Credit and Race: Historical Foundations

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The Foundational Policies

TheCompromiseof1877 and JimCrow laws:Abetrayalof thepostCivil War promises to Black Americans that led to a system of racist laws and relegated Black people to the status of second-class citizens throughout much of the country.

Sharecropping: A legal means of keeping Black people tied to the property of white landowners, working under harsh and exploitative conditions.

Residential Segregation based on Race:

- Baltimore was the first U.S. city to pass a residential segregation ordinance (1911) that limited the places blacks could live.
- De facto Segregation

The Policies Institutionalized

Redlining:Thefederal government almostensuredthat Black people could not take advantage of programs designed to expand homeownership and financial prosperity.

Blockbusting: Speculators used fear-mongering, manipulation, and predatory behavior to sell homes to Black people at inflated prices.

Contract-Buying: Black people were defrauded by white contract-sellers who used the promise of homeownership to steal wealth through loopholes and faulty contracts.

The Policies Institutionalized (cont.)

TheFairHousing Act, passedin1968 whichsought to banhousing discrimination and dismantle segregation. However, failure to enforceitsprovisions has allowed blackAmericans and otherminorities to continue to experience housing inequalities.

Reverse-Redlining (Financial Redlining): targets low-income neighborhoods that are under-banked, everyone is charged higher rates to borrow money regardless of credit history, income or ability to repay.

- Subprime Loans
  - Loans for those with less-than-perfect credit or risky loans offered to people with low credit scores.
- Predatory Lending
  - Inflated fees, costs, interests, strips equity
  - Loans were unfair, fraudulent, or deceptive

Consumer

BankingDeserts=Debt Collection Oasis

Costly credit options

- Debt collectors extract 5 times more judgments against black communities than white communities
- September 2019 –
  - Black families averaged $8,554 in debt
  - And they pay more for debt —
    - approx. $735/yr in interest on every $10,000
    - Approx. $514/yr for white families.

Consumer Banking

- Two banking industries:
  - Firstis regulatedandheavily subsidized.
  - Second is unregulated, costly and predatory
- Nearly half of black households have limited access to retail banking services or none at all.
- 60% of blacks are unbanked or underbanked to 3% white unbanked 15% underbanked
- Black customers with bank accounts pay more
  - $190more fora checkingaccount
  - Higher bank fines and harsher punishment,
- Because they have less access to conventional banks and the mortgage market, many black families are forced to rely on the predatory second banking industry with high interest alternatives
  - payday lenders, title lenders, and fringe banks

Consumer Banking Continued

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Medical Debt

Sharewith medical debt in collections

15%	13%	17%
All	White communities	Communities of color

Median medical debt in collections

$797	$758	$854
All	White communities	Communities of color

Share without health insurance coverage

12%	9%	18%
All	White communities	Communities of color

Collection Actions

Average client – Consumer Protection Project clinic

African American woman earning less than half the Maryland median income. She is in her early 40s, does not have a college degree, and she is caring for at least one child or parent at home.

Clients at the clinic

92% black

Debt collection on cases average $700 or less

What Makes a Credit Score

Access to Credit

- Credit ScoresOver700
  - White families –51.1%
  - Black families –20.6%
  - From the Urban Institute Housing Finance Policy Center Research Report:

New Ideas to Demonstrate Credit Worthiness

- Rent
- Utilities