How Banks Did More Damage to Baltimore than Rioters

By Emily Foster
Global Research, May 14, 2015
Our Future 12 May 2015
Region: USA
Theme: Global Economy

A protester faces police in riot gear in Baltimore. Photograph: Shawn Carrié

The death of Freddie Gray in Baltimore is not just a story of police brutality or the lack of socioeconomic mobility for the urban poor. It's also a story of how deregulation allowed corporate banks to strip middle-class families of their financial stability and walk away, leaving behind payday lenders and check-cashing stores to plunder low-income and minority communities.

To better understand and communicate that story, Sen. Elizabeth Warren (D-Mass.), Ranking Member of the Subcommittee on Economic Policy, and Rep. Elijah E. Cummings (D-Md.), Ranking Member of the House Committee on Oversight and Government Reform took their Middle Class Prosperity Project to Baltimore on Monday. It was the latest in a series of forums that started in February to focus "congressional and public attention on challenges faced by the middle class."

Baltimore was hit especially hard by the 2008 economic collapse. In 2008, 3,909 foreclosures were filed in the city of Baltimore. In 2009, the number increased to 6,213 – an almost 60 percent increase. The city's median property value dropped by $10,500 between 2007-2012. And as of 2014, the city is ranked
69th out of 100 by Brookings on the strength of its economic recovery.

Even while Baltimore and other cities struggled, the federal government held corporations in higher regard than the American people; $1.2 trillion in post-recession bailouts from the Federal Reserve to private banks was equal to the money lost by homeowners holding 6.5 million foreclosed mortgages.

These bailouts were a result of the federal government's prior decisions to appease corporate interests. Warren, at the panel at the University of Maryland Carey School of Law in Baltimore, emphasized the role deregulation contributed to the foreclosure crisis. "None of this had to happen; it's because of policy decisions made at the federal and state level – policy decisions to deregulate financial institutions, to turn them loose, to allow them to do whatever they wanted to do to make profits."

The deregulation and minimal government oversight that allowed the banks' discriminatory and unfair actions during the foreclosure crisis are responsible for many of the city's hardships.

On January 8, 2008, former Baltimore mayor Sheila Dixon's administration filed a suit against Wells Fargo in the U.S. District Court. The city claimed that Wells Fargo charged higher fees to black borrowers through their subprime lending program designed for less creditworthy consumers who are more likely to default on loans. The city claimed that the bank's discriminatory and predatory lending practices led to foreclosures, reduced city tax revenues, and increased city costs due to the crimes surrounding the abandoned properties. The city asked for the bank to cover costs associated with these damages.

In 2010, the bank won the dismissal of the lawsuit brought by Baltimore. However, in 2012, the U.S. Department of Justice sued Wells Fargo for failing to report more than 6,000 loans that did not meet insurance requirements under the Federal Housing Administration, and for its failure to properly review early payment defaults. The bank settled, paying $17.5 million to the city of Baltimore and $2.5 million to 1,000 area residents who were affected.

Mitria Wilson, Vice President of Government Affairs and Senior Counsel at the Center for Responsible Lending, explained that corporate funding of congressional campaigns is to blame for lack of legislation that would protect communities from banking woes. Commercial banks contributed over $55 million to Republican campaigns during 2004-2008 election cycles. As of 2014, 17 of the top 20 recipients of commercial banks funds are Republicans.

According to Wilson, the 1974 Community Development Act, which provides guidelines to ensure equitable and fair banking investment in communities, "has not been updated since 1974. The failure to update this law is what makes it ineffective."

With no updates to the law, banks have acted like thieves, plundering communities, while leaving few branches in these areas that offer essential services. As Rep. Cummings said at the panel, "many more banks are clustered in the high income areas, while the low and moderate income areas have fewer banks."

Wilson confirmed Cummings' observation, saying that "large disparities exist in the availability of mainstream financial services in underserved neighborhoods.:

The low number of banking branches in these areas have led unbanked and underbanked households to turn to payday lenders and cash checking services, or to utilize money lending, refund anticipation loans and car title loan outfits. For example, in Baltimore's neighborhood of Sandtown – the epicenter of the uprising in the wake of Gray's death – there are only three bank branches, yet more than 18 alternative providers.

Often, these alternative providers are typified by predatory practices – they are "loan sharks" that lock families into cycles of high-interest debt they simply cannot escape. Warren emphasized that "predatory practices target those who live on the margins of our mainstream financial system" and lead to severe socio-economic problems in our communities.

The prevalence of these alternative services and minimal access to regular banks is a symptom of a larger problem – the need for overall banking regulation and reform. Rachel Schneider, Senior Vice President at the Center for Financial Services Innovation explained, "The problem is not just an absence of products. In addition, we need financial institutions genuinely designed to build consumer financial health."

Wealthy influences and special interests have too much power in Washington, which is why banks have not been held to a higher level of accountability. Regulating the housing market and its accessibility will allow us to stabilize the middle class and mobility for the working class. Congress must work to regulate alternative financial service providers like payday lenders and check-cashing outlets, as well as corporate banks, so these institutions are obligated to invest in the communities they have left in financial ruin. Until then, the middle class in these communities will keep working hard, but keep falling behind.

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Emily Foster