The More Things Change…

Subprime lending is far from dead, as described in an article in the Wall Street Journal (Wednesday, April 11, 2018, B1): “Banks Take Hidden Subprime Path.” Rather than making such loans directly, banks like Wells Fargo & Co. and Citigroup Inc. are lending wholesale to other nonbank firms that have found a niche serving the subprime market for auto loans. As WSJ put it, “the relationships mean that banks are still deeply intertwined with the riskier loans they say they swore off after the financial crisis.” The risk has ostensibly been shifted to the nonbanks who make the loans. Charge-offs of loans at one subprime lender ran about 9%, a rate far higher than a bank would tolerate but which is made possible by the higher yield on the loan to the subprime end user, which may run about 15%.

In researching my book, *Democratizing Finance: Origins of the Community Development Financial Institutions Movement* (due out this fall)*,* I revisited the 1960s, the decade of the “rediscovery of poverty.” One seminal book published in 1962 was *The Poor Pay More* by David Caplovitz. Inner-city, low-income residents accessed high-cost, “no one denied” credit from local merchants such as furniture and appliance stores. As Caplovitz asserted, the merchants were an integral part of a larger financial ecosystem: “unscrupulous [local] sellers could not exist without the finance companies and banks that buy their paper.”

Securitization has come a long way from the 1960s. The players, packaging, and scope have changed. The costs to consumers: not so much.