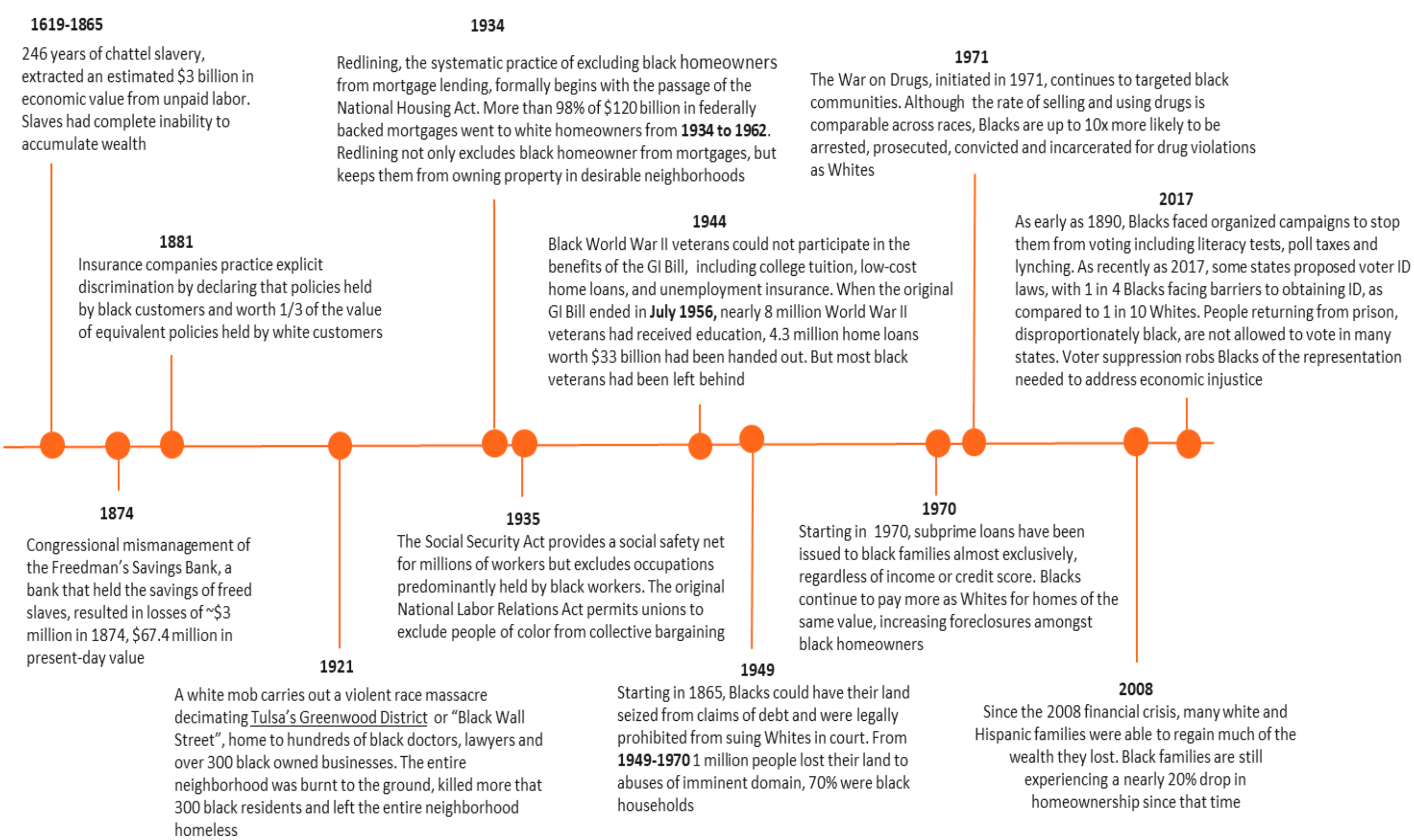
Finance Industry Response to Economic Disparity in the US
Salah Goss, *Finance Leaders Fellow, Aspen Institute*

Overview

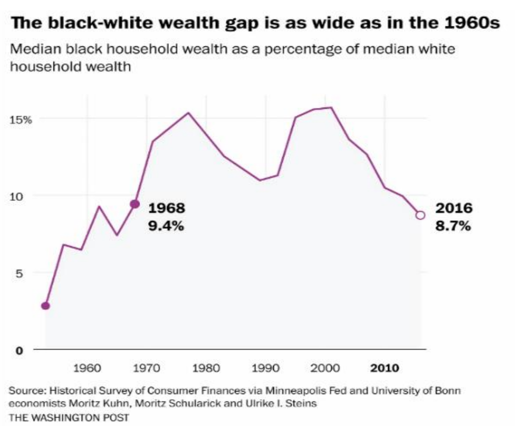
We are at a moment in US history where leadership is of the utmost importance in healing the economic and racial strife in our country. The recent Coronavirus-19 pandemic (COVID-19) and recorded racial injustices have served to exasperate the impacts of centuries old disinvestment in black communities and have given rise to nation-wide civil unrest and protest. This movement offers voice to and a lens on the 450-year history of economic disparity and inequities in black communities. The drivers for these inequalities, in part, are a legacy of discriminatory legislation, policies and practices, including some codified in the financial sector, that have resulted in deep disadvantages for black communities (Exhibit 1).

Now is the time for the Finance Industry (the Industry) to be on right side of history. We are presented with a unique opportunity to be introspective and to initiate the removal of structural barriers and institutional policies that have contributed to the chasm of economic opportunity. This crisis offers an occasion to fulfil the promise of the financial sector to be an instrument for good. We are calling on the Aspen Institute to lead the Industry through the fruition of this promise. Acting as a convener and thought partner for the Industry, the Aspen Institute is well placed to catalyze financial sector leaders into action, supporting us to craft thoughtful industry recommendations and establish the infrastructure to sustain their long-term execution.

Policies and practices diminishing black Americans ability to accumulate wealth

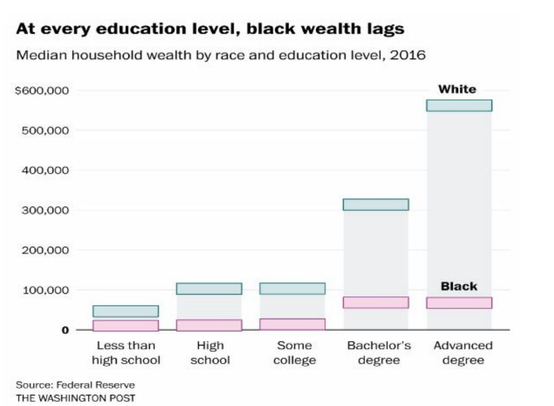


Background



As of 2016, the average black American family had total wealth of $17,600—about one-tenth the wealth of the average white American family, which stood at $171,000 (Exhibit 2).[1] This gap leaves many black families at a significant economic disadvantage, with less financial security and less ability to fully participate in the economy. At its foundation, the legacy of wealth disparity for Blacks in the US can be significantly attributed to the negative compounding effects of (i) the historical illegality and subsequent suppression of property ownership through present day, and (ii) structural and institutional barriers introduced as legislation, regulations, policies and practices during the Jim Crow, Segregation and the Civil Rights Eras that, with intent and/or effect, prevent(ed) or limit(ed) access to home ownership and wealth accumulation. In fact, the wealth gap has not improved much since 1968 when a slate of landmark civil rights legislation culminated in the Fair Housing Act that targeted the unequal treatment of black Americans in housing. This means that not much progress has been made to close the wealth gap in the last 70 years[2]. Further to this point, similar to the late 1960s when housing discrimination was legal, only 44 percent of black households currently own their own homes as compared to 74 percent of white households. Nor has educational attainment significantly benefited black social mobility as the typical black household headed by someone with an advanced degree has less wealth than a white household with only a high school diploma[3] (Exhibit 3).

By many measures, black Americans have continued to lose financial footing since the 2007-2009 Great Recession. As an example, the pace at which black families have regained wealth through homes,



income and jobs is slower than that of white

[1] Bricker, J., Dettling, L., Henriques, A., Hsu, J., Jacobs, L., Moore, K., Pack, S., Sabelhaus, J., Thompson, J. and Windle, R., 2017. [online] Federalreserve.gov. Available at: <https://www.federalreserve.gov/publications/files/scf17.pdf>
[2] Kuhn, M., Schularick, M. and Steins, U., 2018. [online] Minneapolisfed.org. Available at: <https://www.minneapolisfed.org/institute/working-papers-institute/iwp9.pdf>
[3] Florant, A., Julien, J., Stewart, S., Yancy, N. and Wright, J., 2020. *The Case for Accelerating Financial Inclusion In Black Communities*. [online] McKinsey & Company. Available at: <https://www.mckinsey.com/industries/public-sector/our-insights/the-case-for-accelerating-financial-inclusion-in-black-communities>

families.[4] While American middle class incomes overall hit an all-time high in 2018, this was not the case for black Americans who were earning less than they did in 2000, according inflation-adjusted numbers from the US Census Bureau. In fact, according to this data, the median black income remains more than $2,000 below that of the year 2000.

Most recently, COVID-19 has disproportionately impacted black households in terms of unemployment, underemployment, small business failures, hefty health expenses and overall loss of wealth. Even before the ravishes of COVID-19, a 2018 report on the wealth gap authored by the Samuel Du Bois Cook Center on Social Equity concluded "there are no actions that black Americans can take unilaterally that will have much of an effect on reducing the racial wealth gap".[5]

Less wealth also means black Americans are underrepresented in the market for financial products and services. Nearly half of all black Americans are unbanked or underbanked.[6] The lack of access to financial services and tools for economic resiliency are not just symptoms of the racial wealth gap; they are also the cause. Together they translate into a dearth in asset accumulation resulting in 19 percent of black families having zero or negative net worth[7]. Without the ability to affordably save, invest, and insure against risks, many black families struggle to translate income earned into wealth. The success of the US economy is driven by small business; however, black-owned businesses are denied small business loans at twice the rate of those white-owned. This greatly impacts the size, scale and viability of these businesses, their ability to maximize employment and the communities they serve.

Tackling these disadvantages will not only have social benefits but can also make business sense. When surveyed, 64 percent of Americans say that a company's primary purpose should be making the world better[8]. Further, McKinsey & Company Public Sector practice estimates that if black Americans reached full parity in terms of wealth with white Americans, financial services companies could realize up to $60 billion in additional revenue from black customers each year.

To serve as an engine for a more inclusive and equitable economy, the Industry must move to evaluate and eradicate the legacy effects of regulations, policies, and practices that have driven and deepened the wealth gap, and held to exclusion the full participation of black Americans. This will necessitate three phases (i) establishment of baseline research, potential cost/benefit trade-offs and business opportunity for the Industry (ii) formulation of industry-wide recommendations and (iii) execution of the industry-wide recommendations.

[4] Rabinowitz, K. and Shin, Y., 2018. *The Great Recession's Great Hangover*. [online] HoustonChronicle.com. Available at: https://www.houstonchronicle.com/business/economy/article/The-Great-Recession-s-great-hangover-13220732.php.
[5] Darity Jr, W., Hamilton, D., Paul, M., Aja, A., Price, A., Moore, A. and Chiopris, C., 2019. *What We Get Wrong About Closing The Racial Wealth Gap*. [online] Socialequity.duke.edu. Available at: <https://socialequity.duke.edu/wp-content/uploads/2019/10/what-we-get-wrong.pdf>
[6] Florant, A., Julien, J., Stewart, S., Yancy, N. and Wright, J., 2020. *The Case for Accelerating Financial Inclusion In Black Communities*. [online] McKinsey & Company. Available at: <https://www.mckinsey.com/industries/public-sector/our-insights/the-case-for-accelerating-financial-inclusion-in-black-communities>
[7] Ross, J., 2020. *The Racial Wealth Gap In America: Asset Types Held By Race*. [online] Visual Capitalist. Available at: <https://www.visualcapitalist.com/racial-wealth-gap/> [Accessed 23 June 2020].
[8] Murray, A., 2019. *America's Ceos Seek A New Purpose For The Corporation*. [online] Fortune. Available at: <https://fortune.com/longform/business-roundtable-ceos-corporations-purpose/> [Accessed 23 June 2020]

Industry-wide Recommendations

We propose an engagement that thoughtfully drives action-oriented dialogue, employs innovative thinking, and produces catalytic Industry recommendations. While recognizing that Industry transformation at its best will continue to evolve over time, the initial recommendations center on four strategic pillars:

- Unbanked in Black Communities
- Access to Financial Services
- Wealth Accumulation
- Entrepreneurship and Business Lending

<u>Decrease Unbanked in Black Communities:</u>

Nearly half of all black households are unbanked or underbanked.[9] This exclusion can mean $40,000 in fees over the course of a financial lifetime.[10] The reduction the unbanked rate for black Americans from 14 percent to 4 percent, that of their white counterparts, would mitigate much of the financial burden by providing more and better banking options. Bank and ATM fees, account penalties and minimum deposits often serve as institutional barriers in accessing financial services for many black (and, lower income) consumers. For example, banks serving black neighborhoods require deposits that average 60 percent of customer paychecks to avoid fees or account closures, compared to just 28 percent of those in white neighborhoods–a consequence of bank fee structures and lower incomes for many black Americans.[11]

McKinsey & Company Public Sector practice estimates that financial institutions could realize approximately $2 billion in incremental additional annual revenue if black Americans have the same access to financial products as white Americans.

Illustrative Recommendations:

- Study bank fees such as overdraft, minimum balance penalties and ATM fees, to decrease the cost prohibitive structure and rate of financial exclusion for black households
- Encourage banks to reexamine the distribution of their bank branches and relationships with black communities

<u>Access to Financial Services: Consumer Credit, Savings and Insurance:</u>

[9] Fdic.gov. 2018. *FDIC: 2017 FDIC National Survey Of Unbanked And Underbanked Households*. [online] Available at: <https://www.fdic.gov/householdsurvey/>

[10] Mabanta, M. and Mabanta, M., 2008. *Banking On Wealth: America'S New Retail Banking Infrastructure And Its Wealth-Building Potential*. [online] Brookings. Available at: <https://www.brookings.edu/research/banking-on-wealth-americas-new-retail-banking-infrastructure-and-its-wealth-building-potential/>

[11] Prosperitynow.org. 2019. *Analyzing The Landscape Of Saving Solutions For Low-Income Families Part 1: The Savings Crisis And The Need For Holistic Solutions | Prosperity Now*. [online] Available at: <https://prosperitynow.org/resources/analyzing-landscape-saving-solutions-low-income-families-part-1-savings-crisis-and-need>

The limited access to credit and capital for black consumers greatly impacts the cumulative costs of lifestyle investments such as cars, appliances and other house-related expenses. In recent consumer lending studies, car shoppers of color who are more qualified than their white counterparts are 62.5 percent more likely to be offered costlier pricing options resulting in $2,662 in extra fees and interest over the life of the loan.[12] Access to credit is particularly limited for non-asset-backed loans for income smoothing or for emergency financial shocks. Poor or no credit scores also drive black consumers to rely on inferior financial service options such as overpriced rent to own schemes and payday loans. The opportunity in this area is to eliminate the need for predatory services and sub-par products imparting usury interest and regressive terms.

Access to insurance, often linked to employment, and savings also lags behind for black Americans. There is a disparity in the types of insurance products that are more readily accessible to black and white Americans, with 73 percent of white families having private health insurance, compared to 57 percent of black families. Finally, black families are less likely to have a financial cushion, with approximately 70 percent of black families' financial portfolios in illiquid assets, such as property, compared with 54 percent for white families.[13] While the average white family has 31 days of liquid savings on hand, black families have only five days.[14]

Illustrative Recommendations:

- Increase access to formal consumer credit
- Alternative insurance schemes for gig and part-time workers
- Product development for life-cycle events such as retirement, college and weddings

Accumulation of Long-term Wealth:

Homeownership is a significant step to accumulating long-term wealth, but black Americans are denied at a rate of 28 percent compared to 11 percent for white Americans with similar FICO scores and offered higher cost loans, sometimes doubly expensive. [15] This can have long-term effects on the ability to pass-on inter-generational wealth. Attaining retirement accounts, and/or stocks are also a challenge for black Americans with only 34 percent of black Americans who have a retirement account, compared with 60 percent of white Americans. Often tied to employment, 61 percent of white families have publicly traded stocks compared to only 31 percent of black families. [16]

---

[12] Rice, L. and Schwartz Jr., E., 2018. [online] Nationalfairhousing.org. Available at: <https://nationalfairhousing.org/wp-content/uploads/2018/01/Discrimination-When-Buying-a-Car-FINAL-1-11-2018.pdf>

[13] Bricker, J., Dettling, L., Henriques, A., Hsu, J., Jacobs, L., Moore, K., Pack, S., Sabelhaus, J., Thompson, J. and Windle, R., 2017. [online] Federalreserve.gov. Available at: <https://www.federalreserve.gov/publications/files/scf17.pdf>

[14] Pewtrusts.org. 2015. [online] Available at: <https://www.pewtrusts.org/-/media/assets/2015/11/emergencysavingsreportnov2015.pdf>

[15] DESILVER, D. and BIALIK, K., 2017. *Blacks, Hispanics Face Mortgage Challenges*. [online] Pew Research Center. Available at: <https://www.pewresearch.org/fact-tank/2017/01/10/blacks-and-hispanics-face-extra-challenges-in-getting-home-loans/>

[16] Dettling, L., Hsu, J., Jacobs, L., Moore, K. and Thompson, J., 2017. *The Fed - Recent Trends In Wealth-Holding By Race And Ethnicity: Evidence From The Survey Of Consumer Finances*. [online] Federalreserve.gov. Available at: <https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-wealth-holding-by-race-and-ethnicity-evidence-from-the-survey-of-consumer-finances-20170927.htm>

Black Americans are 50 percent less likely to have a living will in place, compared to other groups[17] and according to Black Enterprise, 70 percent of African Americans have no will or estate planning in place. A 2017 Care.com survey found that the lack of a will was one of the factors leading to loss of land in the black community. This study also revealed that a disparity in knowledge and/or access to estate planning between different races may also play a role in who has a will. When this survey was conducted in 2020, black respondents were two times as likely to indicated that they did not know how to obtain estate planning documents. The loss of and/or ability to pass on intergenerational wealth is largely dependent on estate planning or the lack there of.

Illustrative Recommendations:

- Increase investment in mortgage assistance and relief programs targeted at black homeowners or those interested in homeownership
- Financial literacy and education focused on investing in the stock-market, including investing for retirement
- Financial literacy and education focused on estate planning targeted at black households

Small and Medium Business Loans and Entrepreneurship:

A recent survey amongst black-owned businesses revealed that the biggest concern for 36 percent of respondents was raising capital or finding a loan. According to data recently made available from the US Federal Reserve, more than half of companies that have black owners were turned down for a loan, a rate twice as high as white business owners. [18] This data also showed that even when black business owners get approved, their failure to receive full funding is the highest amongst all categories by more than 10 percent. Further, access to lines of credit, essential to most businesses, was also out of reach. Although black owned businesses were the most likely group to apply for a credit card, they experience the highest rejection rate.

Rates of investment in black founder start-ups is equally low. According to a recent Knight Foundation report, there is $70 billion of capital that flows down from institutional investors with less than 1.5 percent of it managed by firms that are owned by white women and minorities combined.

The dearth in capital is exacerbated by the COVID-19 crisis disproportionally affecting black-owned businesses. 40 percent of black businesses reported not working in April due to COVID-19, with only 17 percent of white small business owners reporting the same.[19] Only 12 percent of black and Hispanic

---

[17] Dettling, L., Hsu, J., Jacobs, L., Moore, K. and Thompson, J., 2017. *The Fed - Recent Trends In Wealth-Holding By Race And Ethnicity: Evidence From The Survey Of Consumer Finances*. [online] Federalreserve.gov. Available at: <https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-wealth-holding-by-race-and-ethnicity-evidence-from-the-survey-of-consumer-finances-20170927.htm>

[18] Board of Governors of the Federal Reserve System. 2017. *The Fed - Availability Of Credit To Small Businesses - September 2017*. [online] Available at: <https://www.federalreserve.gov/publications/2017-september-availability-of-credit-to-small-businesses.htm>

[19] Fairlie, R., 2020. *The Impact Of Covid-19 On Small Business Owners: Evidence Of Early-Stage Losses From The April 2020 Current Population Survey | SIEPR*. [online] Siepr.stanford.edu. Available at: <https://siepr.stanford.edu/research/publications/impact-covid-19-small-business-owners-evidence-early-stage-losses-april-2020>

business owners polled between April 30th and May 12th received the funding they requested and 40 percent of black businesses are estimated to have closed permanently.[20]

Illustrative Recommendations:

- Development of a small business bundle, including a starter line of credit, digital payment acceptance and e-commerce capabilities
- Increase investment in black-owned CDFIs or those focused on leading to black businesses
- Better oversight of the amount of investment in black-owned businesses facilitated by Community Reinvestment Act or CRAs.
- Increase the percentage of black-owned businesses receiving capital from private and institutional investors

Our Differentiator

The Finance Leaders Fellows have an opportunity to lead the Industry at this point of inflection. As the nation grapples with historic and present-day economic inequities, we have the resources, influence and expertise to change the financial trajectory of millions of families who have a staggering lack of access to the life-changing power of the financial system. This proposed initiative is differentiated from other economic disparity programs in three principle ways:

Industry buy-in and leadership: This initiative was conceived of by, and will continue to benefit from the guidance of industry practitioners who are Aspen Finance Fellows. These finance fellows are committed to drafting the Industry recommendations and have pledged to advocate within their organizations to make key decisions to accomplish our agenda. This approach affords a long-term strategic vision that is powered by the momentum and expertise of the Industry.

The Finance Fellows who have pledged their support to this initiative belong to the following institutions:

1. Bank of America
2. BNL Melon
3. Capital Impact Partners
4. The Federal Reserve of Chicago
5. Mastercard
6. Morgan Stanley
7. The New York Stock Exchange
8. North Bridge Venture Partners

Sound Industry recommendations and execution plan: The Industry recommendations and execution plan will be jointly developed by the finance experts from the Aspen Finance fellows and The RAND Corporation. The RAND Corporation is a world-renowned research organization that has develops solutions to some of the most well-known public policy and social challenges, including early research on

[20] Fairlie, R., 2020. *The Impact Of Covid-19 On Small Business Owners: Evidence Of Early-Stage Losses From The April 2020 Current Population Survey | SIEPR*. [online] Siepr.stanford.edu. Available at: <https://siepr.stanford.edu/research/publications/impact-covid-19-small-business-owners-evidence-early-stage-losses-april-2020>

the internet, preventing teenage smoking and quantification of the economic cost/benefit of immigration. RAND has agreed to shore up the evidence base for recommendation, model the opportunity cost and business opportunity for a set of recommendation and establish a measurement plan toward success. The combination of the expertise of Industry leader practitioners and the analytic might of RAND is a powerful combination that differentiates this initiative.

Dedicated team of financial experts: While financial institutions have pledged to work on equitable access to the financial sector, such as the recent initiative under the Business Roundtable, none of these have dedicated program staff. This initiative will be run by a full-time team of finance and financial inclusion experts dedicated to working with the financial sector to enact the suggested reforms. This staff will understand the business implication to execute the suggested recommendations and will be fully dedicated to the success of the program.

The Aspen Institute Call to Action

The Aspen Institute has a role to play to bring to fruition financial equity, a foundational tenet of the "good society". The Aspen Institute can best play this role by acting as the institutional home to execute the Industry recommendations and realize their outsized impact. The Aspen Institute has the opportunity to contribute to the near-term shaping of this initiative as well as providing the longer-term institutional guidance and stewardship. To fulfill both of these imperatives, we envision Aspen playing three key roles as described below.

The Power of Convening: The Aspen Institute is a natural convener and could serve as such throughout the phases of this work. Neutral convening of the regulatory and oversight sectors and allowing a free-flowing dialogue with Industry, will be particularly important. To this end, as we work with industry experts, partners and stakeholders to shape this initiative, Aspen can contribute convening space, meeting facilities and a percentage of Administrative/Program/Research staff, Program staff, as warranted. Assistance will also be needed to take advantage of synergies with existing Aspen programs that may advance this initiative.

Building for a Long-term Industry Response: Working across the Industry and with third-party partners, a set of recommendations will need to be solidified. This will be formulated through a thorough analysis of what is possible and will necessitate buy-in from a wide set of stakeholders. There will be trade-offs and mutual goal setting that will require consensus building across diverse entities. The Aspen Institute can convene and facilitate a dialogue with these entities that results in actionable recommendation with the requisite commitments. This will include helping to establish important metrics such as cost/benefit analyses, business opportunity sizing and a vision of success.

Leading the Financial Sector: It is our belief that the Aspen Institute is best placed to house this initiative- providing experts, staff and administrative support to action the Industry recommendations. There will be some work to determine the best programmatic construct within Aspen for execution. There are several institutional partners who are interested in working with Aspen to develop a business plan to establish an institute and/or programmatic pillar dedicated to accomplishing the transformation goals of this initiative. Aspen Institute can provide the needed resources to develop this business plan and to establish the institutional structure within Aspen for execution.