Most economic explanations of the U.S. subprime mortgage crisis of 2008–09 point to lack of government oversight, a widespread if unsubstantiated belief that housing values would rise indefinitely, and moral hazard (the conviction of risk-taking dealmakers that individual credit failures wouldn't affect them). Many believe that these three phenomena distorted the financial markets and spurred the crisis. Yet the explanations fail to answer two key questions about subprime lending (issuing loans with high interest rates).

First, why were minority and women applicants, who had historically lacked equal access to mortgage credit, “super-included” in subprime mortgage lending? Second, why didn’t the flood of mortgage credit in the early 2000s housing boom – an oversupply of credit suggesting supercompetition – reduce the high proportions of minority and women borrowers burdened with unpayable subprime or otherwise high-cost mortgages? The answers, according to Gary Dymski, Jesus Hernandez, and Lisa Mohanty, lie in the intersections of subprime lending with structures of social and market power.

Missing from economists’ accounts of the crisis is a “meso” level of analysis, which calls attention to the social construction of the institutional mechanisms that created and distributed subprime loans. The authors argue that this approach enables us to see how lenders attained market power and used it in the long history of unequal access to housing and mortgage credit. Their analysis unfolds the co-evolution of banking strategies, minority communities, and financial markets, and calls attention to a history of housing-market exclusion in which women and minority mortgage applicants have occupied marginal market locations in the US system of housing finance. Lenders capitalized on these historically weak positions through subprime lending, in which charging fees to applicants served as a substitute for assessing the capacity for repayment, and encouraged the targeting of borrowers traditionally excluded from housing credit. The authors review the history of the subprime crisis and show that by 2006, nearly one in four loans originated were subprime, with a disproportionate share made to minorities and women.

When sorting subprime loan activity by race, gender, and neighborhood, the study finds that disproportionate rates of conventional loan denials during the period 1990 to 2007 helped create the oversupply of minority and women subprime loan applicants. In the peak subprime lending year of 2005, African American women and Latinas received subprime loans at a much higher rate than whites. Further, as the percent of nonwhites increased in a neighborhood, so did subprime loan activity for women, revealing a spatial dimension to credit access. Even in neighborhoods with the highest concentration of nonwhites, white men had rates of subprime activity approximately 23 percentage points lower than African American women in predominantly white areas.

So, while much economic analysis of racial and gender inequality anticipates that market innovation and increased competition should expand consumer choice and reduce the incidence of discriminatory lending, this extended episode did not have that result. Instead, it created a racialized and gendered economic cartel that concentrated wealth in the suburbs while minorities and women bore the brunt of the financial crisis.

Finally, the authors note the empirical invisibility of the racialized and gendered cartel driving the crisis. The lack of transaction-level mortgage data undermines the ability of fair housing advocates to effectively monitor predatory lending and pursue corrective action. Unfortunately, restrictions on access to data allow continued exploitation against women and minorities via the market place, creating the illusion that our markets remain race and gender neutral. Although the recent Dodd-Frank Wall Street Reform and Consumer Protection Act provides for enhanced data reporting, it is too soon to know whether improvements in data availability will support more effective fair-lending enforcement.