even europeanized. European mortgages markets are quite different from one another in many respects: in most countries national companies continue to dominate the market even though regulation itself has been internationalized to some extent. Europeanization has been slow for various reasons: tax, law, cultural and structural differences play a part, but the limited market share of mortgage intermediaries and the unequal treatment of foreign

\textsuperscript{21} Note that there is a difference between ‘quantified’ and ‘quantitative’. Also note that information that is said to be ‘quantitative’ is often actually ‘quantified’.

\textsuperscript{22} Stuart (2003) shows how lenders form and apply criteria that they view as ‘formal rationality’. Based on interviews and a quasi-experiment, he demonstrates how information about potential borrowers can be explained and quantified in different ways, even by mortgage lending professionals within the same organization. Information that has been gathered must eventually be reduced, and the possible options for reduction ‘can never cover all situations’. Therefore, as in the days of the ‘qualified customer’, loan officers are “still party to the construction of risk in this process” (Stuart, 2003: 130).
mortgage lenders in some countries also form a barrier. Yet, we can expect a further globalization of the funding market – that is, the secondary mortgage market – but not of the other parts of the mortgage market – that is, the primary mortgage market (lending), distribution and servicing. Indeed, the globalization of firms can take place in the absence of globalization of regulation and markets (Drahos and Braithwaite, 2001). The globalization of regulation remains partial, while the globalization of firms is limited, but will reach higher levels in the near future. In addition, the Basel regulations have institutionalized and speeded up convergence in credit risk management and solvency standards resulting in the erosion of differences and the creation of a level playing field. Even though regulation is being more and more harmonized, this does not lead to the creation of one European market. Aside from the secondary mortgage market, the European financial landscape will remain one of different national mortgage markets that increasingly resemble each other; the creation of one mortgage market, however, is an illusion. This also implies that the application of credit scoring and redlining will be adapted to national and local mortgage markets; there is a distinct geography not only to the globalization and Europeanization of the mortgage market, but also to the application of credit scoring and redlining.

5 Summary of the empirical results
This study has demonstrated that during parts of the 1990s, redlining was common practice in Rotterdam. All the major mortgage lenders were redlining large parts of Rotterdam-South, -West, and to a lesser degree, -North. Of the two largest mortgage loan suppliers in the city (two large general banks) one used a map in which redlined neighbourhoods were actually coloured red, while areas where it was possible to get a loan only on uneven conditions, were coloured yellow (hence the term yellowlining). The other bank used a list with postcodes. On this list, each postcode was followed by number I, II or III: III corresponding to redlining, II to yellowlining, and I to granting mortgages under ‘normal conditions’ (i.e., up to 125% of estimated value). Although both these lenders adapted their policies several times, by the end of 1999, the redlined areas were almost identical.

The redlining of Rotterdam-South has its roots in the national housing recession of 1980. The collapse of the housing market at this time led to lower real estate prices, and mortgage lenders started to act more carefully in providing mortgages for apartments in
Rotterdam-South. Many banks approved few mortgages in these neighbourhoods, while others distributed no mortgages for homes valued at under 100,000 guilders [45,000 euros]. In those days, there were virtually no apartments above the 100,000 guilders limit in these neighbourhoods. At the end of the 1980s, conditions improved: one bank, with the help of a real estate agent, drew up a map indicating in which areas they would or would not invest. In the early 1990s, restrictions were loosened and other lenders followed. In 1998, the pendulum swung back: restrictions were enforced and tightened. The effect of the mortgage investment map that had initially led to an improvement in conditions for mortgage applicants was now being reversed; in certain neighbourhoods it became almost impossible to get a mortgage. Surprisingly, the very map that brought about all the fuss at the end of 1999 (see chapters 1 and 6) was originally meant to tackle and forestall redlining! Moreover, one of the people involved in creating the coloured map in 1994 became one of the real estate agents who complained about it in 1999. In October 1999, a city district councillor made these redlining practices public. Banks denied the existence of ‘coloured maps’ and postcode lists or dismissed it as ‘occasional’.

In contrast to the situation in Rotterdam, no evidence of redlining has been found for Amsterdam in the late 1990s. Some yellowlining did occur, but it was not widespread. By 2001, even the incidence of yellowlining had faded in Amsterdam. In Rotterdam, redlining had disappeared by 2001, but some forms of yellowlining were still evident. In section 7 I will explain the differences between Rotterdam and Amsterdam as well as between 1999 and 2001, and therewith also provide some building blocks for an explanation of redlining.

Research undertaken in 2005-2006, that not only focused on redlining, but also on the exclusion of ethnic minorities from mortgage loans, shows that redlining took place in Rotterdam and The Hague, but not in Arnhem. The incidence is, however, much more limited than in the late 1990s, and redlining had become much more entangled with credit scoring. Members of ethnic minority groups, and applicants applying for what lenders consider ‘high-risk’ neighbourhoods, have a bigger chance of being rejected by a loan officer than other applicants in cases in which they fall into the ‘review’ category, based on their credit score. It is likely that that loan officers work with an additional list of ‘high-risk’ postcodes. Furthermore, most lenders do not want to grant mortgages on loans without Nationale Hypotheek Garantie (NHG, national mortgage
guarantee; see chapter 10, section 4.2) in ‘high-risk’
neighbourhoods: in The Hague and Rotterdam, NHG is a
requirement, and in Arnhem a preference, for mortgage loan
applications in these neighbourhoods. In addition, some lenders in
The Hague create a Catch-22 situation, or double-bind, by making
NHG compulsory in ‘high-risk’ neighbourhoods, not just for loan
applications under 250,000 euros but also for applications over
250,000 euros which is formally impossible because NHG works with
a 250,000 euro ceiling. Besides the NHG-requirement, there are
some lenders in Rotterdam and The Hague that, based on the
neighbourhood, reject even those applications which meet both
NHG-criteria and the lender’s official criteria; this is a de facto
redlining policy. However, lenders do not reject all applications,
which suggests that they either make their selection on a smaller
scale, or that they deliberately accept a few applications in order not
to be charged with redlining. Some lenders also work with
thresholds, excluding, for instance, all applications under 100,000
euros, thereby essentially hitting the same neighbourhoods that are
excluded under postcode policies.

Research on the Tarwewijk neighbourhood in Rotterdam shows
that neighbourhood decline was one of the reasons that lenders
redlined the area, while redlining fuelled neighbourhood decline, the
self-fulfilling prophecy discussed in the introduction of this chapter.
As a result of redlining, residential turnover increased and housing
maintenance was discouraged. Despite the actions of a local social
housing association that was buying up deteriorated private rented
housing units, dubious landlords acquired both former owner-
occupied housing and private rented housing at prices far below the
‘normal’ market value. The high social mobility and the low popularity
of the Tarwewijk resulted in it becoming a neighbourhood of last
resort increasingly inhabited by those with the least options in the
housing market. Those in this group include not only the poor and
the unemployed, but also drug users, marginal drug dealers and
undocumented immigrants. Dubious landlords let beds to criminals
and drug users likely to cause nuisance and trouble, and to others,
like undocumented immigrants, who seek anonymity. Social
cohesion and control slacken, housing prices fall and many
residents, wanting to leave the neighbourhood behind, sell their
houses at fire-sale prices to these landlords. The withdrawal of
mortgage lenders, respected landlords and the better-off from the
Tarwewijk, which was inspired by the decline of the area, resulted in
the further decline of the neighbourhood.
Of course, political and government-related actors also made a difference in the Tarwewijk. And it is here that the (West-)European experience of neighbourhood decline and redlining is different from the US experience. Although the state may sometimes appear to be absent (as was apparently the case in the Tarwewijk in the late 1990s), this is hardly ever so for a long period of time: crucial institutions had not in fact retrenched from the Tarwewijk, although the quality of their services could sometimes be questioned. The Tarwewijk was not abandoned by the state (see Wacquant, 1996). In fact, the state played a substantial role, first by withholding an urban renewal scheme, and then by closing down ‘Perron Nul’ (a shelter for drug users) and chasing drug users away from the centre. But political and government-related actors (such as the police) also played a role by initially not taking action while the Tarwewijk was visibly declining – that is, by ‘permitting’ some streets to become ‘drug havens’. Later on, these actors also played a positive role in combating drug trade, buying up properties from dubious landlords and working on the social, economic and physical renewal of the neighbourhood.

Research on Italy first shows that in recent years real estate investment has been used as a safe haven in times of economic stabilisation and depression. Second, it is evident that the restructuring of the financial services industry in response to changes in the national and international regulatory environment resulted in the loosening of historically stringent lending criteria, leading to a tremendous growth in mortgage lending. Although this enabled households to take out bigger loans and make smaller down-payments, the related increase in housing prices means that homeownership has not become more accessible. In addition, the co-evolution of family and homeownership has been sustained and this contributes to explain why the mortgage market, even though it has expanded a lot, is still less dynamic than in countries like the US, the UK, Denmark or the Netherlands. Moving from the national level to the city level, it is demonstrated in chapter 12 that in the metropolitan area of Milan, geographical disparities in mortgage lending persist despite the fact that access to mortgages has increased throughout Milan. Redlining is not common in Milan, but yellowlining is the order of the day: banks greenline large parts of the metropolitan area of Milan (100% loan-to-value mortgage loans on advantageous conditions), but they also disfavour some, usually smaller, areas in which higher down-payments are required or loan conditions are unfavourable in another way (higher interest rates,
lower loan-to-value ratios, special fees). This form of yellowlining differs per bank, although in the long term the loan policies of different banks are quite similar.

6 Neighbourhood forces

Chapter 7 has demonstrated that redlined neighbourhoods in Rotterdam are neighbourhoods with high shares of low-income households, unemployed, ethnic-minorities and non-natives. All these variables individually accurately predict about 80% of the cases. Variables related to the share and value of owner-occupied dwellings also accurately predict a smaller percentage of the cases. While discriminant analysis is unable to explain the reasoning behind redlining, it is at least able to show the interaction of group related variables involving ethnicity or income, on the one hand, with housing related variables, on the other hand, accurately predicts 80 to 95% of the cases. In other words, social-demographic characteristics together with housing market characteristics show what types of neighbourhoods are redlined: in Rotterdam these are low-income, high-immigrant neighbourhoods with a low share of owner-occupied units that also tend to be of low value. Safety levels, on average, are somewhat lower than elsewhere. They are not necessarily neighbourhoods with a high population turnover, with high vacancies or with older dwellings; redlining cannot be ‘explained away’ as the result of an ‘age-depreciation process’, as Margulis (1998) has tried to do.

Chapter 11, in addition, also demonstrated that lenders consider neighbourhoods with a relatively large share of ethnic minorities to be high-risk neighbourhoods. In Rotterdam, The Hague and Arnhem the neighbourhoods with the highest shares of ethnic minorities are all faced with exclusion; vice versa, all neighbourhoods faced with exclusion have large shares of ethnic minorities. This does not imply that place is used as a proxy for race in exclusion policies, but it does imply that ethnic minority groups can be hit twice: through place-based and through race-based exclusion. The neighbourhood plays a causal role in this: place-based exclusion in the mortgage market constitutes a neighbourhood effect because the neighbourhood plays a role in who gets a mortgage and who does not. This decision may very well be a result of a relatively large share of high-risk borrowers in a certain neighbourhood, but since exclusion is performed on a neighbourhood basis, the neighbourhood may be the decisive factor in the rejection of a mortgage loan application.
Chapter 11, like chapter 7, has also shown that most of the excluded neighbourhoods created by either redlining policies or by threshold policies are neighbourhoods with relatively low shares of owner-occupied housing. One possible explanation for redlining found in the literature is that lenders exclude neighbourhoods with low shares of owner-occupied housing because they lack information on default rates or price developments in these neighbourhoods (Immergluck, 2004; Ross and Yinger, 2002). In economic terms: exclusion is caused by information asymmetry (Stiglitz and Weiss, 1981). However, explanations that focus on information asymmetries are not valid because several neighbourhoods with average or above average shares of owner-occupied housing are also excluded. An explanation that may be valid in explaining the exclusion of applications that meet NHG-criteria is that of transaction cost economizing (Williamson, 1981) according to which lenders may reject even seemingly profitable low-risk loan applications if the transaction costs they bring with them are considered too high.

Nooteboom (1993) distinguishes between three forms or stages of transaction cost economizing: contact, contract, and control. At the stage of contact, the lender incurs the costs of marketing. Since marketing efforts do not focus specifically on the excluded neighbourhood, the problem of redlining and high thresholds cannot be explained by contract cost economizing. At the stage of contract, costs are “incurred in the preparation of an agreement to transact in which one tries to anticipate possible problems during execution. Costs include search of information on reliability of the transaction, possible contingencies in the future and degree to which investments will be sunk” (Nooteboom, 1993: 285). This thesis demonstrates that contract cost economizing may be a cause for the exclusion of low-volume loans and of specific neighbourhoods. Since contract costs arise regardless of the transaction size, they weigh heavily for smaller mortgage loans; lenders may therefore introduce a threshold policy. And since potential profits may not outweigh contract costs, in particular in anticipation of possible problems during execution, specific neighbourhoods may also be redlined. Lastly, at the stage of control, costs involve “monitoring, settling disputes (‘haggling’), renegotiation, arbitration, litigation, [and] loss of investments due to the relationship breaking up” (Nooteboom, 1993: 285).

23 Of course it is possible that lenders decide not to focus their marketing on certain neighbourhoods at all, but this would not be an explanation of redlining.
Interviewees have indicated that, in particular, the administration costs related to repeated default and consequently to the sale of the house (that is, costs related to litigation and relationships breaking up) may be considered too high to grant mortgages in neighbourhoods with a high probability of default, despite the fact the NHG compensates possible loss on the sale of the house (that is, the NHG compensates for loss of investments).

Empirical research on redlining usually stops after the different correlations have been modelled in such a way that a maximum correlation has been established between the independent variables and the dependent variable (i.e., lending behaviour). There are at least two serious shortcomings to this. First, it is not always clear how independent the so-called ‘independent variables’ are. The point is that ‘independent variables’ can themselves depend on lending behaviour, and, thus, it is not proper to see lending behaviour as a function of these variables. Second, the correlations between lending behaviour and other variables are usually presented as an explanation of redlining. Even if it were possible to construct truly independent variables, one cannot automatically assume that correlation equals causation. Presenting correlations as explanations overlooks how these variables are defined by the people being studied (Blumer, 1969), in this case the managers and loan officers of mortgage lenders. Thereby, this analysis provides one important building block to the construction of an explanation of redlining, but by itself it does not present an explanation: it is simply a list of factors possibly contributing to redlining and “a list of factors does not make an explanation” (Smith, 1996: 56). A dynamic approach recognises the higher-level processes that influence redlining, by analyzing the dynamics of neighbourhood decline through intentional and unintentional agency. It goes further than simply showing where these changes take place. The fate of a place depends not only on structural processes and the decisions of individual households to move, but also on the actions of government institutions and the real estate industry. Actors such as mortgage lenders and landlords should be seen as intentionally and unintentionally restructuring the local real estate market and thus possibly producing, contributing to or blocking, processes of redlining and neighbourhood decline. High

Lending behaviour is often seen as a function of income, race or housing values, but one can also hypothesize that these variables (with the exception of race) are a function of lending behaviour. Housing values, for example, will likely go down during the process of redlining.
residential mobility, drug dealing and use, redlining and housing speculation feed upon one another. Each of these processes is both a structuring element and a result of neighbourhood decline.

7 City forces
In chapter 10 the geographical patterns of mortgage finance in Rotterdam were compared to those in Amsterdam for the years 1999 and 2001. An analysis of the differences between the two cities shows that the applicability of institutional control measures plays a vital role: after the NHG had become applicable in Rotterdam in 2000, no proof of redlining could be found in 2001. The NHG has been applicable in Amsterdam since its establishment in 1995. However, the applicability of the NHG cannot explain yellowlining in Amsterdam in 1999 and in Rotterdam in 2001. To explain this apparent inconsistency, two other explanatory mechanisms were introduced: the housing market and the mortgage market. A tight housing market (like the one in Amsterdam) and a loose mortgage market (like the one in 2001) are optimal conditions for the prevention of redlining. In tight housing markets yellowlining (usually connected to downgrading) of some neighbourhoods can amalgamate with the upgrading of these neighbourhoods. A loose housing market (like the one in Rotterdam) and a tight mortgage market (like the one in 1999), on the other hand, are optimal conditions for the occurrence of redlining.

On a more abstract level, the comparison of the cases of Rotterdam and Amsterdam has shown us that it is not only differences between neighbourhoods within a city that are significant in explaining redlining, but also that differences between cities (in this case within one country) can be just as significant. Despite the relatively low level of internal spatial differentiation in the institutional structure of the Netherlands, redlining patterns are completely different in its two largest cities, two cities that both accommodate more ethnic minorities than almost any other city in Europe, and two cities that both have their ‘good’ and ‘bad’ neighbourhoods, although not in the same way as their US counterparts, but in a ‘European style’. Together with the analysis in earlier chapters, this demonstrates that differences in redlining patterns may depend on the economic situation of cities and on the state of the housing market (tight or loose), while also being contingent on the individual actors involved. A decision to redline an area, after all, is taken by people, and for the simple reason that people are different, redlining
patterns may also be different. In addition, the comparison between two years has demonstrated that not only the state of the housing market, but also the state of the mortgage market (tight or loose) may make a big difference, as lenders may be less likely to redline areas in a loose mortgage market.

A comparison of redlining practices in time (1980-2006) for the city of Rotterdam has also taught us more about the decision environment in which mortgage lenders make their decisions (see chapter 8). Redlining practices have rational motives behind them (see also the earlier account of ‘transaction cost economizing’), but that does not mean rational action theory (whether in the form of rational choice theory or of neoclassical economics) can adequately account for redlining patterns. Economic behaviour is shaped by social institutions (customs and conventions and the meanings they have for people) and the habitus of the field. In the face of uncertainty, context-bound rationality guides the exclusion of high-risk areas or high-risk borrowers; in this the social and institutional setting, in combination with the economic climate, is important in explaining when redlining occurs, when it does not, and which form it takes. This working of the market is miles away from perfect competition in a neoclassical sense, and comes much closer to White’s observation of a market as a ‘tangible clique of producers’ who are watching each other and who ‘create a mirror in which they see themselves’ (White, 1981: 543). Powerful actors can push their agenda in favour of redlining. As the case of Rotterdam shows, lenders watch one another and act based on signals, they may adjust their policies up to the point where a market leader’s actions may be copied by other mortgage lenders, and through a ‘race from the bottom’ the market leader may implement even more constraints. But other powerful (state) actors, such as a local councillor in the case of Rotterdam, may also play a role in removing those constraints. The result of the actions of the different actors involved in this field shape the dynamics of redlining practices at the city level.

8 National and international forces
Considering the large differences between mortgage markets in the Netherlands and Italy (chapter 5), it is surprising to find that the differences in redlining, and place-based exclusion defined more widely, between two cities in the same country may be bigger than those between a Dutch city and an Italian city. The clearest examples of place-based exclusion are found in Rotterdam, followed
by The Hague, and the least clear examples are found in Amsterdam and Arnhem; Milan is in the middle. To a certain degree, the same processes are at work in all five cities, but the differences in redlining practices may be explained by differences between the individual cities, between countries and between individual actors. It is likely that the yellowlining practices that occur in Milan would not have occurred if Milan had had an instrument like the NHG. The organization of the mortgage market and the banking sector make a difference as well: Dutch lenders clearly watch each other very closely and have very similar mortgage lending policies. In Italy, on the other hand, the differences between mortgage lenders are much bigger and it is common that one or more lenders yellowline an area, while one or more other lenders greenline it. The Dutch mortgage market is dominated by a few big players and a number of smaller players. The Italian mortgage market, on the other hand, can be characterized as made up of a large number of players of all sizes. In addition, Italian banks may also be so busy in keeping up with (increasingly foreign-owned) competitors in expanding the mortgage market, that watching and copying other lenders’ geographical mortgage lending policies may have a low priority. Lastly, credit scoring systems are much less developed in Italy, which may also mean that different lenders make their decisions on different types of information and that their solutions are not as standardized as in the Netherlands because they do not use standard credit scoring and loan application systems. Since the comparison of extreme cases has demonstrated geographical exclusion – whether in the form of redlining or yellowlining – in different mortgage markets, the research findings “cannot easily be dismissed as idiosyncratic to a particular city or country” (Portes et al., 1997: 3). Moreover, not only national lenders but also foreign lenders, such as a Belgian bank in the Netherlands and British banks in both Italy and the Netherlands, are involved in exclusionary practices. This increases the likelihood of the occurrence of redlining an/or yellowlining practices in other European countries.

On a different level, while Harvey’s argument that capital switches from the first to the secondary circuit is validated by the Dutch and Italian cases, Harvey’s critics are also right in arguing that the secondary circuit presents an investment channel in its own right. The case of Milan shows that capital switching to the built environment is partly a sign of economic crisis and partly a sign of
the intrinsic economic opportunities of the built environment. A major factor in both processes is that the deregulation and re-regulation of the mortgage market has enabled capital to switch to the secondary circuit in order to avert a crisis in the primary circuit (Italy), but also in order to be able to extract the opportunities that the built environment by its very nature offers (Italy and the Netherlands). Capital switches between different opportunities; this can entail switching between the primary and secondary circuits, but can also involve switches within a single circuit. In both the Netherlands and Italy we can see that the mortgage market not only started including people who had been hitherto excluded, but also that, as a result of improved methods of risk and default prediction, other people became excluded from access to mortgage loans. This double movement of inclusion and exclusion is a typical process described in the financial exclusion literature. In this process credit is “redirected away from poorer to richer (and therefore ‘safer’) groups” as part of a strategy of risk avoidance (Leyshon and Thrift, 1997: 225).

Formal institutional frameworks play a significant part as well. If redlining is prohibited, as it is in the US, we can expect one of two outcomes: in the first, redlining is discontinued, while in the second redlining is practiced in such a way as to make it hard to be uncovered by state institutions or researchers. In many countries there may be no equivalent to the word redlining, but that does not mean redlining is not prohibited. In fact, many countries have laws on equal treatment, and it may be the case that redlining is actually prohibited on the basis of these laws, as well as on jurisprudence. Prohibition by itself is of course not enough; enforcement is also necessary. In the US, law enforcement on these issues is not a top priority and community organizations have a constant struggle to push market supervisors and courts to take action. In the Netherlands, the lack of interest in these issues has meant that so far there has been no law enforcement; because of the small scale, redlining charges have been waived away. But if lenders continue their exclusionary practices, it will only be a matter of time before action will be taken and laws will be enforced.

Institutional frameworks also play another role. Institutional control measures may decrease the likeliness of redlining. Both the Netherlands and the US have such a control measure in the form of

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25 The latter is also clearly the case for the Dutch cases.
private instruments, though they are regulated differently. In the US, but also in other countries such as the UK, borrowers can apply for private mortgage insurance (PMI) that limits the risks run by lenders and therefore results in lower interest rates. In the Netherlands the mortgage market is provided with the *Nationale Hypotheek Garantie* (NHG, national mortgage guarantee; see also chapter 10, section 4.2), a state-initiative that redirects default risk from the lender to the administrator of the NHG, a state-backed non-profit organization. Borrowers pay a one-off premium to the administrator and lenders provide a discount on the going interest rate. In case of repeated default, lenders can ask the administrator to take over the loan; the administrator will try to collect as much as possible from the borrowers and will pay off the rest of the loan with the equity it acquired from the premiums. As we have seen in the empirical chapters of this thesis, the NHG plays a pivotal role in (non-) exclusion in the Dutch mortgage market. The applicability of the NHG makes redlining less likely, but, on the other hand, there are also lenders that do not want to grant mortgages on loans without NHG in ‘high-risk’ neighbourhoods. In this sense the connection between NHG and redlining is similar to the connection between PMI and redlining found in the study by Ross and Tootell (2004): NHG (Netherlands) or PMI (US) is a necessary condition in low-income, ethnic-minority postcodes. Without NHG and PMI, redlining practices would be in place; the practice of making NHG, or PMI, compulsory in some neighbourhoods works as a substitute for redlining. To prevent redlining in the Netherlands, the NHG is a necessary, but not by itself a sufficient condition.

9 Coda
One central element of this thesis has been the attempt to understand redlining from different angles and perspectives. Not only the focus on different levels or scales, but also the use of different research strategies is central to this approach. This increases the validity of the explanation and the understanding of redlining put forward in this thesis. Retroductive, deductive and abductive research strategies have been used alternately. While the first two strategies have enabled recognition of the structural dimensions of redlining, the abductive strategy has allowed for an actor-centred view. Such a multi-faceted approach could have generated opposite or conflicting results, but this has not been the case. Rather, the results of the various phases of research and analysis have been
complementary, sometimes confirming earlier results or empirically affirming earlier analysis and sometimes adding to the understanding of redlining by covering additional elements of explanation.

It is important to recognize that the occurrence of redlining is not of a structural nature, nor of an occasional nature, but rather of an endemic nature: it occurs under certain circumstances and conditions. Indeed, redlining is partly of a cyclical nature: it is influenced by the economic trends in the housing and mortgage markets as well as by the applicability of deliberate institutional control measures, whether they are laws or institutional structures like the NHG. A decision to redline an area is made by lenders on a city level, but their decision is framed not just by the differences between neighbourhoods in the city, but by processes and institutions at all scales. Rational choice and neoclassical economics do not explain redlining; they merely explain that redlining is a rational decision taken to cut back risk and to increase profits. There is nothing wrong with this conclusion, but it tells us very little about the issue of where and when redlining takes place. It is only by looking at the processes and institutions located at different levels that we can begin to understand redlining.

At the individual level, the questions come down to whether someone can pay off a loan (income, value of the collateral/house etc.) and whether someone is willing to pay off a loan (behavioural risk, credit scoring etc.). Although individual exclusion can never constitute redlining, on an aggregate level a concentration of certain groups may tempt a lender to redline. Therefore, when we look at differences between neighbourhoods in a city, the share of ethnic minorities, the share of low-income households, the share of owner-occupied housing and the value of real estate all play significant roles. At the neighbourhood level factors like the popularity of the area, maintenance of the housing stock, speculation and drug use may play a role; redlining and neighbourhood decline feed upon each another. The city or metropolitan level presents the local decision environment, but what also matters at this level is the state of the housing market (redlining is less likely in a tight housing market than in a loose housing market). On a national level, the mortgage market structure matters for at least two reasons: first, rules and regulations (e.g. NHG), and second, tight versus loose mortgage markets (redlining is less likely in a loose mortgage market), make a difference. On a global (and European) level, it matters that markets, market players and market regulation are
becoming more international. It is the globalization of market regulation (e.g. Basel agreements) – partly through the globalization of markets and market actors – that spreads loan application methods such as credit scoring that quantify the information provided by potential borrowers in a way that ignores geographical differences and excludes the necessary role of local knowledge, thereby reducing individual consumers to the status of members of assumed groups – which brings us back to the individual level.

References


Samenvatting

Who’s afraid of red, yellow and green?: De geografie van redlining en uitsluiting in Nederland en Italië

1 Inleiding
Op de hypotheekmarkt zijn structuren en actoren die de verstrekking van leningen reguleren. De wijze waarop in een land hypotheekleningen worden verstrekt is enerzijds afhankelijk van de rol van de overheid in het reguleren van de markt en anderzijds van het beleid van individuele hypotheekverstrekkers. Hierbij is het aannamebeleid van de individuele hypotheekverstrekkers in grote lijnen hetzelfde. De overheid speelt een actieve rol, bijvoorbeeld door de hypotheekrenteaf trek die nergens in de wereld zo ruim is als in Nederland. Daarnaast getuigen ook subsidies en de Nationale Hypotheek Garantie (NHG, een initiatief van de overheid) van de rol van de Nederlandse overheid. Ook de verkoop van sociale huurwoningen stimuleert indirect de groei van de hypotheekmarkt.

Hypotheekaanvragen worden op basis van verschillende gegevens beoordeeld. Hierbij zijn de hoogte en de stabiliteit van het inkomen in verhouding tot de hypotheeksom en de executiewaarde van de woning in verhouding tot de hypotheeksom van het grootste belang. Ook wordt er gekeken naar het ‘kredietverleden’ van de aanvrager (in Nederland via een toets bij het Bureau Krediet Registratie in Tiel). Dit proefschrift laat zien dat deze factoren samen met een aantal andere minder zwaarwegende factoren, waaronder de postcode, worden beoordeeld in een ‘credit-scoringssysteem’. De credit score kan in drie categorieën uiteenvallen: (1) accepteren/financieren (hypotheek verstrekken), (2) niet-accepteren/niet-financieren en (3) beoordeling door een medewerker van het hypotheekbedrijf. Bij optie 3, vaak het ‘grijze gebied’ genoemd, vindt de uiteindelijke beoordeling niet alleen op basis van de formele acceptatienormen plaats, maar ook op basis van de inzichten van de medewerkers van het hypotheekbedrijf die met de beoordeling zijn belast. Zij kunnen met aanvullende criteria werken (die niet in het credit-scoringssysteem zitten) en de uiteindelijke beoordeling hangt af van hun risico-inschatting.

Een specifieke vorm van niet-accepteren vindt plaats op basis van de wijk en staat bekend als redlining. De reden dat financiële instellingen weigeren mensen uit een bepaalde wijk een lening te
verstrekken, is dat zij er geen vertrouwen in hebben dat deze mensen hun schuld weer kunnen inlossen. Dat kan voortkomen uit een gebrek aan vertrouwen in de bewoners van de wijk, maar ook uit het vermoeden of de vrees dat de vastgoedprijzen in deze wijken zullen gaan zakken. Het risico dat de koper zijn huis slechts voor een lagere prijs weer kan doorverkopen en daarom de hypotheek niet kan aflossen, wordt te groot geacht. Doordat potentiële kopers niet of slechts zeer moeizaam een hypotheek kunnen krijgen in een wijk die is ‘geredlined’, kunnen de zittende bewoners hun woning steeds moeilijker tegen een redelijke prijs verkopen. Als gevolg hiervan zitten ze vast in hun buurt. De woningprijzen in de wijk zullen dan daadwerkelijk zakken. Er is sprake van een zichzelf waarmakende voorspelling (self-fulfilling prophecy): omdat de hypotheekverstrekker verwacht dat de prijzen dalen, worden er geen hypotheken meer verstrekt, waardoor de prijzen inderdaad dalen. Redlining treft voornamelijk buurten met een laag gemiddeld inkomen en een hoog percentage etnische minderheden. Redlining treft echter niet alleen de huishoudens met een laag inkomen of de etnische minderheden in een buurt, maar iedereen die in een geredlinede buurt een hypotheek aanvraagt.

In de Verenigde Staten is veel onderzoek gedaan naar redlining. Buiten de V.S. is redliningonderzoek alleen verricht in andere (deels) Engelssprekende landen als Canada, Groot-Brittannië, Zuid-Afrika en Australië. Dit onderzoek is het eerste onderzoek naar redlining en aanverwante processen in continentaal Europa – om precies te zijn in Nederland en Italië. De keuze voor Nederland en Italië is het resultaat van een analyse van verschillende West-Europese hypotheekmarkten. Uit deze analyse bleek dat binnen West Europa (c.q. de voormalige Europese Unie van vijftien landen) Nederland en Italië twee extremen vertegenwoordigen. Enerzijds Nederland met een zeer uitgebreide hypotheekmarkt met veel mogelijkheden, hoge uitstaande schulden (zowel per huishouden als per bruto nationaal product), lage aanbetalingsverplichtingen en een laag aandeel leners dat de lening niet of onzorgvuldig afbetaalt; en anderzijds Italië met een zeer beperkte hypotheekmarkt met relatief weinig mogelijkheden, lage uitstaande schulden (zowel per huishouden als per bruto nationaal product), hoge aanbetalingsverplichtingen en een hoog aandeel leners dat de lening niet of onzorgvuldig afbetaalt. Ondanks het feit dat er in Italië bijna vier keer zoveel mensen wonen als in Nederland en het aandeel koopwoningen in Italië ongeveer 30 procent hoger ligt, is de Italiaanse hypotheekmarkt niet alleen in
relatief opzicht, maar zelfs in absolute termen kleiner dan de Nederlandse hypotheekmarkt. In dit proefschrift wordt weliswaar ingegaan op een aantal oorzaken voor deze verschillen, maar de focus ligt op de vraag of redlining in Nederland en Italië voorkomt en hoe de gevonden verschillen verklaard kunnen worden.

De Nederland-Italië-vergelijking is slechts een onderdeel van deze studie. Het idee achter dit onderzoek is dat redlining alleen verklaard en begrepen kan worden als we begrijpen waarom redlining in het ene geval wel voorkomt en in het andere geval niet. Dit betekent dat een vergelijking tussen plaatsen nodig is, maar een internationale vergelijking is niet voldoende. In een dergelijke vergelijking worden verschillen al snel toegeschreven aan verschillen tussen de landen, terwijl heel andere factoren ook een rol kunnen spelen, bijvoorbeeld verschillen tussen steden binnen een land en verschillen tussen buurten in een stad. Daarmee komen we uit bij de centrale vraag van dit onderzoek: welke factoren of buurt-, stads-, regionaal, nationaal en internationaal niveau geven vorm aan redliningsprocessen? Vandaar dat er behalve de internationale vergelijking Nederland-Italië in dit proefschrift ook aandacht is voor de vergelijking van vier steden binnen Nederland (Rotterdam, Amsterdam, Den Haag en Arnhem), voor de vergelijking van verschillende buurten binnen een stad (in het bijzonder in Rotterdam) en voor een vergelijking door de tijd heen (samen in Rotterdam).

2 Samenvatting van de resultaten
Eind jaren negentig van de twintigste eeuw was het in verschillende Rotterdamse wijken niet mogelijk om een hypotheeklening te krijgen en was in verschillende andere wijken slechts een hypotheek te krijgen onder bezwarende voorwaarden (zoals een hogere rente of een hogere aanbetalingsverplichting). Deze situatie heeft haar wortels in het inzakken van de woningmarkt rond 1980. Dit kostte de gemeente Rotterdam vele miljoenen omdat zij haar financiële verplichtingen aangaande de Gemeentegarantie met Rijksdeelneming (de voorloper van de NHG) moest nakomen. Het instorten van de woningmarkt leidde tot lagere prijzen en terughoudendheid bij hypotheekverstrekkers. Jarenlang was het moeilijk om een hypotheek te krijgen voor een appartement op Zuid bij één van de grote verstrekkers. Sommige hypotheekverstrekkers deden er geen zaken, anderen alleen boven de 100.000 gulden en weer anderen slechts onder bezwarende voorwaarden. Langzaamaan verbeterde de situatie. Eén bank stelde een kaart op
met daarop de buurten waar zij wél en waar zij géén hypotheken zou verstrekken. In de jaren negentig werden de beperkingen die deze kaart bood, versoepeld en andere hypotheekverstrekkers volgden de ‘uitfasering’ van redliningpraktijken in Rotterdam.

In 1998 volgde een kentering; de beperkingen werden juist aangescherpt. De werking van de Rotterdamsse kleurenkaart werd nu omgedraaid. De kaart die aanvankelijk tot een verbetering van hypotheekverstrekking leidde, leidde nu juist tot een verslechtering omdat het in bepaalde buurten bijna onmogelijk werd een hypotheek te krijgen. In oktober 1999 bracht stadsdeelbestuurder Schrijer de ‘Rotterdamsse hypotheekaffaire’ naar buiten. Dit leidde tot een versnelde toetreding van Rotterdam tot de NHG. Uit een analyse van de Rotterdamsse woningmarkt in 2001 blijkt dat uitsluiting van hypotheken op basis van de buurt niet of nauwelijks meer voorkomt, maar dat er wel minstens een bank is die geen hypotheken afgeeft onder de 50.000 euro.

De situatie in Amsterdam blijkt compleet anders te zijn. Noch eind jaren negentig noch in 2001 blijkt redlining voor te komen. Eind jaren negentig kwam het wel voor dat hypotheekverstrekkers voor hypotheekaanvragen uit bepaalde wijken geen volledige hypotheeklening wilden verstrekken of een hogere rente berekenen. In 2001 bleek ook hier geen sprake meer van te zijn.

In de winter van 2005-2006 is het onderzoek in Rotterdam herhaald en ook in Arnhem en Den Haag uitgevoerd. Bovendien is de focus verbreed van alleen redlining (plaatsbepaalde uitsluiting) naar zowel redlining als uitsluiting van etnische minderheden op de hypotheekmarkt. Op basis van dit onderzoek blijkt dat er in Arnhem, Den Haag en Rotterdam geen aanwijzingen zijn te vinden voor onderscheid op grond van ras en nationaliteit van hypotheekaanvragers die in categorie 1 van de credit scoringssystemen vallen. Wel blijkt dat er onderscheid wordt gemaakt op basis van ras en nationaliteit bij aanvragers die in categorie 3 vallen: volgens respondenten worden aanvragers met een buitenlandse achternaam of geboorteplaats vaker afgewezen dan aanvragers met een Nederlandse achternaam of geboorteplaats. Daarnaast merken verschillende respondenten op dat het moeilijk of zelfs onmogelijk is om een hypotheekaanvraag gehonoreerd te krijgen als deze deels rust op het inkomen van iemand met een verblijfsvergunning voor bepaalde tijd (hiermee handelen de verstrekkers conform de Normen & Voorwaarden van de NHG).
Veel hypotheekverstrekkers willen in bepaalde wijken in Den Haag en Rotterdam waar relatief veel etnische minderheden wonen, alleen een hypotheek verstrekken als deze met NHG kan worden gefinancierd. Dit betekent dat ook mensen die niet in aanmerking komen voor de NHG, maar die wel voldoen aan de acceptatiecriteria van de verstrekker (categorie 1), worden afgekeurd en hen geen hypotheeklening wordt verstrekt. Bovendien komt het op kleine schaal voor dat woningen niet te financieren zijn omdat de verkoopprijs boven het NHG-plafond ligt, terwijl de hypotheekverstrekker alleen met NHG wil financieren. In Arnhem geven de verstrekkers in bepaalde wijken waar veel etnische minderheden wonen, ook de voorkeur aan een financiering met NHG, maar is het bij sommige verstrekkers niettemin toch mogelijk om zonder NHG een hypotheek te krijgen. In Den Haag en Rotterdam is de situatie moeilijker en geven de respondenten aan dat het zonder NHG niet of bijna niet lukt.

In de Arnhemse, Haagse en Rotterdamse wijken waar veel etnische minderheden wonen, is de kans groter dat een hypotheekaanvraag die in categorie 3 van de credit score valt, wordt afgekeurd dan in wijken waar weinig etnische minderheden wonen. Daarnaast zijn er in zowel Den Haag als Rotterdam hypotheekverstrekkers die, zelfs op aanvragen met NHG die aan de acceptatiecriteria voldoen, in bepaalde wijken waar veel etnische minderheden wonen, geen hypotheek willen verstrekken (redlining); dit betekent dat de postcode de doorslag geeft in de afwijzing van een aanvraag. Belangrijk is dat de verstrekkers volgens de respondenten in Den Haag en Rotterdam geen aanvragen ‘standaard’ afwijzen in bepaalde wijken: als een aanvraag voldoet aan zowel de NHG-normen als aan de acceptatiecriteria van de verstrekker, kan het zijn dat de ene aanvraag in een wijk wel wordt gehonoreerd, maar de andere aanvraag in dezelfde wijk niet. Ook hier blijkt dat de feitelijke procedure van de beoordeling van hypotheekaanvragen niet helder, transparant en inzichtelijk is.

Ook zijn er verstrekkers die in Den Haag en Rotterdam een drempelwaarde hanteren waaronder geen hypotheken worden verstrekt. Hierdoor is het in wijken met veel goedkope woningen bijna onmogelijk om bij deze verstrekkers een hypotheeklening te krijgen. Het komt eveneens voor dat een hypotheekverstrekker niet tot volledige financiering wil overgaan. Als gevolg hiervan moeten mensen dan meer eigen vermogen inbrengen, maar omdat
huizenkopers in de goedkopere segmenten van de woningmarkt zelden voldoende eigen vermogen hebben, is dit problematisch.

Het onderzoek in Italië toont ten eerste aan dat vastgoed de laatste jaren steeds meer wordt gezien als een veilige investering in tijden van economische stabilisatie en depressie. Ten tweede blijkt de Italiaanse financiële wereld in het algemeen en de hypotheekmarkt in het bijzonder de laatste decennia aan grote veranderingen onderhevig te zijn. Een belangrijk resultaat hiervan is dat de hypotheekmarkt sinds de jaren negentig explosief is gegroeid en de mogelijkheden voor het aanvragen van een hypotheeklening fors zijn uitgebreid. De hoge aanbetalingsverplichtingen zijn zo goed als afgeschaft, maar dit heeft niet geleid tot een verbeterde betaalbaarheid van koopwoningen aangezien deze, deels als gevolg van de toegenomen hypotheekmogelijkheden, sterk in prijs zijn gestegen. De uitbreiding van de hypotheekmarkt heeft het sterke verband tussen familie en woning in Italië ook niet fundamenteel aangetast: de meeste huizenkopers zijn nog steeds in beperkte of sterke mate afhankelijk van familiekapitaal, is het niet voor de aanbetalings dan wel om de maandelijkse lasten dragelijk te houden.

Ondanks de grote verschillen tussen de Italiaanse en de Nederlandse hypotheekmarkt, zijn er in de stad Milaan ook vormen van geografische uitsluiting en selectie te vinden. Redlining komt weinig voor, maar beperkende voorwaarden zoals die ook in verschillende Nederlandse steden zijn gevonden, zijn aan de orde van dag, vooral aan de rand van de stad en in de ‘armere’ voorsteden. In bepaalde wijken in de regio Milaan worden bijvoorbeeld geen hypotheeken verstrekt zonder een hoge aanbetalings of alleen tegen een hogere rente. Opvallend is dat de verschillen tussen de Italiaanse hypotheekverstrekkers onderling groter zijn dan de verschillen tussen de Nederlandse hypotheekverstrekkers onderling. Verder moet worden opgemerkt dat, ondanks geografisch bepaalde uitsluitingmechanismen, de toegang tot hypotheekleningen in Milaan in alle wijken is verruimd door de grote veranderingen in de nationale hypotheekmarkt.

3 Processen op buurtniveau
Door een vergelijking tussen geredlinede buurten en statistische cijfers van de gemeente Rotterdam is vast te stellen dat geredlinede buurten, buurten zijn met relatief hoge percentages werklozen, etnische minderheden en immigranten. De positieve samenhang tussen deze bewonersgroepen en het voorkomen van redlining is
zeer sterk. Een eveneens belangrijke, maar minder sterke, negatieve samenhang bestaat tussen redlining enerzijds en het aandeel koopwoningen en de waarde van koopwoningen anderzijds. Door middel van een discriminantanalyse (discriminant analysis) kan aangetoond worden dat de interactie tussen inkomen en etniciteit enerzijds en het aandeel en de waarde van koopwoningen anderzijds gezamenlijk een voorspelbare waarde heeft van 80 tot 95 procent. Dit is een extreem hoge waarde binnen de sociale wetenschap. Het toont echter niet aan dat de kenmerken van deze wijken voor hypotheekverstrekkers ook de redenen zijn om te redlinen. Een dergelijke analyse kan kenmerken vaststellen, maar zegt weinig of niets over causaliteit.

Naast deze statistische buurtenantalyse, is ook een gevalsstudie (case study) uitgevoerd in de Rotterdamse wijk Millinxbuurt/Tarwewijk. In deze wijk werd het proces van buurtverval versterkt door het terugtrekken van de bovenwereld van beleggers en hypotheekverstrekkers en de daaropvolgende overname door de onderwereld van de drugs- en woningmarkt. Processen van drugsoverlast, verval, woningspeculatie, een aanbodoverschot op de formele woningmarkt en een vraag naar huisvesting in de informele woningmarkt versterkten elkaar. Er kan niet van onafhankelijke variabelen worden gesproken: de variabelen beïnvloeden elkaar wederzijds. Het verval van de buurt – zowel fysiek als sociaal – is de aanleiding voor het redlinen van de buurt waardoor het proces van buurtverval wordt versterkt en de buurt relatief aantrekkelijk wordt voor de schemerkanten van de stad.

4 Processen op stads- en nationaal niveau
Voor het analyseren van verschillen in redlining tussen steden is vooral de vergelijking tussen Amsterdam en Rotterdam interessant. Amsterdam zat zowel eind jaren negentig als in 2001 in de NHG, maar de variabele NHG veranderde in die tijd in Rotterdam omdat de gemeente toetrad tot de NHG. Toch is niet alleen de NHG verantwoordelijk voor de waarneembare afname van redlining in Rotterdam tussen 1999 en 2001. Behalve de NHG, blijken ook de spanning op de woningmarkt en de spanning op de hypotheekmarkt een belangrijke rol te spelen. De kans op redlining is groter als de lokale woningmarkt relatief ontspannen is dan als deze gespannen is. Schaarste op de hypotheekmarkt (gespannen hypotheekmarkt) leidt tot een verzwaarde risicoselectie waardoor de kans op redlining toeneemt.
Onderzoek in Rotterdam laat ook zien dat niet alleen redelijk abstracte processen als de spanning op de woningmarkt en hypotheekmarkt en institutionele controlemaatregelen zoals de NHG van belang zijn. Redlining wordt ook niet alleen bepaald door rationele berekeningen van risico en verlies. Een aanvullende dimensie die tot nu toe weinig aandacht heeft gekregen in hypotheekmarktonderzoek in het algemeen en redliningonderzoek in het bijzonder is de sociaalinstitutionele setting. Een analyse van de veranderingen in redliningspatronen in Rotterdam laat zien dat hypotheekverstrekkers en bankmanagers niet alleen reageren op risicoberekeningen en spanning op de woning- en hypotheekmarkt, maar ook op onderbuikgevoelens van angst en op ‘wat de anderen doen’. Risicoberekeningen worden voortdurend aangepast en de spanning op de markt verandert voortdurend, maar deze veranderingen voltrekken zich veel langzamer dan de ingrijpende veranderingen in redliningspatronen in Rotterdams. Hypotheekverstrekkers kijken naar elkaar en volgen elkaar. Dit verklaart voor een belangrijk deel hoe grote delen van Rotterdam-Zuid en -West begin 1999 nog bijna geen sporen van redlining lieten zien, terwijl het in september en oktober van dat jaar bijna onmogelijk was om bij de verschillende hypotheekverstrekkers een hypotheeklening te krijgen.

5 Internationale processen
Gezien de grote verschillen in de organisatie van de hypotheek- en woningmarkt in Nederland en Italië hadden grotere verschillen tussen redliningspatronen voor de hand gelegen. Het blijkt dat dezelfde mechanismen in verschillende contexten bestaan. De context is echter niet onbelangrijk en bepaalt de vorm en uiting van deze mechanismen. Dit blijkt ook als we de V.S. in de vergelijking betrekken. In vele opzichten is de situatie in Amerikaanse steden totaal anders dan in Europese steden, maar ook daar zien we hetzelfde mechanisme. Een vergelijking met de V.S. laat ook zien dat dit mechanisme beïnvloed kan worden. Zowel in de jaren dertig als in de jaren zestig en zeventig van de twintigste eeuw was redlining in de meeste Amerikaanse steden aan de orde van de dag – de situatie was vele malen ernstiger dan de situatie in Milaan, Amsterdam, Arnhem en Den Haag en in veel gevallen ook ernstiger dan de situatie in Rotterdam eind jaren negentig. Toch is redlining in de V.S. de laatste decennia sterk afgenomen. Een belangrijke factor hierin is wetgeving die redlining (in velerlei vormen) verbiedt.
Hiermee is het probleem echter niet opgelost. Redlining mag tegenwoordig minder vaak voorkomen, maar hypotheekverstrekkers hebben andere methoden gevonden om (in hun ogen) risicovolle hypotheken niet te verstrekken. Credit scoring is hierin een belangrijk middel. Doordat credit-scoringssystemen zich snel over de wereld verspreiden, zien we ook in Europa dat redlining langzaamaan plaats maakt voor subtielere uitsluitingsvormen met behulp van credit scoring. Hiermee worden in grote lijnen dezelfde groepen getroffen als door redlining: mensen die een woning willen kopen in een stadsbuurt met veel relatief goedkope woningen en hoge percentages huishoudens met een laag inkomen en relatief hoge percentages etnische minderheden.

Het is tegenwoordig in zowel Nederland en Italië als in de V.S. niet meer zo dat hele wijken worden uitgesloten van hypotheekverstrekking. De impact is beperkt, maar blijft voelbaar voor hen die er het slachtoffer van zijn. Het frustreert de verkoop van woningen, waarmee zowel de verkoper als de koper wordt getroffen. Bovendien is uitsluiting op de hypotheekmarkt niet alleen de neerslag van stereotypen en vooroordelen over bepaalde wijken en bepaalde groepen in de samenleving, maar heeft het ook een weerslag op het stedelijke vernieuwings- en ‘mengingsbeleid’ (dat in veel van deze wijken wordt gevoerd) als de emancipatie van minderheidsgroeperingen frustreert. Het kan de opwaartse dynamiek van wijken verhinderen en de neerwaartse dynamiek versnellen. Tot slot belemmert onderscheid en uitsluiting op de hypotheekmarkt het overheidsbeleid dat eigenwoningbezit – en eigenwoningbezit onder lage inkomensgroepen in het bijzonder – wil bevorderen.