

IASP Institute on Assets and Social Policy



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Sargent Shriver National Center on Poverty Law

Race and Wealth--Moving...Backwards

➤ **Tom Shapiro**

➤ **Director, Institute on Assets and Social Policy**

➤ **The Heller School for Social Policy**

➤ **Brandeis University**

➤ **NC Pathways to Prosperity Conference**

➤ **Raleigh, NC**

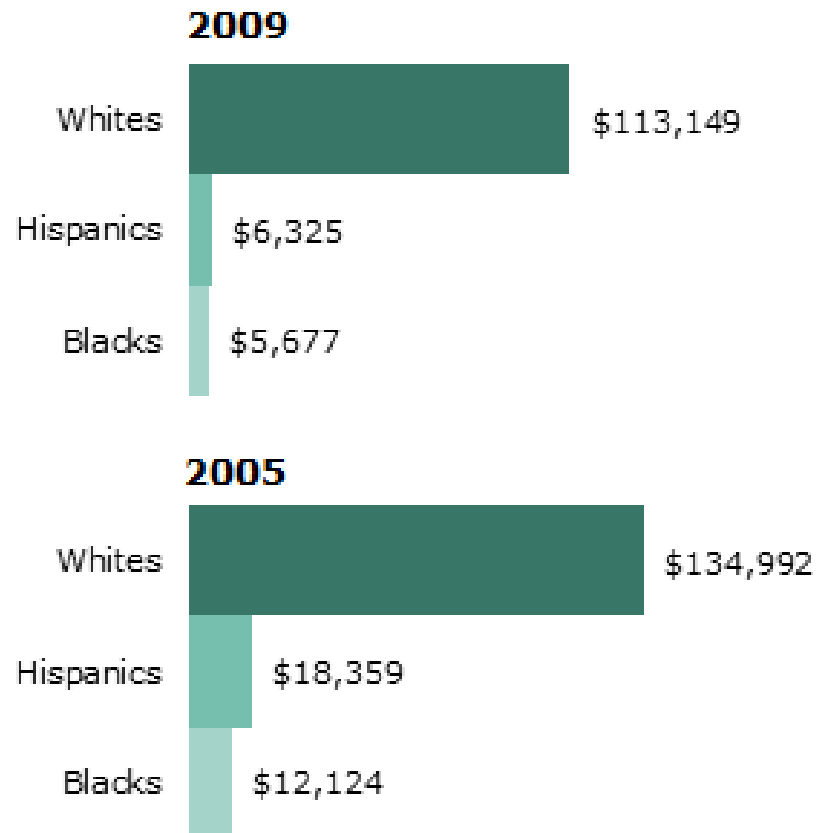
➤ **October, 2011**

Historic 'Low' in Racial Wealth Gap

- The median wealth of white households is 20 times that of black households and 18 times that of Hispanic households,
- Now a Nickel-on-Dollar
- As High as 14 Cents-on-a-Dollar (1995)
- Pew Research Center, “Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics--*Twenty-to-One*”

Median Net Worth of Households, 2005 and 2009

in 2009 dollars



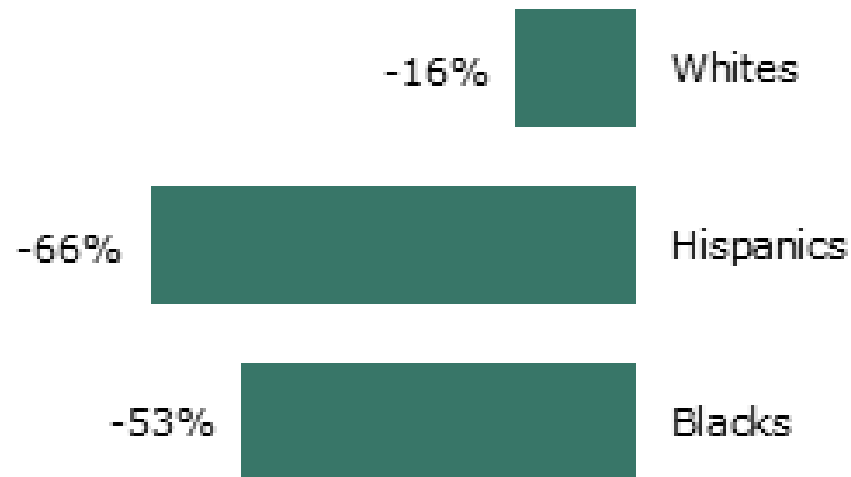
Source: Pew Research Center tabulations of Survey of Income and Program Participation data

PEW RESEARCH CENTER

Most Vulnerable Hardest Hit

- 'Bubble' burst, 2006
- Great Recession took a far greater toll on the wealth of minorities than whites.
- From 2005 to 2009, inflation-adjusted median wealth fell by 66% among Hispanic Households
- 53% among black households,
- compared with just 16% among white households.

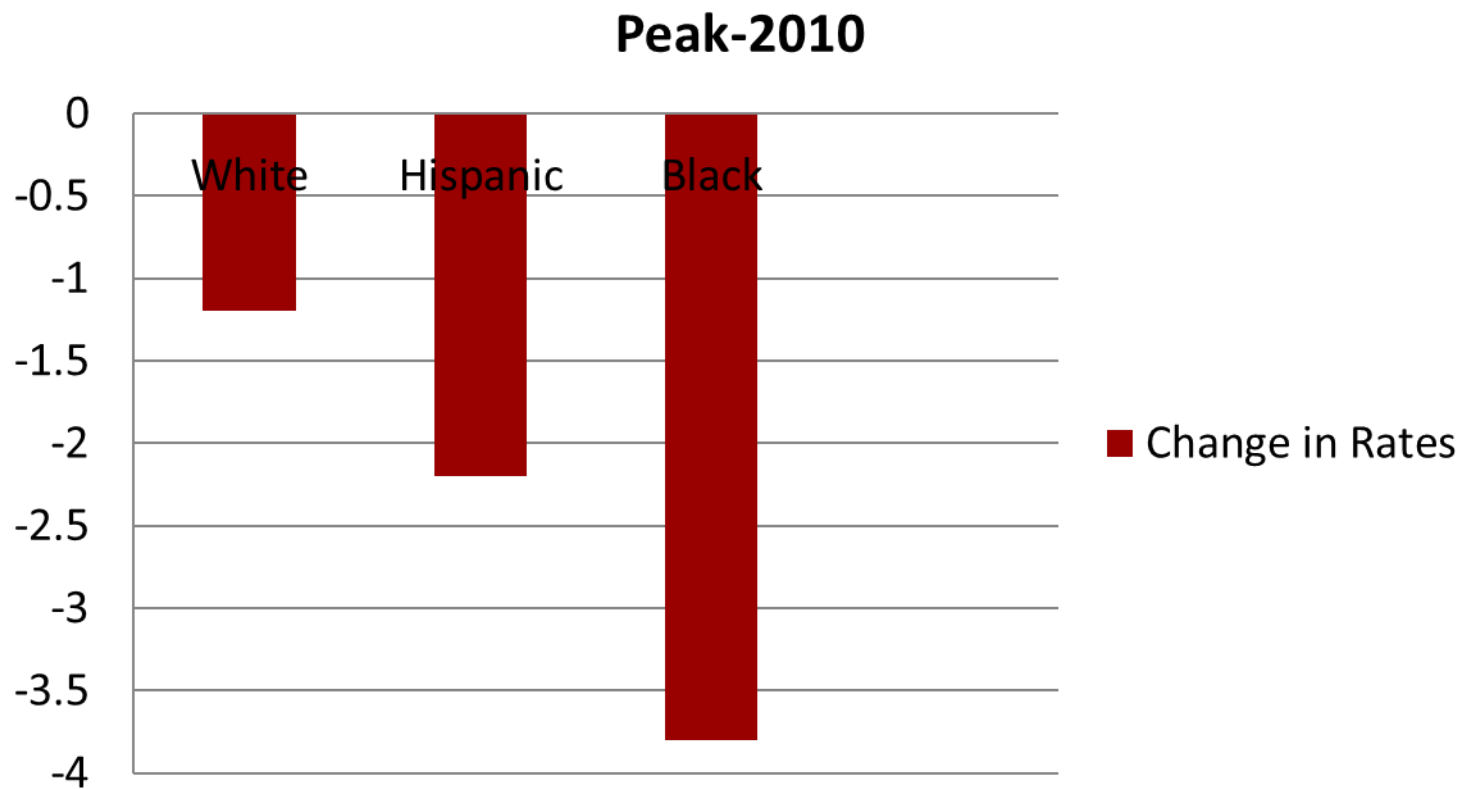
Percentage Change in Median Net Worth of Households, 2005 to 2009



Source: Pew Research Center tabulations of Survey of Income and Program Participation data

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The Great Recession and Homeownership Rates



The U-Turn

- White-Minority Homeownership Disparity Back up to 25.5% from an historic low of 24.4% in 2008.

The Toll of Routine Institutional Dynamics



Main Findings

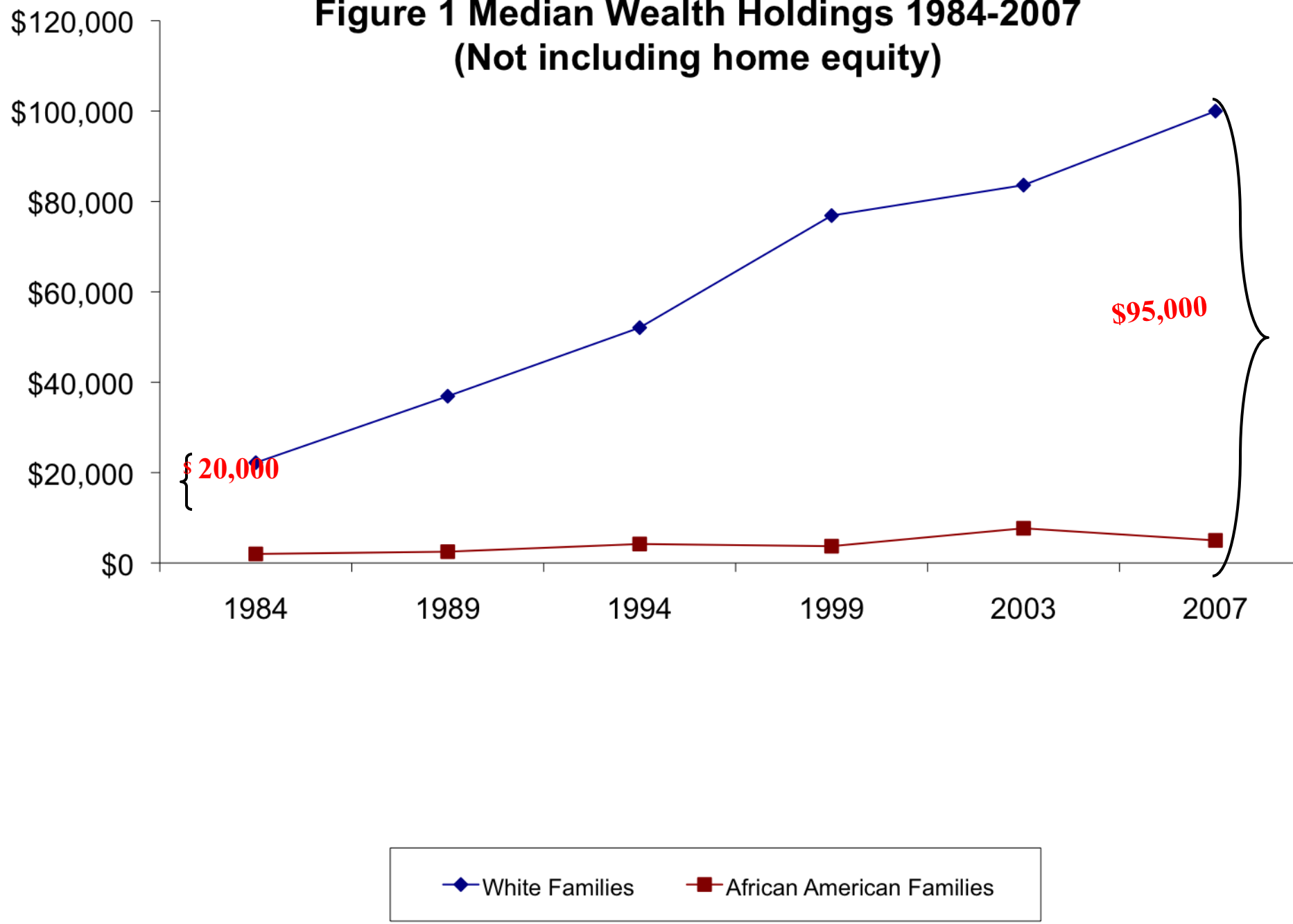
❖ The wealth gap **increased more than 4 times, from \$20,000 to \$95,000.**

❖ **Middle-income white households had greater gains** than high-income Black Americans; by 2007, \$74,000 versus \$18,000.

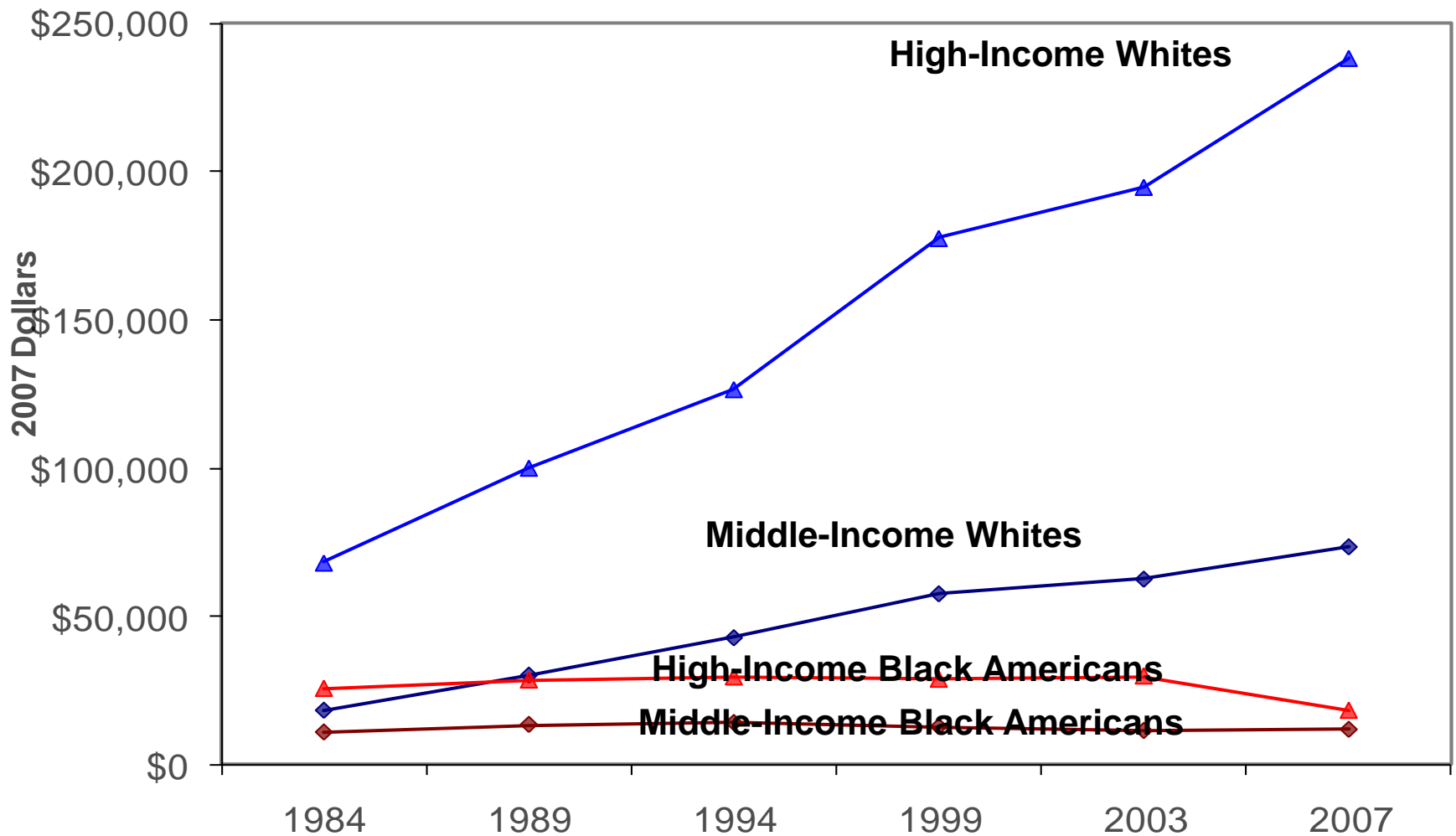
❖ In 2007, **one in ten Black-Americans owed at least \$3,600**, almost doubling their debt burden since 1984.

❖ At least 25% of Black-American families **had no assets** at all to turn to in times of economic hardship.

Figure 1 Median Wealth Holdings 1984-2007
(Not including home equity)



**Figure 2: 1984-2007 Median Wealth Holdings by
Income in 1984
(Not including home equity)**



Current Policy Distributes Wealth to the Top

- \$370 Billion State Investment in Individual Wealth Building (conservative estimate)
- What it Does
- Distribution?
 - Top 1% Received 45% of the Benefits
 - 'Bottom 60%' Received 3%
- Black American share=3.5%
- If proportional, then \$34 Billion is Left-On-The-Table
- LMI: .7%, With \$158 Billion Left-On-The-Table

THANK YOU

➤ Tom Shapiro

➤ Director, Institute on Assets and
Social Policy

➤ The Heller School for Social Policy

➤ Brandeis University

RACIAL WEALTH GAP

Confronting Barriers To Minority Wealth Accumulation

Karen Harris
The Shriver Center



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Sargent Shriver National Center on Poverty Law

Recipient of 2010 MacArthur Foundation award for creative and effective institutions

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

Racial Wealth Gap Statistics

The median family income for both black and white families has increased over the last 30 years, but income gaps still persist.

- In 2004 median family income of blacks ages 30 to 39 was only 58% that of white families in the same age group \$35,000 for blacks compared to \$60,000 for whites.*

Wealth gap between white and black families has more than quadrupled over the course of a generation.

- In 23 years the racial wealth gap increased by \$75,000 from \$20,000 to \$95,000.*
- Every \$1 owned by white families, Latinos have 12 cents and black families have a dime.*

Source: Economic Mobility Project; Institute on Assets and Social Policy, May 2010; Insight Center for Community and Economic Development, March 2009



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Wealth Disparity Nationally

- In terms of household net worth, Latinos own twelve cents for every dollar owned by white households, and African-American families own only ten cents
- The wealth gap for women of color is even more pronounced. Compared to single white women's median net worth of around \$49,000, single black women's median net worth is only \$5,000, and for Latino women, it is a mere \$2,680



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Income Poverty

- **U.S. Poverty Level in 2010**

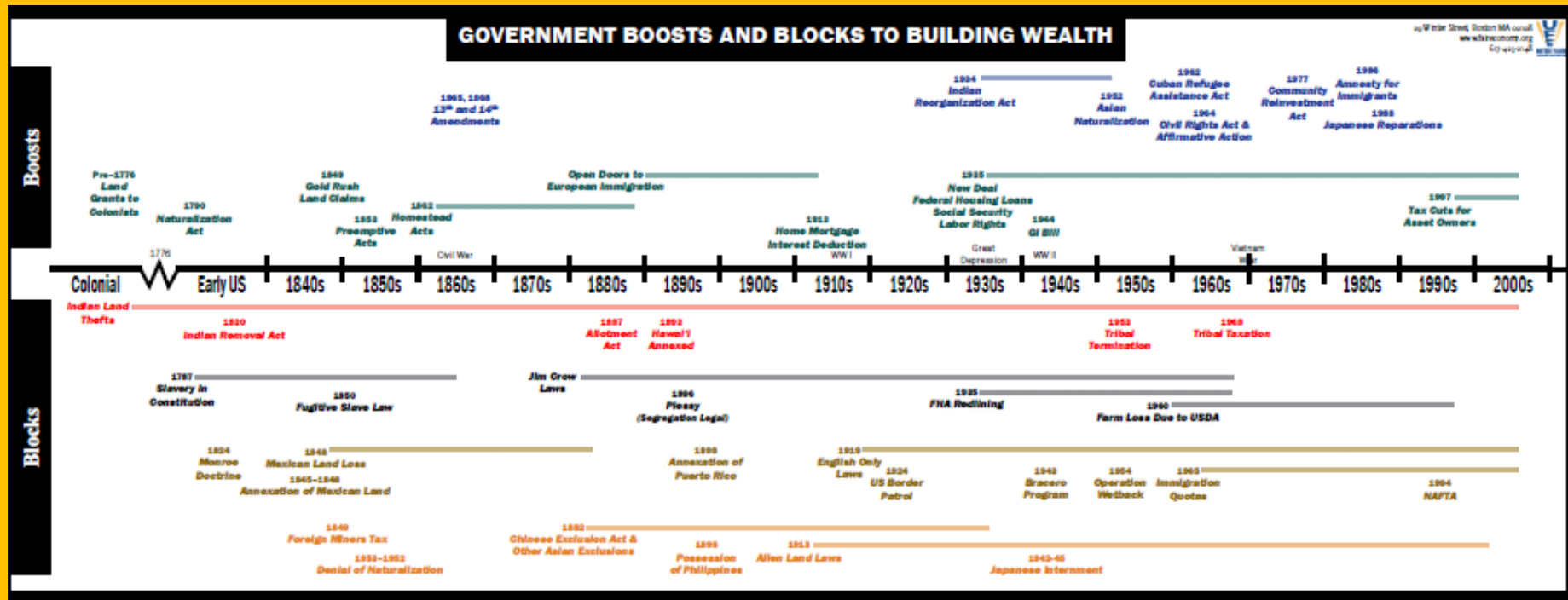
- 46.2 Million

- 15.1%

- 52 years



Causes of the Racial Wealth Gap: *De Jure* and *De Facto* Discrimination



De Jure Examples

- 1840s: Annexation of Mexican lands stripped Latinos of their most valuable asset.
- 1860s: Foreign Miners Tax was levied against Chinese gold miners to prevent them from acquiring wealth.
- 1862: The Homestead Act gave land taken from Native Americans and Mexicans, to whites.
- 1880-1960: Jim Crow Laws restricted rights and opportunities for African Americans.



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De Facto or Institutional Racism

Definition of Institutional Racism:

“The extent to which racism is embedded in the dominant organizations and power structure of society, resulting in distinctive patterns of social disadvantage.”



Examples of De Facto or Institutional Racism

- Example of Latino and bank accounts
- “Know your Customer” rule required by the USA Patriot Act
 - Financial institutions must:
 - 1) verify the true Identity of the customer
 - 2) maintain records of documents used to verify identity
 - 3) determined whether the person is on any terrorist list
- Banks do not accept most forms of ID, other number, which many Latinos do not



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

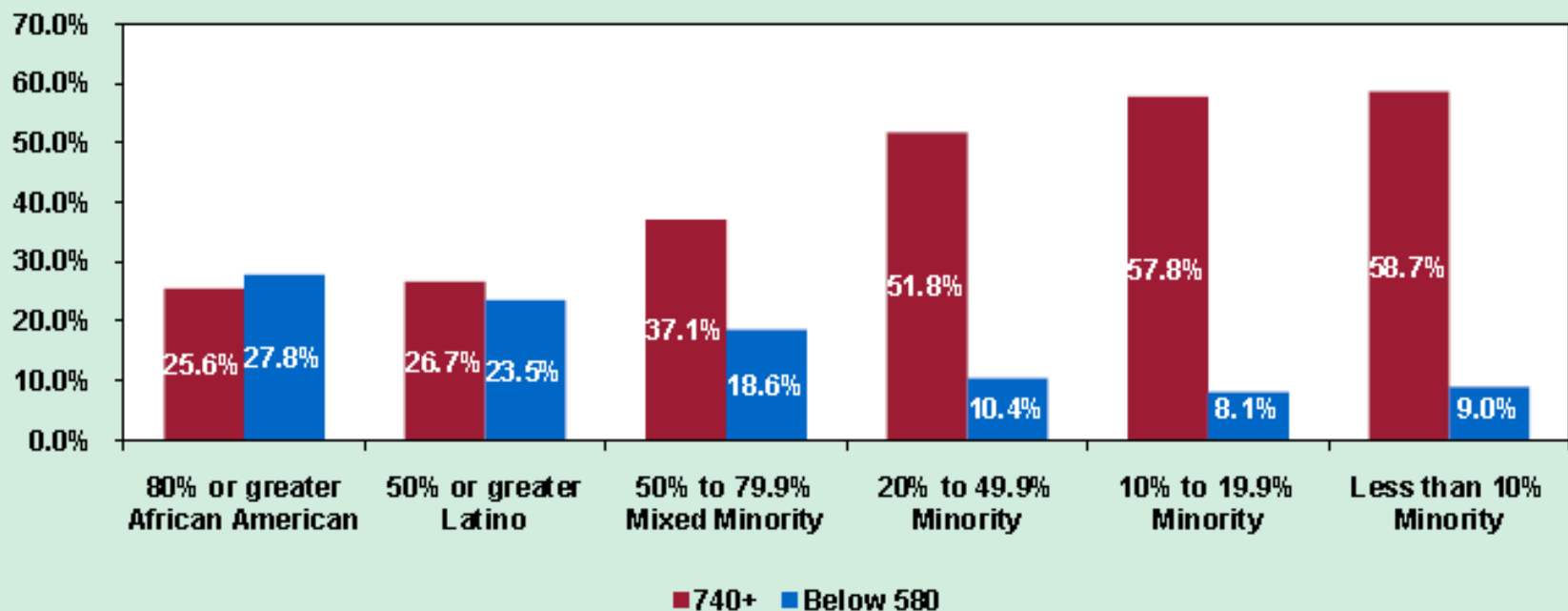


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Racial Disparity in Credit Scores

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

Negative Impacts of Low Credit Scores

Loans

- Home
- Car
- Small Business
- Post-secondary education

Screening

- Insurance
- Employment
- Housing

Fringe Financial Products



Payday Loans

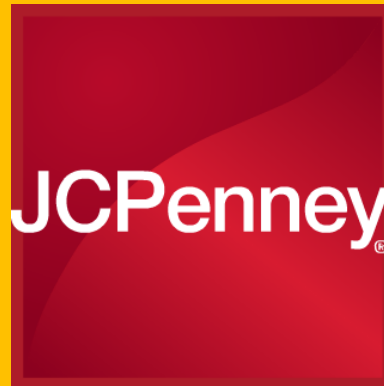
- Payday loans have interest rates as high as 400%.
- The typical payday borrower pays back \$793 for a \$325 loan.
- Over 5M American families are caught in a cycle of payday debt each year, paying \$3.4B in excess fees.
- Borrowers who receive 5 or more loans a year account for 91% of payday lenders'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



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Payday Lenders



Alternative Credit Reporting

- **Alternatives:** Including rental payments, phone bills, utility bills and other nontraditional data to determine credit score
- **Pros:** Bring previously excluded individuals into the financial mainstream lending market, allow them access to credit needed to build assets
- **Cons:** Some families may choose to pay for groceries rather than an electric bill if they fall behind sometimes, negatively affecting their credit

Credit Scores

Somewhere between 50 and 70 million people
have

No credit score



A thin file score



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

Asset Limit Reform

- ❑ Asset limits on public benefit programs create barrier to saving
 - ❑ Programs such as SSI, TANF, SNAP and Medicaid limit eligibility to those who are both income and asset poor.
- ❑ Many allow only \$2,000 for a single filer and \$3,000 for a couple in permissible assets
- ❑ **SSI Savers Act of 2010** was introduced to Congress to raise the limit to \$5,000 for a single filer and \$7,500 for joint filers



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Increase Savings at Tax Time

- Many low-income families receive a lump sum tax return which is ideal to jump-start a savings account.
 - IRS established the Volunteer Income Tax Assistance (VITA) Program to help low-income families with tax preparation.
- \$aveUSA: pilot savings program.
 - Allows users of free tax preparation services to purchase certificates of deposit.
 - For those who do not withdraw them for 1 year, will receive a 50% match up to \$500.



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Bank the Unbanked

- 30 million Americans are unbanked or underbanked
 - This population is vulnerable to predatory practices: payday loans, rent-to own, pawn shops, non-bank check cashing services which all have high fees.
- “BankOn”: financial institutions partner with community groups
 - Market low-cost checking and savings accounts for low-income, unbanked individuals.
 - Began in San Francisco: over 70,000 accounts since
inception in 2006

Ensure Access to Affordable Mainstream Credit

- There is a disproportionate rate of low credit scores among minorities
 - Biases in credit-scoring industry
- Alternative credit reporting:
 - Energy utilities (e.g., electric, heating, oil, water) also phone, rent and other nontraditional payments

Restrict Predatory Financial Services and Products

- Consumer Financial Protection Bureau: supervise banks, credit unions and financial companies as well as create and enforce federal and consumer financial protection laws.
 - Jurisdiction must be expanded to include: auto title lenders
 - Vehicles are the most common nonfinancial asset
 - Auto loans are the most common credit products

Questions and Discussion

Karren Harris

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Pathways to Prosperity Conference

CLOSING THE RACIAL WEALTH GAP The North Carolina Perspective

Anne Price, Director, Closing the Racial Wealth Gap Initiative

October 18, 2011



The racial wealth gap is the result of historic inequities in public policy, regulations and practice. It will take structural changes to close it.

Principles for Closing the Racial Wealth Gap

Policies should change **structures** of economic opportunity.

Policies should be **targeted with universalism**, “which means identifying a problem that afflicts marginalized communities, proposing a solution, and then broadening its scope to cover as many people as possible.”*

Expand enforce policies that **eliminate discriminatory practices** in the private and public sectors.

Promote the collection of racial and ethnic data essential to **evaluating policy effectiveness**.

Recognize that a comprehensive **human capital agenda** is needed.

What Will Help Narrow the Racial Wealth Gap?

- **Baby bonds**
- **Expand IDAs**
- **Financial system regulatory reform**
- **Enforce fair housing/anti-discrimination laws in employment**
- **Anti-predatory lending practices**
- **Expand and modernize Community Reinvestment Act**
- **Comprehensive public investment in transportation, energy, communications, infrastructure to create jobs**
- **Efforts to increase high school and college completion**
- **Tax policy reform**
- **Modernize Social Security**



What is Different About the Racial Wealth Gap in North Carolina?

The gap is **wider** in North Carolina than in the nation
racial

Gaps in
homeownership
equity and pensions/
retirement are the
two biggest factors for
the white-black gap



Framework for Narrowing the Racial Wealth Gap in North Carolina

- 1 Advocate for inclusive, universal policies and programs**
- 2 Develop and support policies and programs that address discrimination**
- 3 Develop a comprehensive, long-term approach to community economic development**

Strategies for Narrowing the Racial Wealth Gap in North Carolina

Launch a **place-based, population-focused asset-building initiative** in one or two places.

Support an organization(s) to **track and analyze public policies**

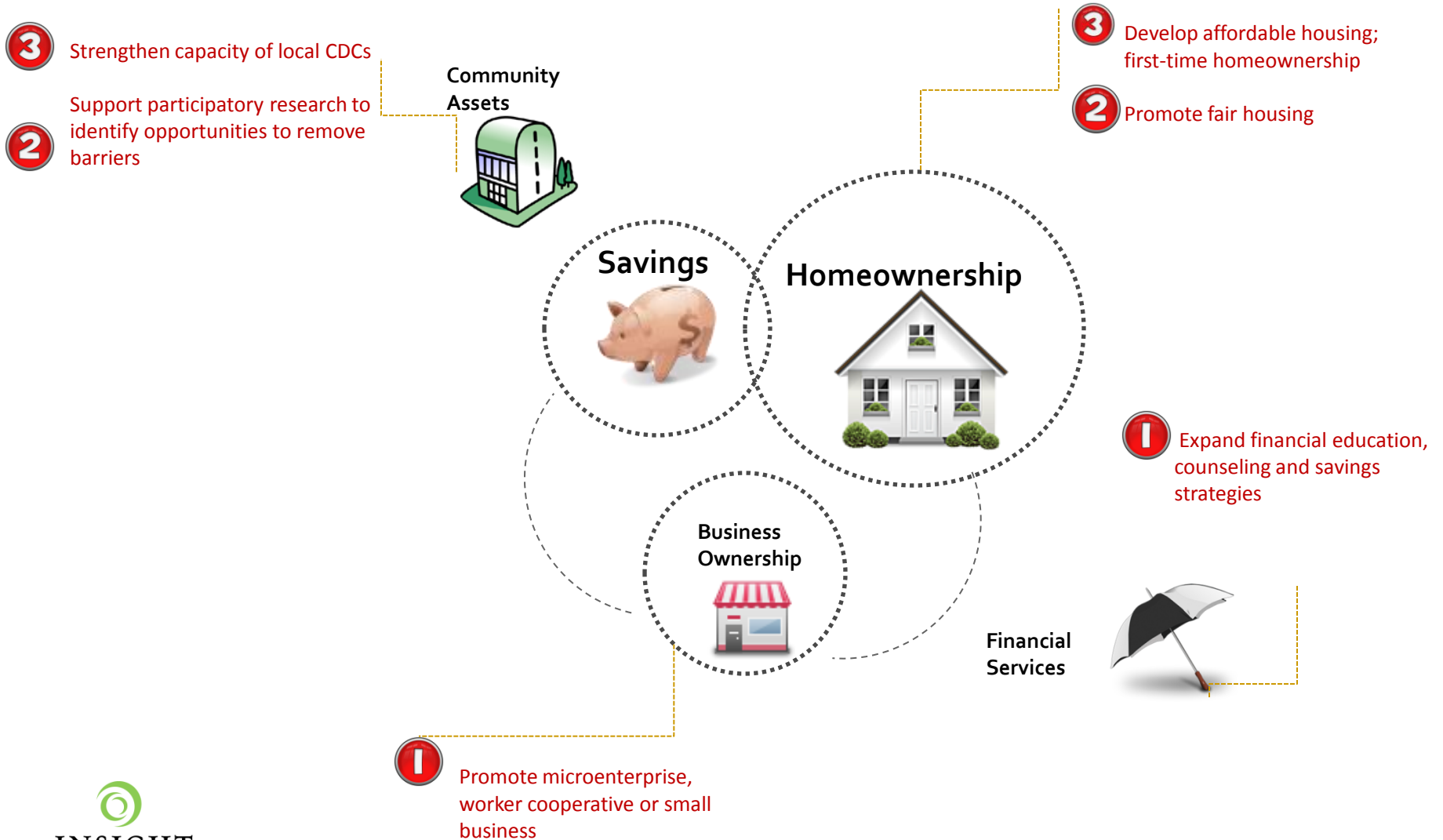
Support **participatory research** by place-based partners

Launch a Place-Based, Population-Focused Asset-Building Initiative in Rural and Urban Areas NORTH CAROLINA



- 1 Durham—Durham County
- 2 Raleigh—Wake County
- 3 Charlotte—Mecklenburg County
- 4 Winston-Salem—Forsyth County

Strategic Opportunities to Address Wealth Gaps in North Carolina



Thank You!

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&

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Contact us

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