Finance as a New Terrain for Progressive Urban Politics

Desiree Fields

Since the foreclosure crisis, inequalities have only deepened in the US, with most wealth accruing to the 1%. Desiree Fields offers critical insights into what a progressive political countermovement that centers a narrative of finance with its thumb on the scale might look like.

The countermovement that wasn't

Many people, including me, believed that the global financial crisis that started in the US mortgage market signaled an unmistakable opening. Being so tightly linked to financial practices, we thought the crisis would legitimate greater government intervention and promote a countermovement, like the New Deal that followed the Great Depression, toward redistributive efforts that would repair the damage our free-market economy wrought on society.

At first, Obama's election seemed to augur this transformation. Instead, inequality has increased since the Great Recession officially ended in 2009, with 95% of post-recession growth accruing to the top 1%.[1] Allowing inequality to grow unchecked is a government that works primarily to the advantage of the already wealthy and powerful, seen most clearly in the $700 billion taxpayer-funded bailout to shore up the broader financial system while allowing housing wealth, retirement accounts and jobs to go over the cliff. Little was asked in return from financial institutions deemed too big too fail; indeed, banks continue to get an implicit subsidy[2] due to the near-certainty of further bailouts for "systemically important" institutions. Meanwhile, a mere $7.6 billion went to help millions of homeowners, who have struggled to navigate federal mortgage modification programs rife with delays, only to re-default in significant numbers.[3]

A housing *market* recovery

Since the foreclosure crisis, the consolidation of properties under ownership by banks and government-sponsored enterprises (such properties are REO, or real-estate owned), combined with increased post-crisis rental demand, has created a new opportunity for well-capitalized investors. Private equity in particular has been fueling a housing "recovery" in a number of the hardest-hit metropolitan areas. So far, these institutional investors have purchased around 200,000 single-family homes to convert to rental housing (Rahmani *et al.* 2013).

This "REO-to-rental" investment model has developed rapidly, helped along by the ability for funds to access lines of credit from JPMorgan Chase, Deutsche Bank and several of the other institutions implicated in fraud, predatory lending, and other offenses related to the financial crisis. A recent innovation in the model is the securitization of rental income, which mutual funds,

1 See: http://elsa.berkeley.edu/users/saez/saez-UStopincomes-2012.pdf.

2 See: https://www.imf.org/external/pubs/ft/wp/2012/wp12128.pdf.

3 See: http://www.sigtarp.gov/Audit%20Reports/Rising_Redefaults_of_HAMP_Mortgage_Modifications.pdf.

insurance companies and other institutional investors have clamored to buy[4] (Rahmani *et al.* 2014). The ability to use such leverage increases returns, provides liquidity to fuel more acquisitions, and ratchets up the risk for a new real-estate bubble.

From the rise of subprime lending and mortgage-backed securities to the foreclosure crisis, the creation of the REO-to-rental market and the rollout of AAA-rated rent-backed securities, the extraction of wealth and capital from society by finance—and the ongoing intervention of our current political system on behalf of financial institutions—could hardly be more stark. In the words of Cornell University law professor Robert Hockett, the fact that some occupants of properties owned by investors like Blackstone are renting the same home they once "owned" sounds akin to "sharecropping".[5] No wonder American voters believe the government is working for the powerful[6] at the expense of society as a whole.

Under these circumstances, the political left's ineffectualness in the *political* arena, may, as Adolph Reed recently pointed out,[7] free us up—allowing us to refocus our energies on building a *popular* movement. Here, I see two emerging narratives opening the way to finance as a new terrain for politics.

From "losers' mortgages" to finance with its thumb on the scale

The first opening involves a change in consciousness. To talk about this, I want to go back to 2006, when the foreclosure crisis was brewing, but not yet widespread. Heading into the field to talk to homeowners in default, my colleagues and I were warned that it would be difficult to get people to open up about such an intensely personal experience, especially because of the potential shame they might feel about their financial decisions. In our focus groups, everyone *did* come in thinking and talking about their individual experiences, but once everyone's stories were out on the table, the narrative shifted to the systematic similarities across their experiences:

- being encouraged to take on more debt than they could handle and pressured to sign closing papers with different loan terms than the ones they'd agreed to;
- feeling they lacked the clout to negotiate in the decisions by government and financial institutions that affect their lives;
- a sense that the government was unwilling to help and had a vested interest in directing kickbacks to large corporations rather than helping Americans get out of debt (Saegert, Fields and Libman 2009).

Because the participants in our study were primarily African-American, this narrative was explicitly racialized. But once the financial crisis really hit and the damage spread to white and middle-class communities, this narrative shift began to take hold on a broader level. That is, foreclosure came to be seen less as the individual problem of irresponsible losers and more as a broader social and political problem, largely centered on the financial sector and a government that was working on its behalf (and the infamous Santelli rant[8] about subsidizing losers' mortgages began to look increasingly incoherent).

Unlike many of the nation's social problems (e.g. crime), the foreclosure crisis is not rooted in an imaginary of the inner city: the geography of foreclosure, which has played out not only in the city but also the suburbs and exurbs, reflects the post-1970s transformation of city regions by urban restructuring and new immigration flows (Schafran 2012). This reconfiguration of our fragmented

4 See: http://dealbook.nytimes.com/2014/01/29/wall-streets-new-housing-bonanza/?_php=true&_type=blogs&_r=0.

5 See: http://www.washingtonpost.com/blogs/wonkblog/wp/2013/11/08/wall-street-figured-out-how-to-securitize-your-rent-should-you-worry.

6 See: http://www.newrepublic.com/article/116193/anti-government-left-elizabeth-warren-stronger-bill-de-blasio.

7 See: http://harpers.org/archive/2014/03/nothing-left-2.

8 See: https://www.youtube.com/watch?v=bEZB4taSEoA.

metropolitan structure—and its race and class divides—blurs the lines of city, suburb and the spaces in between and outside. Housing insecurity is the new normal, and this is directly connected to the rise of finance. This is a compelling narrative that resonates across a broad geographic and social terrain on the issue that is at the very core of so much of life and notions of American identity: home.

Having already played out in "the real lives of entire populations" (Marazzi 2011, p. 10), this narrative has pushed us, as a society, to think much more about finance. In the throes of the crisis and the bailout, it was unavoidable. Since then we have had the robo-signing scandal,[9] the London Whale,[10] Libor rate-rigging by numerous banks,[11] "toxic waste" securities,[12] and tax-evasion schemes by UBS[13] and now Crédit Suisse.[14] All of these examples suggest what Massachusetts senator Elizabeth Warren has been willing to say out loud—that in a widespread way, finance has had its thumb on the scale for some time now (which has a lot to do with Warren's popularity).[15]

The fruits of Occupy: addressing the structures that produce inequality

A second opening is our new cultural spotlight on inequality. Inequality has become part of mainstream political discourse and popular discourse too, in large part thanks to the Occupy Wall Street movement. Obama and Pope Francis are talking about inequality, and this year French economist Thomas Piketty's book about income inequality[16] became a bestselling sensation[17] in the US. Bill de Blasio ran his entire mayoral campaign around New York as a "tale of two cities" divided between the haves and the have-nots.

But the inequality narrative and the narrative of finance with its thumb on the scale often float free of each other. We need to work harder to knit these two narratives together. Otherwise, talking about inequality separate from financial power may simply lead to policies—such as free universal pre-kindergarden—that "lift the floor", as Bill de Blasio is saying. Such *policies* are not unwelcome, but a *politics* that takes inequality seriously cannot focus only on what is happening or should happen at the bottom; it must also address the structures that produce inequality (Reed 2014).

The fact that we have a lively and impassioned debate about the causes and consequences of inequality—and how best to address this issue—is an opening, and the shift in consciousness around the financial sector is another opening. The challenge, but also the possibility here, is to better represent the relationship between the extractive powers of finance (and the role of the government in enabling this) on the one hand, and social, economic and racial inequality on the other. This is not to position finance as the only driver of inequality, but to argue that the rents the financial sector extracts for the value it allegedly adds to society could be better used in pursuit of a progressive political and policy agenda.

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9 See: http://www.propublica.org/blog/item/gmacs-robo-signers-draw-concerns-about-faulty-process-mistaken-foreclosures.

10 See: http://files.shareholder.com/downloads/ONE/3260322099x0x628656/4cb574a0-0bf5-4728-9582-625e4519b5ab/Task_Force_Report.pdf.

11 See: http://www.cfr.org/united-kingdom/understanding-libor-scandal/p28729.

12 See: http://dealbook.nytimes.com/2013/08/06/justice-sues-bank-of-america-over-mortgage-securities.

13 See: http://www.justice.gov/opa/pr/2009/February/09-tax-136.html.

14 See: http://dealbook.nytimes.com/2014/05/19/credit-suisse-set-to-plead-guilty-in-tax-evasion-case/?_php=true&_type=blogs&_php=true&_type=blogs&_r=1&.

15 See: http://www.newrepublic.com/article/116193/anti-government-left-elizabeth-warren-stronger-bill-de-blasio.

16 See: http://www.nybooks.com/articles/archives/2014/may/08/thomas-piketty-new-gilded-age.

17 See: http://www.nytimes.com/2014/04/27/fashion/Thomas-Piketty-the-Economist-Behind-Capital-in-the-Twenty-First-Century-sensation.html?_r=0.

Finance as a new terrain for politics

To contest the financial sector's role in perpetuating systematic social and economic inequalities, we can and should think about finance itself as a terrain for politics. One place to look may be the geographies that finance is creating as it searches out and aggregates new asset streams. In today's post-crisis landscape, foreclosed properties converted to rental housing represent a new asset stream. Monthly rent checks provide the materials with which new financial products such as rent-backed securities can be produced. Since last fall, five such rental securitizations have been completed (two by Blackstone's rental arm Invitation Homes, two by Colony Capital's rental subsidiary Colony American Homes, and one by American Homes 4 Rent). The rental bonds are generally comprised of around 3,000 single-family homes, dispersed across some of the hardest-hit markets, including Atlanta, Las Vegas, Los Angeles, San Bernardino–Riverside, Phoenix, and Tampa (Morningstar Rating Agency, 2014). The networked structure of these financial products could offer a potential starting point for trans-local solidarities among tenants of the new corporate landlords.

A movement that takes up the spaces and artifacts of finance itself may also have potential for a politics of labor *and* community. One of the ironies of the foreclosure crisis was that pension funds investing on behalf of workers contributed to the market demand for mortgage-backed securities that turned out to destabilize the economy and set in motion a massive dispossession of workers. Since the crisis, the Fed's easy monetary policy has pushed pension funds to seek yield in nontraditional channels like private equity,[18] the sector leading the creation of the REO-to-rental market.

This means there is potential for an encore of pensions investing in risky real-estate deals, this time in the rental market, where returns are highly contingent on rapid renovation of distressed properties, high occupancy, and on-time rental payments. Private equity investments in rental housing have already created some financial and political black eyes for pension funds: California public employees lost $500 million in the infamous Stuyvesant Town deal[19] in New York City, and were also involved in a smaller private equity real-estate deal involving attempts to push out thousands of low- and middle-income tenants in the San Francisco Bay Area.[20] The combination of risks to renters' *housing security* and *financial risks* for pension funds and aspiring retirees suggests the potential for a progressive labor-community politics of financialization.

Assembling a popular movement to take on finance

In conclusion, a major obstacle to building a progressive political movement is our doubt that the government is capable of working on behalf of the common welfare. However, a broader societal narrative of finance with its thumb on the scale has gained traction, and can be joined up with increased energy around economic inequality. A popular political movement rooted in these narratives should find openings around material issues such as pension funds investing in risky private equity real-estate deals that also threaten renters' housing security. Such a politics will require efforts to build social literacies and capacities for making sense of what we're experiencing in order to imagine more empowering political configurations. More generally, a popular progressive politics must take on the extractive power of finance as a key structural factor in America's deepening economic inequality. Here, we should look to the networked geographies of financial investment as a potential space for political contestation.

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[18] See: http://online.wsj.com/news/articles/SB10001424127887323485704578258242293295894.

[19] See: http://latimesblogs.latimes.com/money_co/2010/01/money-cocalpers-loses-500-million-on-new-york-apartment-deal.html.

[20] See: http://online.wsj.com/news/articles/SB20001424052748703503804575083602715591636.

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Further reading

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Desiree Fields is an urbanist and environmental psychologist. Currently, she is a lecturer in the Department of Geography at the University of Sheffield. Fields studies the rise of financial markets, actors and imperatives as a process of contemporary urban change, focusing on how this financialization stands to reproduce social and spatial inequalities, and the potential for activists and community-based organizations to contest these dynamics. Her past work addressed the social, public health and policy consequences of the US foreclosure crisis. Most recently, Fields has explored the role of private equity firms in the post-foreclosure landscape[21] in the US as part of the Homes for All campaign of the Right to the City Alliance. Her work has been supported by the National Science Foundation and published in the *Journal of Urban Affairs*; *Housing Policy Debate*; and *Housing, Theory and Society*, among others.

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To quote this article :

Desiree Fields, "Finance as a New Terrain for Progressive Urban Politics", *Metropolitics*, 6 November 2014. URL: http://www.metropolitiques.eu/Finance-as-a-New-Terrain-for.html.

[21] See: http://homesforall.org/campaign/wp-content/uploads/2014/07/corp-landlord-report-web.pdf.