

The Racial Wealth Gap and Access to Mainstream Credit



**WASHINGTON STATE ASSET BUILDING COALITION:
SURVIVE AND THRIVE BUILDING ASSETS,
STRENGTHENING COMMUNITIES**

June 2011

Shriver Center



- **The Sargent Shriver National Center on Poverty Law**
 - A national law and policy center that provides national leadership in identifying, developing and supporting innovative and collaborative approaches to achieve social and economic justice for low-income people.
- **Asset Opportunity Unit**
 - Takes action against poverty by advocating for policies that expand asset-building opportunities for all.

Wealth and Economic Mobility



“Income feeds your stomach, but assets change your head....”

Melvin Oliver and Tom Shapiro, *Black Wealth/White Wealth*

Income Poverty



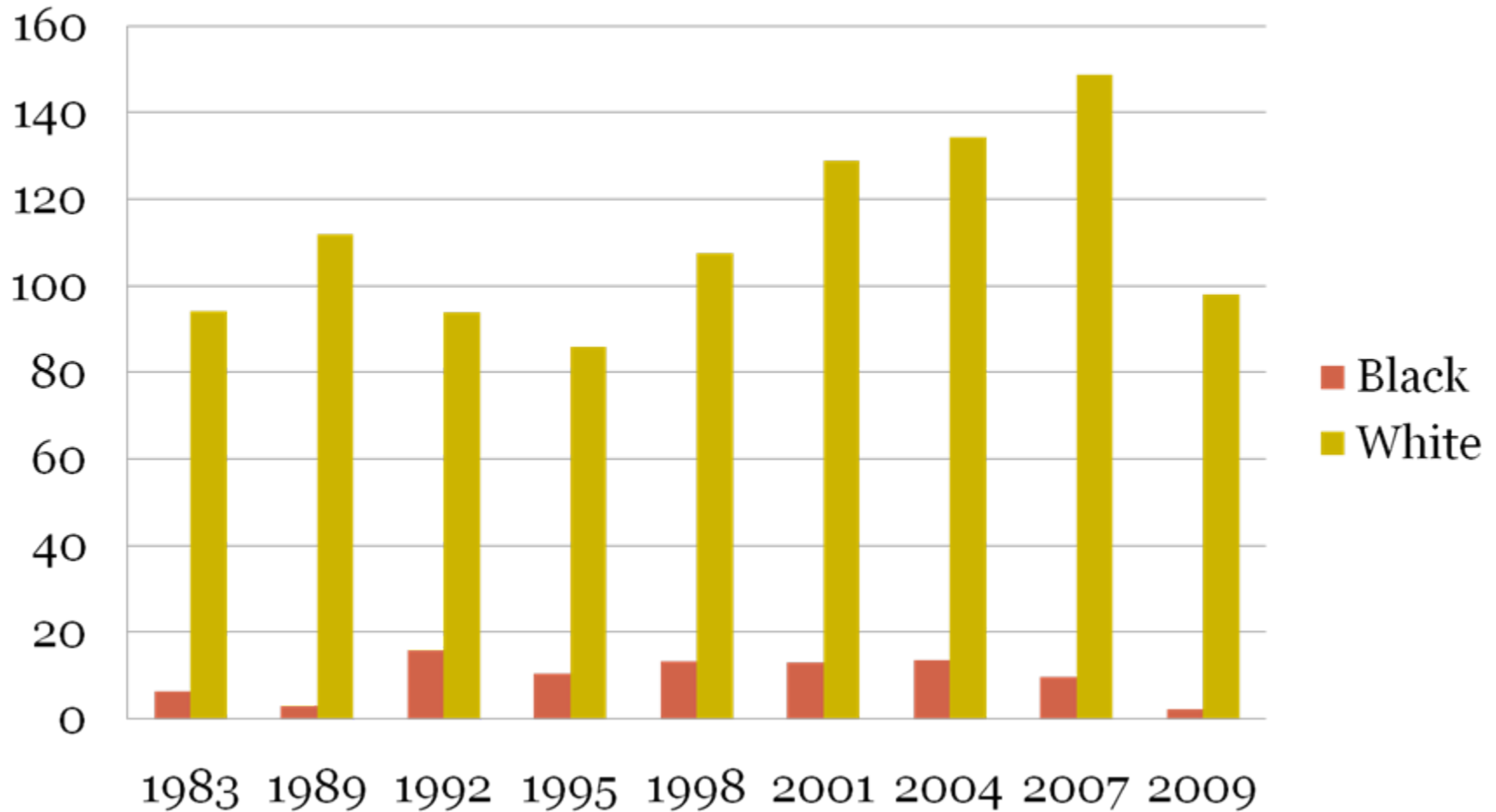
- **U.S. Poverty Level in 2009**
 - **43.6 Million**
 - **14.3%**
 - **51 years**

Income Poverty v. Asset Poverty



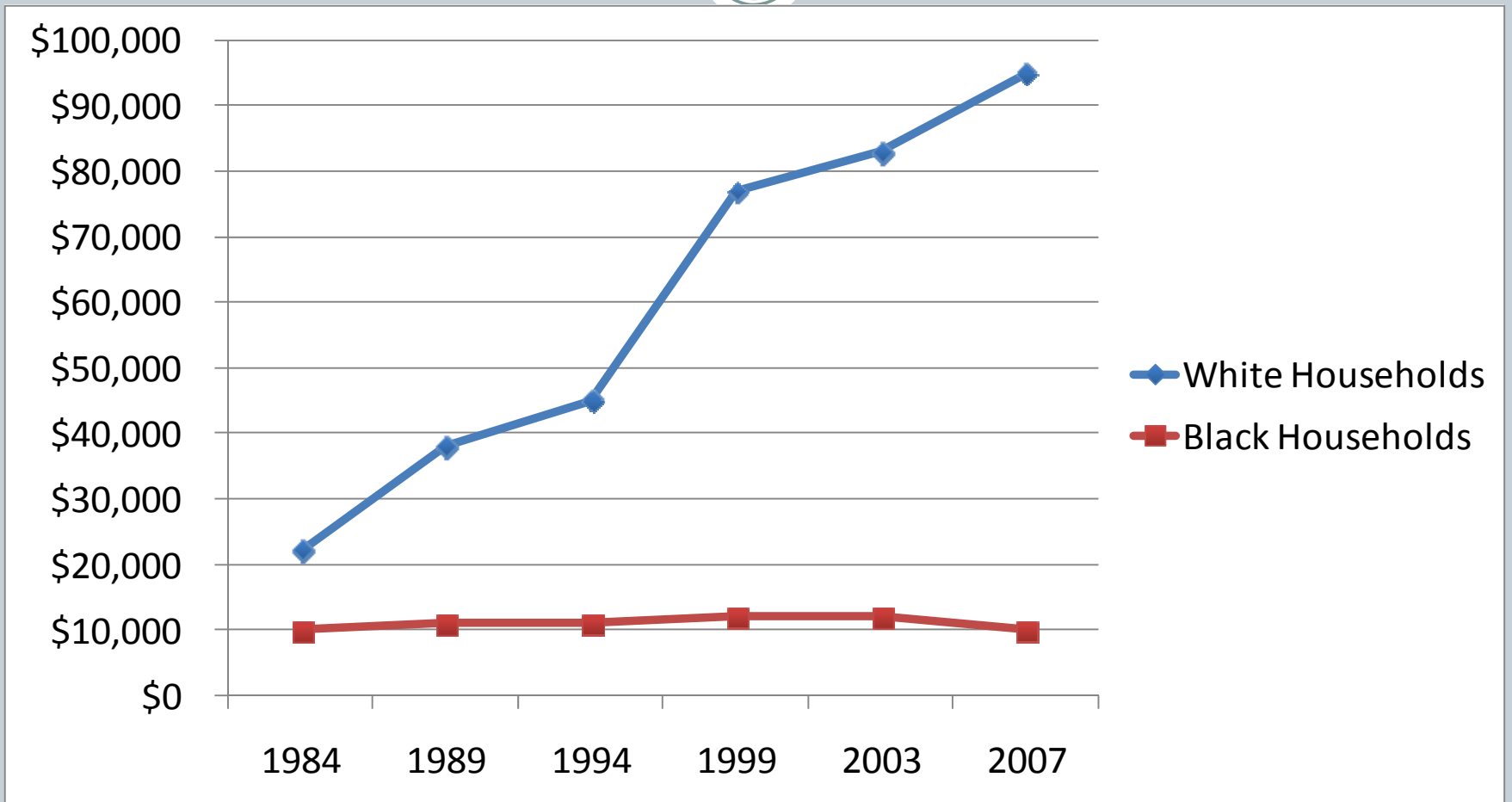
- **Asset poverty** focuses on total household wealth, rather than just income
- An “**asset poor**” household **does not have** enough **assets** to meet its expenses for **3 months** if no outside sources of income

Median Household Wealth in Thousands



Source: The State of Working America's Wealth-EPI

Racial Wealth Gap



Exercise One



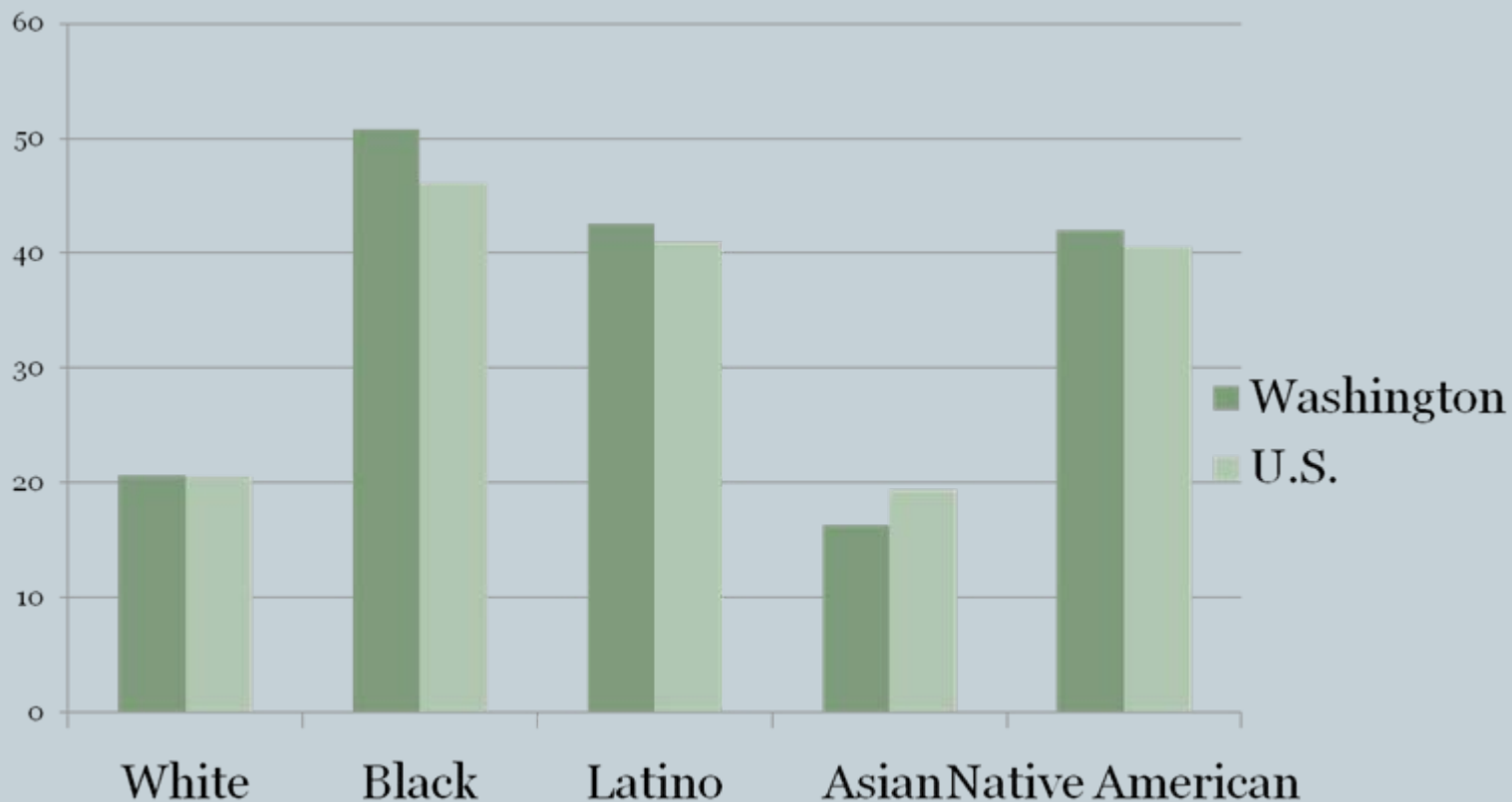
- What percentage of white households are asset poor?
What percentage of minorities are asset poor?
 - A. 16% of Whites versus 37% of minorities
 - B. 24% of Whites versus 43% of minorities
 - C. 18% of Whites poverty versus 24% of minorities
 - D. 9% of Whites versus 18% of minorities

Exercise Two



- For every dollar owned by a white household:
 - A. Latinos have 12 cents and blacks have 10 cents
 - B. Latinos have 12 cents and blacks have 16 cents
 - C. Latinos have 16 cents and blacks have 23 cents
 - C. Latinos have 23 cents and blacks have 42 cents

Washington: Asset Poverty by Race



Source: CFED Assets and Opportunity Scorecard 2009 - 2010

Exercise Three



Do you think Washington's racial wealth gap is smaller or larger than the nation's racial wealth gap?

Larger: Whites have 8 times the net worth that minorities have (compared with 6.1 times nationally)

Racial Wealth Gap



“Over 100 years after the end of slavery, more than 30 years after the passage of major civil rights legislation, and following a ... prematurely curtailed War on Poverty, we harvest today a mixed legacy of racial progress.”

Melvin Oliver and Thomas Shapiro

Black Wealth/White Wealth

Exercise Three: Where Did This Gap Come From?



- Discuss past practices and policies that may have contributed to the racial wealth gap.
- Choose one person to report on your group's discussion.



Racial Wealth Gap and Credit Scores



“The basis for excluding African-Americans from opportunities and creating different rules in the competition for success is no longer just about who is a capable worker, but also about who is a worthy credit risk.”

Thomas Shapiro, Brandeis University, Institute on
Assets and Social Policy

U.S. Credit System



Creditors

Public
Records

Collection
Agencies

Credit
Bureaus/
Inquiries

Data
Furnishers

TransUnion

Equifax

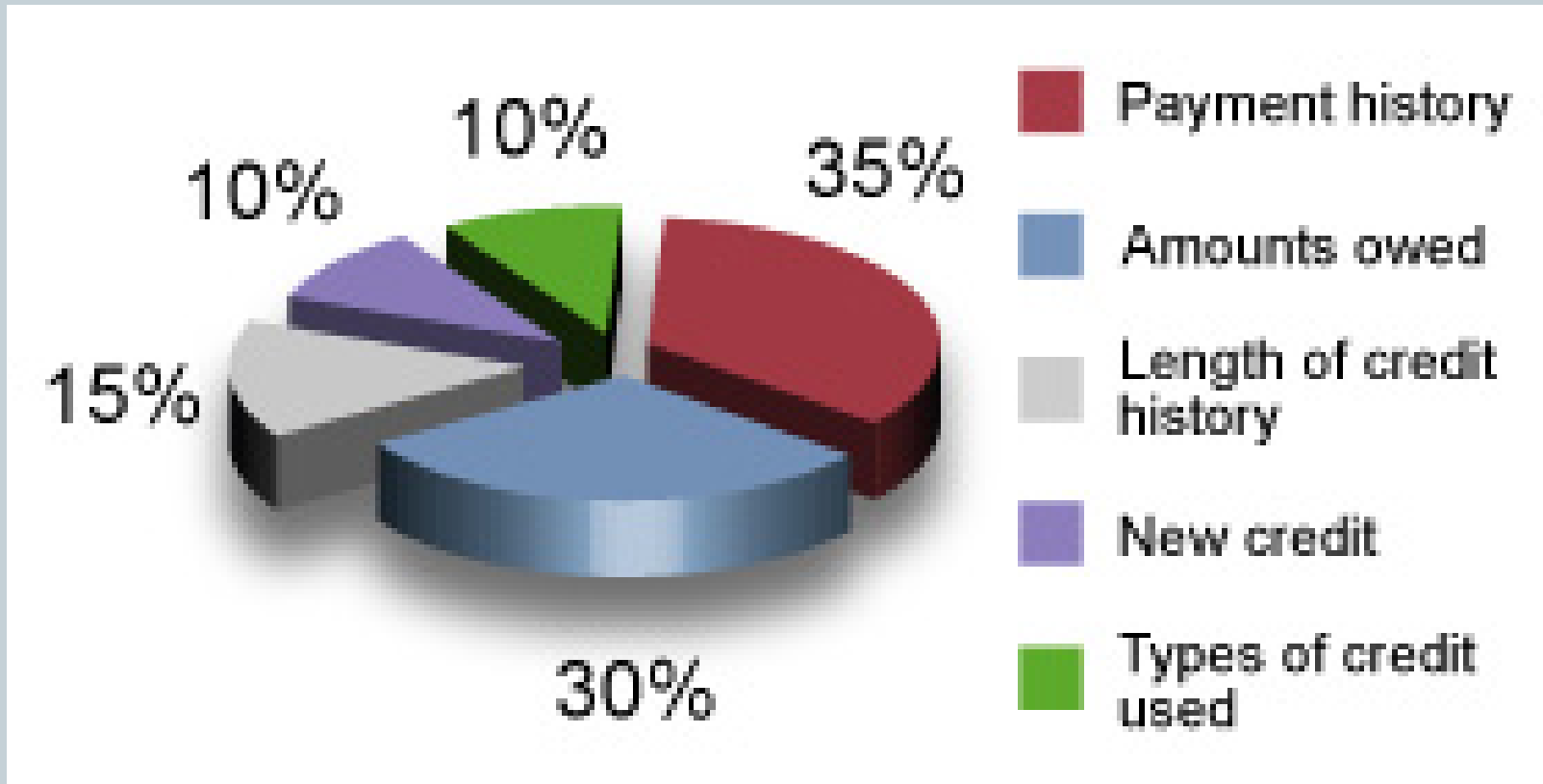
Experian

Exercise 4: Creating Credit Scores



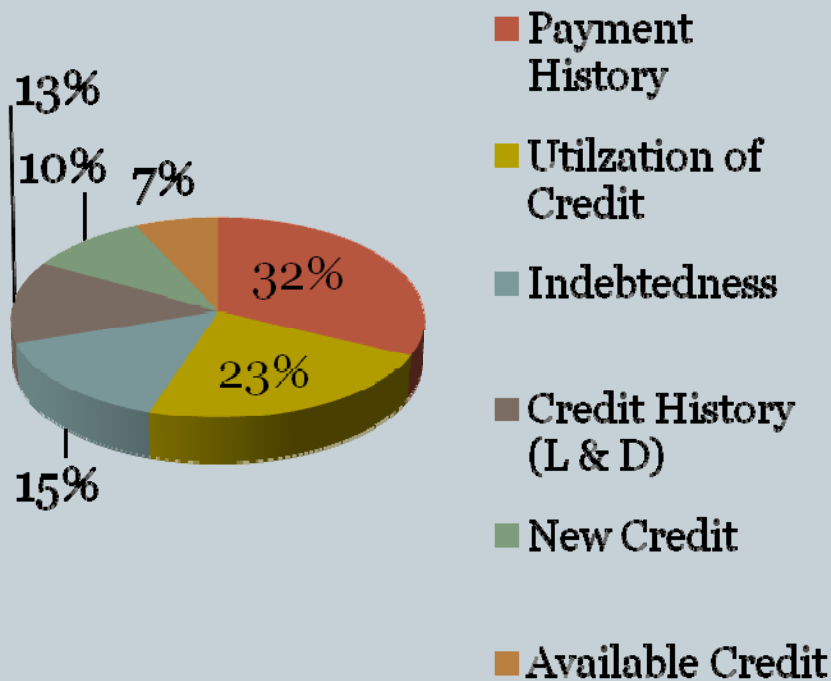
- Who develops credit scores?
- How are credit scores calculated?
- What is considered a “good” credit score or a “bad” credit score?
- Do you know your score? When is the last time you checked it?

How Your Credit Score is Determined

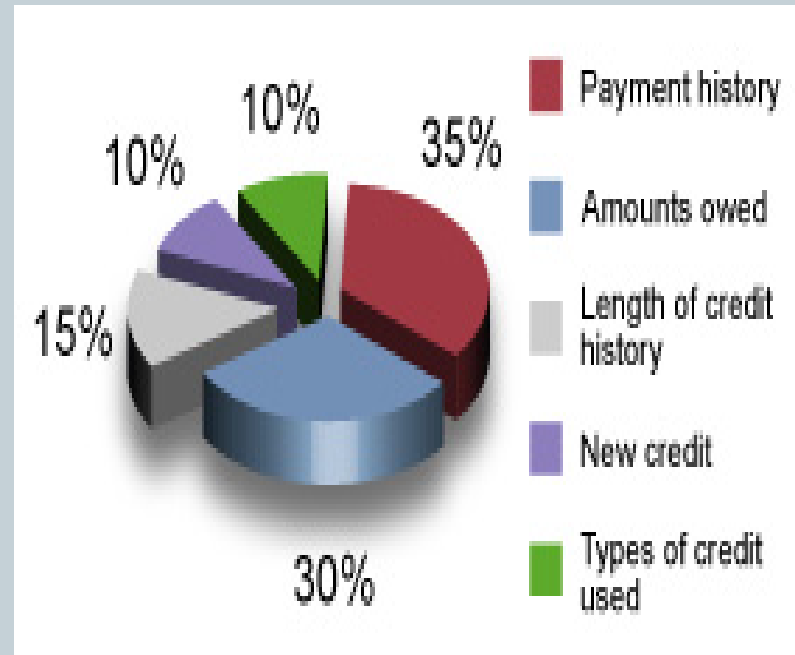


Types of Scores

VantageScore

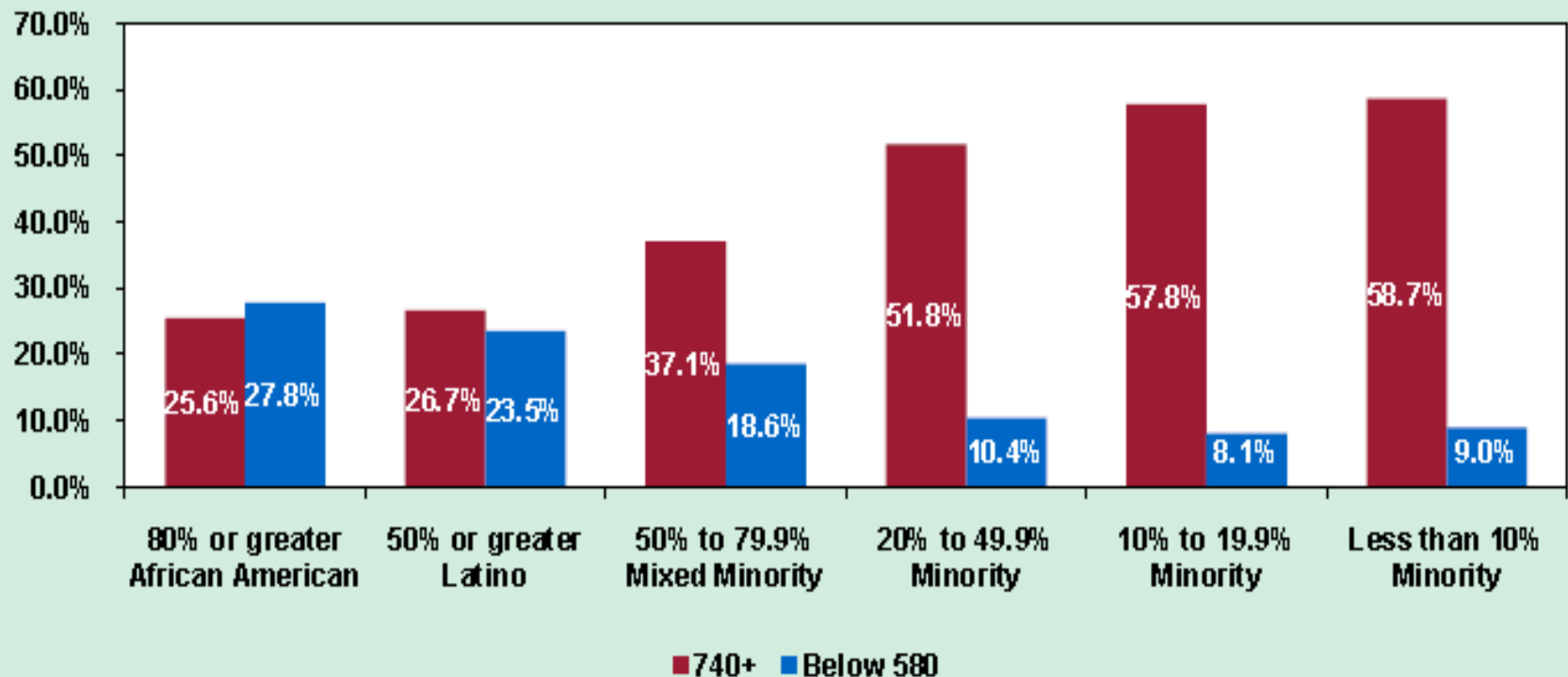


FICO Score



Racial Disparity in Credit Scores

Table 2. Percent of individuals in highest and lowest credit score ranges by zip code racial/ethnic composition, 2009



Source: "Bridging the Gap: Credit Scores and Economic Opportunity in Communities of Color," September 2010

Racial Disparity in Credit Scores



- **Fair Isaac**: The percentage of individuals from high minority areas with relatively low credit scores was twice as large as the share of individuals from other areas.
- **Brookings Institute**: Counties with low scores were 19% Hispanic and 28% Black, whereas counties with higher than average scores were mostly all white.
- **Federal Reserve**: Fewer than 40% of consumers who lived in high-minority areas had credit scores over 701, while nearly 70% of consumers who lived in mostly white neighborhoods had scores over 701.
- **Harvard's Joint Center for Housing**: Median credit score for whites in 2001 was 738, but for Blacks it was 676 and Hispanics 670.
- **Freddie Mac**: Blacks were three times as likely and Hispanics twice as likely to have FICO scores below 620 as whites.

Effects of Racial Differences in Credit Scores



“To be a poor man is hard, but to be a poor race in a land of dollars is the very bottom of hardship.”

W. E. B. Dubois

Fringe Financial Products



Payday Loans



- Payday loans have interest rates as high as 400%.
- The typical payday borrower pays back \$793 for a \$325 loan.
- Over 5M American families are caught in a cycle of payday debt each year, paying \$3.4B in excess fees.
- Borrowers who receive 5 or more loans a year account for 91% of payday lenders' business.
- Repeat borrowers are forced to renew the loan, paying new fees with each renewal.

Payday Lenders



Tax Refund Anticipation Loans (RALs)



- APRs translate to 77-140%.
- Over 27% of EITC recipients used RALs, compared to 3% of non-EITC recipients.
- Higher usage by lower-wealth households and in communities of color.
- RAL usage is highest in African American communities
 - Over 40% of EITC recipients requested RALS
 - Nearly 12% of non-EITC recipients requested RALS

Sub-Prime Mortgages



- Disproportionate loss of home equity and number of foreclosures in communities of color.
 - Between 2005 and 2008, Blacks and Latinos are more than 70% more likely to have lost their homes to foreclosure than whites.
 - The foreclosure crisis “has caused the greatest loss of wealth to people of color in modern U.S. history.”
 - It is estimated that minorities lost between \$164 and \$213 billion in subprime loans between 2000 to 2008.
 - “Spillover wealth” lost to African-American and Latino communities resulting from depreciated property values alone, will be \$194 billion and \$177 billion respectively.

Policy Recommendations



“What is often not recognized is that the same social system that fosters the accumulation of private wealth for many whites denies it to blacks, thus forging an intimate connection between white wealth accumulation and black poverty.”

Brandeis University, Institute on Assets and Social
Policy

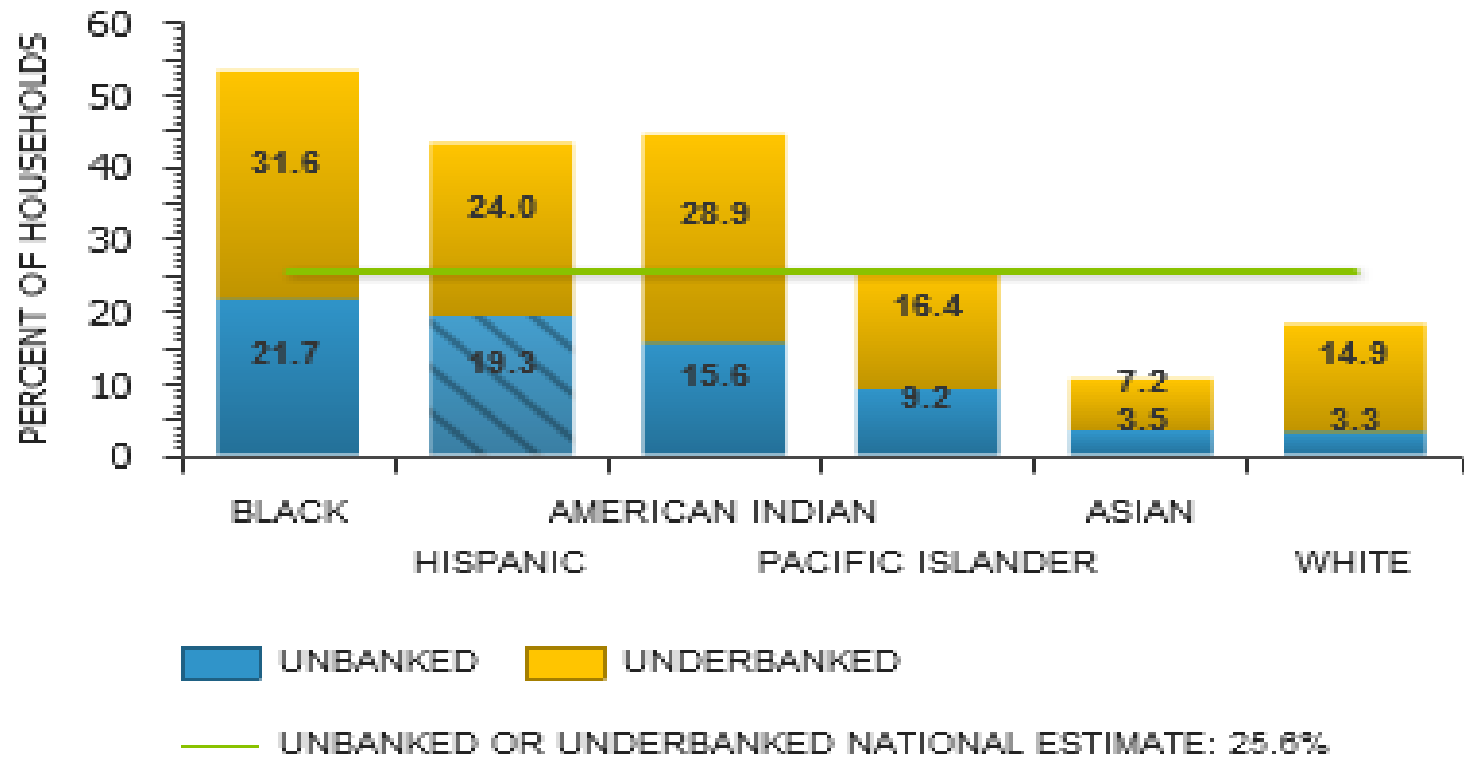
Regulatory Reforms



- **Reform the Credit Reporting System**
- **Update the Community Reinvestment Act**
- **Create Alternative Small Dollar Loans**
- **Report Alternative Credit Data**
- **Collect, Research and Report Data about the Uses of Different Financial Products by Race and Ethnicity**

Unbanked and Under-Banked

COMPARISON OF UNBANKED AND UNDERBANKED HOUSEHOLDS BY RACE AND ETHNICITY



Source: FDIC Un and Under-banked Survey 2009

What is an Alternative Small Dollar Loan (ASDL)?

- **Loan amount:** up to \$1,000
- **Loan term:** 17.5 days to 24 months
- **Security:** proof of income and/or employment by paycheck and/or automatic debit authorization
- **Underwriting:** focuses on history with institution and ability to repay loan
- **APR:** < 36%, ranging from prime plus 5% to 32%.
 - FCCU cannot charge >18% per year
- **Fees:** some require origination or application fee
- **Payment schedule:** amortized payments applied equally toward principal & interest

ASDLs vs. PDLs



Feature	ASDLs	PDLs
Amount	Up to \$1,000	\$500 or less
Loan Term	17.5 days to 24 months	Two weeks to 18 months
Security	Proof of income and/or employment by paycheck and/or automatic debit authorization	Postdated check or automatic debit authorization
Underwriting	Borrower's history with institution and ability to repay loan	Borrower's pay stub and checking account
APR	< 36%, ranging from prime plus 5% to 32%. FCCUs cannot charge >18% APR	Average APR in Illinois is 341%.
Fees	Some require origination/ application fee	With a \$350 PDL, borrower pays average fee of about \$60 and receives about \$290 in cash.
Payment schedule	Amortized loan payments applied equally toward the principal and interest on the loan	Lenders structure unequal, non-amortized payments including a final large ("balloon") payment

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Credit Scores



Somewhere between 50 and 70 million people have

No credit score



A thin file score



Regulatory Reforms



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Racial Wealth Gap



What can you do to close the racial wealth gap in your community?

Racial Wealth Gap



Questions and Discussion

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