Bridging the Racial Wealth Gap through Credit Building

October 26, 2016

Good “Credit”: Passport to the New Economy
Why Credit Building?
Increases Access, Affordability, and Options for…

- Financial products
- Rental Housing
- Utilities
- Cell phone plans
- Insurance products
- Asset Building

What is Credit Building?
How Does it Work?

CREDIT BUILDING: Establishing and maintaining ACTIVE (paying on-time) trade lines (like installment loans or revolving credit cards) that is reported by the creditor to the major credit bureaus.

Focus on behavior now to create opportunities for the future
What is Credit Building?
The Key
Opening and successfully managing financial products is key to building and maintaining a good credit history

BUT...
Individuals, families and communities with no, thin or poor traditional credit histories have few opportunities to build good credit

Why Credit Building?
Credit Realities among US Consumers

- Black and Hispanic consumers are almost twice as likely as Whites to have no or unscoreable credit records. (CFPB)

- Asset stripping payday lenders, which do not report positive payment data to the credit bureaus, generally cluster in and around neighborhoods with larger minority populations, perpetuating the credit divide. (CRL)
Credit Builder Community

To help organizations move people from poverty to prosperity through Credit Building.

Good Credit is an Asset

Narrowing the racial wealth gap through credit building.
What is the racial wealth gap?

In 2013 the net worth of Latino families was about one-tenth that of white, non-Latino families, and the net worth of African-American, non-Latino families was even lower.


The role of business ownership in family net worth

African American and Latino families have lower rates of investment in financial and business assets, “which provide both asset diversification and higher average returns in the long run than a portfolio consisting mostly of tangible assets like a house, vehicles or other durable goods.”

Reference: Boshara et al, p. 11-12.
Low asset levels lead to racial disparities

Lower levels of assets among African Americans account for more than 15 percent of the difference between the rates of business creation among Whites and African Americans; low levels of assets explain more than half of the business entry rate gap for Latinos.


Rates of growth in business ownership among non-whites are growing....

However, in recent years the rate of growth in the number of non-white owned businesses has far outpaced the growth in white-owned firms.

...especially among African Americans and Latinos

Table 1. Growth in Numbers of Minority-Owned Firms, 1997-2007

<table>
<thead>
<tr>
<th></th>
<th>Number of Firms</th>
<th>1997</th>
<th>2007</th>
<th>1997-2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>All U.S Firms</td>
<td>18,431,456</td>
<td>27,097,236</td>
<td>47%</td>
<td></td>
</tr>
<tr>
<td>Nonminority Firms</td>
<td>15,645,358</td>
<td>20,107,000</td>
<td>29%</td>
<td></td>
</tr>
<tr>
<td>All Minority Firms</td>
<td>2,786,098</td>
<td>5,762,940</td>
<td>107%</td>
<td></td>
</tr>
<tr>
<td>Black-Owned</td>
<td>780,770</td>
<td>1,921,881</td>
<td>146%</td>
<td></td>
</tr>
<tr>
<td>Hispanic-Owned</td>
<td>1,121,443</td>
<td>2,260,309</td>
<td>102%</td>
<td></td>
</tr>
<tr>
<td>Am Native-Owned</td>
<td>187,921</td>
<td>236,967</td>
<td>26%</td>
<td></td>
</tr>
<tr>
<td>Asian-Owned</td>
<td>785,480</td>
<td>1,549,664</td>
<td>97%</td>
<td></td>
</tr>
</tbody>
</table>


But business growth remains a challenge

In comparison to white-owned businesses:

<table>
<thead>
<tr>
<th>African-American and Latino-owned businesses:</th>
<th>African-American firms:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Have lower sales</td>
<td>• Have lower profits</td>
</tr>
<tr>
<td>• Hire fewer employees</td>
<td>• Have higher closure rates</td>
</tr>
<tr>
<td>• Have smaller payrolls</td>
<td></td>
</tr>
</tbody>
</table>

not sure you need this slide - maybe put in appendix for the hand-out version. It will use up a fair amount of time to discuss and not sure the detail is critical at this point
Annika Little, 7/14/2015

Annika -- I think I can get through this quickly. Let me work on my script; if it seems to be running long we can just skip over it during the webinar.
Klein, Joyce, 7/14/2015