ABFE

A PHILANTHROPIC PARTNERSHIP FOR BLACK COMMUNITIES

Wealth and Asset Building
BLACK FACTS

Barriers to Wealth and Asset Creation: Homeownershiip

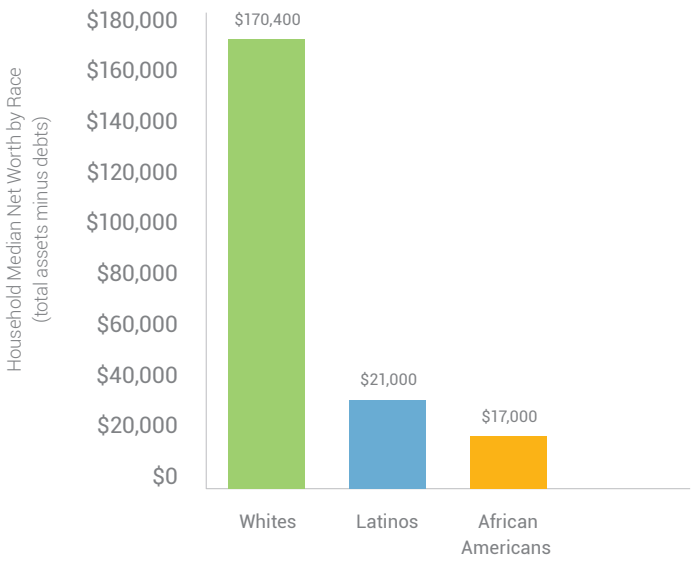
DURING THE HOUSING CRISIS, BLACK HOMEOWNERS WERE TWICE AS LIKELY TO BE FORECLOSED ON.

MANY AMERICANS ASSERTED THAT OUR NATION WAS ENTERING A "POST-RACIAL" SOCIETY.

Wealth and Asset Building Overview

With the election of the first President of African American descent, many Americans asserted that our nation was entering a "post-racial" society. However, with the Great Recession of 2008 the African American community got hit disproportionally hard and lost billions of dollars in wealth; thus helping to remind America of the wealth inequality that exist based on race. In 2009, white households were about 20 times wealthier than black ones, and that is expected to grow. Whites have traditionally had more assets than blacks but due to the recession, the racial wealth gap has significantly increased. According to a 2011 Report by the Pew Research Center entitled, ***"Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanic"***, African American households lost 53% of their net worth between 2005 to 2009 compared to only 16% of whites for the same time period. That translates into African Americans only having $17,100 in wealth compared to $170,400 for whites. This has huge ramifications for African American generational wealth and well-being.

The Racial Wealth Gap, 2007



Source: Federal Reserve, 2007 Survey of Consumer Finances Public Data Set

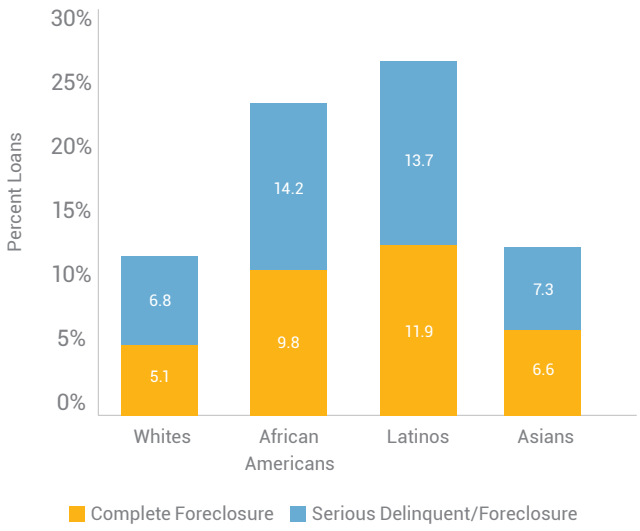
Since the end of Jim Crow segregation and the enactment of the 1964 Civil Rights Law, the U.S. government and many private foundations have included African Americans in anti-poverty programs. However, much of this investment has concentrated on subsistence income supports, not asset building. While giving people money for survival is necessary, it is not sufficient to set them on the pathway to financial independence and self-sufficiency.

Barriers to Wealth and Asset Creation

Homeownership

The foreclosure crisis has hit communities of color especially hard. African Americans in particular were especially devastated by the housing market. African American homeowners saw the median value of their home equity decline during this period. Among white homeowners, the decline was from $115,364 in 2005 to $95,000 in 2009. Among black homeowners, it was from $76,910 in 2005 to $59,000 in 2009. The correlation between skin color and homeownership is not coincidental; during the housing crisis, Black homeowners were twice as likely to be foreclosed on. Between 2006 - 2009, it is estimated that 11% of African-American homeowners compared to 7% of white homeowners already have lost or are at imminent risk of losing their home

Rate of Completed Foreclosures and Serious Delinquencies by Borrower Race and Ethnicity (2004-2008 Originations)



Source: Center on Responsible Lending, Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures

ENTREPRENEURS FACE CHALLENGES BOTH IN STARTING AND IN GROWING THEIR BUSINESS.

Business Ownership

Owning a business is one of the best strategies to building lasting wealth. Many Africans Americans have used business as a key strategy to build personal wealth and develop the Black community. However, African American entrepreneurs face challenges both in starting and in growing their business. They face numerous structural impediments such as unequal access to financial capital and discriminatory practices in procuring private and public contracts.

For example, the average amount offered by the U.S. Small Business Administration for a 7(a) loan is $157,000, the average amount offered to an African American business is only $80,000.

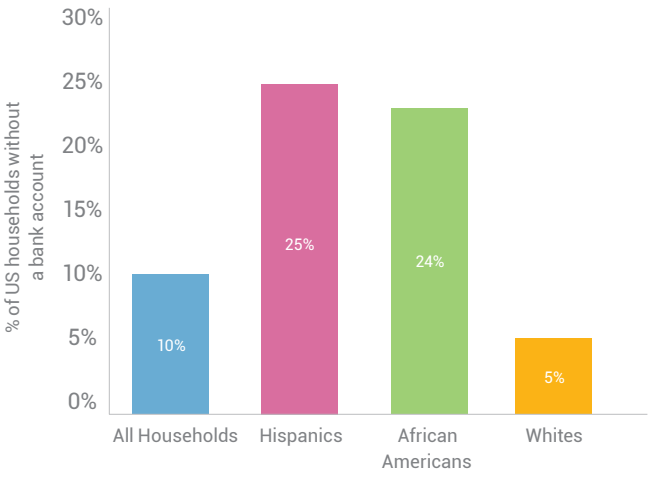
Income and employment

No other racial group has felt the brunt of the current recession as much as African Americans. The African American ongoing unemployment rate is 13%, twice the rate of their white counterparts. In the labor market, Black men face the highest levels of discrimination and joblessness. In addition to high unemployment, African Americans have the lowest median household income of $34,000 compared to Latinos with $40,766, and whites with $53,714. Furthermore, 8 percent of whites, 10% of Asians, 2% of Hispanics, and 24 percent of African Americans had incomes below the poverty line. Moreover, race accounts for more of the wage differences between whites and African Americans than educational attainment or work experience.

Savings and Investments

With less and less government safety net programs in existence, it has become even more important to save and invest income for that proverbial "rainy day" situation or for retirement. According to a 2010 Ariel Black Investor Survey, 50% of Black households earning at least $50,000 have dipped into savings to make ends meet during the Great Recession compared to only 31% of whites. Before the Great Recession, the median amount African Americans contributed to their retirement plans is $230 per month, compared to $337 a month contributed by whites. Today, African Americans are contributing even less to their retirement plans, about $200 per month. Among lower-income African Americans, the savings picture is even bleaker. For example, opening a bank account is the first step to formal savings, and currently, African Americans are almost five times less likely than whites not to have bank accounts according to a 2009 report by the Insight Center for Community Economic Development.

Unbanked Households by Race



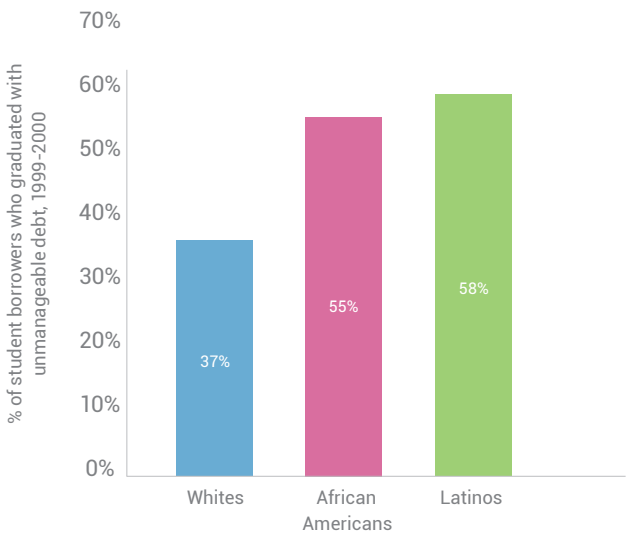
Source: Insight Center for Community Economic Development, 2009 Laying the Foundation for National Prosperity: The Imperative of Closing the Racial Wealth Gap

Debt and Credit

African Americans are shouldering a disproportionate burden of the nation's credit card and student debt. About 15% of African Americans pay interest rates greater than 20%, compared to only 7% of whites (Federal Reserve and CardData, 2004). This negative debt pattern mostly developed during the housing bubble of the past 7 years where African Americans, like their white counterparts, borrowed against the inflated value of their homes. As a result, black households now have a debt-to-assets ratio of 23 cents of debt for every dollar of assets, compared to white households who now have a 15 cents debt-to-assets ratio. However, the most crippling debt for African Americans today is student loans. Debt has had a negative influence on college graduation rates. As student loan debt has increased, college completion rates have been dipping, especially for African American students. Only 17% of African Americans have a college degree compared to 28% of whites. Almost a quarter of African American students have dropped out of college with student loan debt compared to 14% who did not have debt.

AN UNFORTUNATE BYPRODUCT OF DEPRECIATING COMMUNITIES IS AN UNFAIR RISE IN GOODS AND SERVICES.

The Racial Gap in Student Loan Debt



Source: Insight Center for Community Economic Development, 2009 Laying the Foundation for National Prosperity: The Imperative of Closing the Racial Wealth Gap

Taxes

A fundamental part of the American tax code is to provide subsidies that allow individuals and families to keep income that would otherwise go into the American tax box. Theoretically and on the surface these subsidies appear universal. However, upon closer inspection, the inherent disproportionality that exists is quite apparent. The main beneficiaries of these tax subsidies are the richest within American society. In fact, when examining the three largest asset building strategies (Home mortgage interest deduction, Property tax deduction and Capital gains and Dividends) one sees that households with an average income of 1.2 million dollars and higher received 45% of the subsidies (which averages out to $170,000 per household). In contrast, households that made $17,000 or less received roughly $3 in benefits.

American tax codes subsidize the rich and help to keep the poor marginalized and many African American communities fall into the low-income side of this American economic dichotomy.

Retirement benefits

Low-wage workers, who are disproportionately African American, are far less likely to have employer sponsored retirement accounts which aid in wealth development, business ownership and secure retirement planning.

The Consequences of Unequal Opportunity

Community Depreciation

The indirect losses in wealth that result from foreclosures as a result of depreciation to nearby properties will disproportionately impact communities of color. We estimate that, between 2009 and 2012, $194 billion will have been drained from the African-American community in these indirect "spillover" losses alone.

Problems with Obtaining Economic Self-Sufficiency

22% of African American families live at or below the poverty line. In addition, 52% of all African American families fall below basic family budget calculations (the amount American families identified as necessary to live in today's society). In contrast only 8% of white families fell below the poverty line and only 20% of white families fell below family budget calculations. African American families are clearly disproportionately more apt to fall into poverty than their white counterparts.

Wealth and Asset Building

African Americans have far less wealth and assets than their white peers. 47% of African Americans are homeowners as opposed to 78% of whites. In addition, whites hold assets (stocks, bonds, home ownership, etc) 14 times greater than African American's assets. There is great racial disparity within the realm of assets and wealth.

Unaffordable Goods and Services

An unfortunate byproduct of depreciating communities is an unfair rise in goods and services. For example, residents of low-income African American communities have much fewer supermarkets, than more affluent white communities. Because of the dearth of commerce options in these low-income Black communities, neighborhood stores can have prices almost 80% higher than comparable higher income communities. Therefore, many African American end up paying more for fewer and less quality goods.

AMERICA HAS MANY LAWS THAT PROTECT AFRICAN AMERICANS AND OTHER MINORITIES FROM DISCRIMINATION.

Strategies to Promote Wealth and Asset Creation

Support Community Economic Development Programming
Philanthropy can advocate for equitable and fair community development practices that promote initiatives, strategies and plans that support residents, reduce gentrification, improve safety and attract affordable goods, services and businesses.

Expand and Enforce Policies That Eliminate Discriminatory Practices in the Private and Public Sector
For example, *philanthropy* can continue to promote policies like the community reinvestment act (CRA). CRA is a federal law that is designed to encourage banks to help meet the needs of borrowers in all segments of their communities, including low-income neighborhoods. Another possible strategy is for philanthropy to lead the charge to have the CRA cover auto financing and other financing companies, so low-income African Americans aren't vulnerable to predatory lending schemes.

Support the enforcement of non-discrimination laws.
America has many laws that protect African Americans and other minorities from discrimination and exploitation. *Philanthropic* organizations can continue to be vigilant supporters of practices and organizations that police unfair policies and discriminatory practices.

Support Work and Make it More Lucrative
Since a disproportionate amount of workers who receives wages near or below the poverty line are African American, *philanthropy* support efforts to strengthen the Earned Income Tax Credit (EITC). Also, programs that help low-income individuals prepare their tax returns for free should be supported. This would eliminate exploitation of low-income fillers by predatory tax preparers who charge exploitive prices. Furthermore, supporting policies that seek to increase the minimum wage would have a huge positive economic impact on low-income African American's lives.

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