

Reducing the Racial Financial Health Gap: The Opportunity for Responsible Fintech

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Author's Note: This report uses "Black" and "African American" interchangeably throughout this report. "Black" is capitalized in order to reflect that we are discussing a group of people and to be consistent with the capitalization of "African American".

Dan Schulman



Dear Friends,

The events of the last 18 months continue to highlight the deep inequities in financial health and the ability to build wealth in this country. Black and underserved communities continue to face an enormous number of economic hurdles. These barriers are a result of many interconnected issues, including centuries of systemic racism, limited access to capital and equity financing, employee discrimination, educational opportunity disparities – the list goes on.

In June 2020, in the wake of George Floyd's murder, PayPal made a \$535 million commitment to help address this economic inequality and to do our part to help close the racial wealth gap. Some of these funds were allocated to projects we could undertake with

third parties to contribute to the critical public policy discussion on how to address these important issues. As part of that work, we set out to analyze the impact that the financial health of the Black community has on the racial financial wealth gap – and what could be done.

For this initiative, we were extremely fortunate to partner with experts at two prestigious Historically Black Institutions – Dillard University in New Orleans, LA and Wiley College in Marshall, TX. We are proud of the partnership forged to produce this critical analysis and are immensely grateful to the faculty at each institution for guiding this effort. They shared a unique perspective and provided concrete recommendations for ways policymakers and the financial services ecosystem can contribute to solutions. The fact that these solutions are embraced by the Congressional Black Caucus Institute is significant and notable. We all have an opportunity to play a role in addressing the racial inequities within the U.S. economy and in many countries around the world. We also have a responsibility to ensure that future innovation in the financial services industry is inclusive and accessible. We are proud to have partnered with the Congressional Black Caucus Institute, Wiley College and Dillard University, and grateful for the talented faculty members who guided this important work.

Dan Schulman
President & CEO
PayPal

Herman J. Felton, Jr.



Dear Colleagues,

The opportunity to innovate isn't always when everything is calm. Societal problems have always been in our view, but there are precise moments when the clarity is impeccable. The Global Pandemic that began in 2020, created an opportunity for a clearer view of the disparity that is faced in our Nation. One paycheck away from disaster has been associated with those experiencing poverty, but for the first time in a long time, working and middle-class families teetered into economic instability.

As the Global Pandemic fueled health and economic questions of equity, a looming crisis of conscience emerged that highlighted our nation's racial tension and justice disparities. Steeped in deep conversations,

are fundamental questions of the condition of U.S. policing. Not new inquiries, but re-imagined questions that streamed into our consciousness, highlighting what we have come to believe about humanity and what experiences warrant a law enforcement response - poverty, mental health distress, drug abuse, non-whiteness, and youthfulness.

The way a community is prepared for a crisis or disaster determines how it will be able to weather the storm. Communities that have no or limited infrastructure due to structural inequity can not focus on the micro components of being financially healthy, because survival and financial wellness philosophically can't co-exist. Disparities that are embedded in communities due to structural inequities, increase the impact of the crisis and reduce the ability to adapt and emerge from the challenge. As we reflect on communities that are most often lacking important infrastructures making them food, technology, and educational deserts, we know that they are often Black, Brown, and/or Rural communities. These challenges reduce the communities' strategies for success and disrupt policymakers' effectiveness in partnering to create a way forward.

Impacting financial health is complex. The way forward requires investigation and commitment to the social good. Our contribution begins with our desire to see change for our communities and willingness to partner for the creation of research that impacts policy. Our report will be an exercise in what we believe is a strengthening of information, an impetus for new dialogues, and a centering of the people and our communities.

Inspirata Procedunt,
Herman J. Felton, Jr., J.D., Ph.D.
President and CEO
Wiley College

Walter M. Kimbrough



Dear friends,

We all are familiar with the idea that perfect vision is 2020. The year 2020 provided perfect vision for America, as we were forced by a global pandemic to take a hard look at who we are and where we are as an experiment in democracy. The coronavirus highlighted disparities in health, education, and employment. The death of George Floyd highlighted the often unspoken but real tension in this country around race and racism. The 2020 hurricane season produced a record number of storms, reminding us that our climate is changing, and the result is often devastating.

These three realities have an impact on financial health, an impact that varies based on race. These facts are not surprising. However, there is a lack of

sound policy which can be used to guide practices to remedy these challenges. This paper provides a start for the creation of policy initiatives that can help the nation address these structural inequities.

We hope that this report leads to robust conversations among policy makers, and spurs additional academic inquiry. Reducing the financial health and wealth gaps must become key priorities for a healthy, increasingly diverse nation. We are glad to offer this report as part of the solution.

Sincerely,
Walter M. Kimbrough, Ph.D.
President
Dillard University

Bennie G. Thompson



Dear Friends:

On behalf of the board of directors, the Congressional Black Caucus Institute (CBCI) is pleased to present this commissioned report by PayPal, Reducing the Racial Financial Health Gap: The Opportunity for Responsible Fintech.

CBCI's mission is to "educate today's voters and train tomorrow's leaders." Often, fulfilling this mission requires examining varying factors that also contribute to a lack of civic engagement, e.g., education, employment, and access. The financial health of communities of color is one of those critical determinants.

Last year, the coronavirus and the heinous killing of George Floyd brought to light once again that African Americans still don't experience the American dream or rights and privileges the same as their white counterparts, thus impeding upward mobility for most African Americans.

PayPal had the forethought to partner with CBCI and African American scholars from Dillard University and Wiley College, two Historically Black Colleges and Universities, to explore how Financial Technology (FinTech) could improve financial health and help bridge the wealth gap. In the report, data and research show that Black people have on average higher unemployment rates, lower earnings, lower rates of homeownership, and pay more for credit and banking services.

This report provides solutions and avenues for financial wellness among African Americans. It is an excellent example of good corporate social responsibility in action.

Sincerely,
Bennie G. Thompson
Chairman

Introduction

“Capitalism without capital is just plain ism – and we can’t live off ism” – Rev. Jesse Jackson

The coronavirus pandemic has created an economic crisis and worsened the racial financial health and financial wealth gaps in the United States. Black and Native American people are contracting and dying from the virus at higher rates than white Americans. In August 2021 COVID-19 cases per 100,000 people were 8,915 for Native Americans and 6,524 for African Americans compared to 5,482 for white Americans (Health Equity Tracker). According to the Centers for Disease Control and Prevention (CDC), COVID-19 related deaths per 100,000 people as of August 2021 were 220 for Native Americans, 175 for African Americans and 147 for white Americans. On the economic front, job losses have been concentrated among minorities, women, and low-wage workers. But the discussion started long before the impacts of COVID-19 were realized. The socioeconomic position of Black people and other minorities cannot be fully contextualized without considering the marginalization of their racialized social identities as minorities who have historically combatted subjugation and oppression with respect to income, employment, homeownership, education, and political representation.

Data and research show that Black people have on average higher unemployment rates, lower earnings, lower rates of homeownership, and pay more for credit and banking services – all factors that result from a history of structural racism in the U.S. These factors contribute to vast disparities in financial health, and wealth creation and accumulation between their households and white households.

The ability for Black households to spend, save, borrow and plan – within the context of structural racism – can be used to explore the nuances of disparities in financial health and wealth creation. Moreover, financial knowledge or financial literacy is one of the determinants of an individual’s or group’s financial

behavior with regard to accumulation or loss of wealth. The deficiency in widely available products that meet the needs of various households is another major factor.

By analyzing how gaps in education, income, employment, credit access, and banking access, undergirded by racial discrimination, contribute to both the racial wealth gap and disparities in financial health, we seek to make recommendations toward reducing the financial health and wealth gap between Black households and white households; thus, making a direct connection between improving financial health and closing the racial financial wealth gap. This research will provide a data driven analysis with concrete policy proposals for financial technology (fintech) companies and policymakers to address systemic barriers and make meaningful and lasting improvements in the financial lives of Black individuals and communities. This paper asserts

First, the study provides background on the racial wealth gap and a briefing of the current financial health of the Black community. A definition of wealth and financial health, and a brief background on their determinants, are presented. Financial health determinants discussed below include banking access, income, education, employment, and homeownership. With an understanding of the definition of wealth, financial health, and their root causes, the study then lays out policy interventions to reduce racial wealth and financial health gaps. This paper illustrates that financial technology coupled with advancements in public policy have the power to improve the financial health of the Black community which will contribute to narrowing the racial financial wealth gap.

Definitions: Wealth, Income, & Financial Health

Wealth is a measure of the value of all the assets of worth owned (cash, cars, homes, bonds, money in bank accounts, furniture, artwork, etc.) by a person, community, company, or country and is determined by taking the total market value of all physical and intangible assets owned, then subtracting all debts. Not to be confused with wealth, **income** is a gain or recurrent benefit usually in the form of money or the equivalent value that an individual or business receives, usually in exchange for providing a good or service or through investing capital, or payment as rents or investments. Wealth holds several advantages over income as an economic resource: income from wealth is taxed at lower rates than income from employment, and wealth can serve as a source of savings to cover periods of economic instability such as during periods of unemployment ([Moss, et al., 2020](#)).

As for financial health, the **Financial Health Network** defines it as “a composite measurement of a person’s financial life that assesses whether people are spending, saving, borrowing, and planning in a way that will enable them to be resilient and pursue opportunities over time”. In other words, the notion of financial health is pertinent to discussions around both wealth and income, as it includes measures of earnings, fixed or non-discretionary expenses, savings, and debt, which ultimately affect the value of net assets, i.e. wealth.



Garon et al. at the Financial Health Network ([2020](#)) provide eight indicators to measure financial health:

1. Spend less than income
2. Pay bills on time
3. Sufficient liquid savings
4. Sufficient long-term savings
5. Manageable debt
6. Prime credit score
7. Appropriate insurance
8. Plan ahead financially

These indicators are used to measure the financial health of individuals in a quantitative manner on a scale of 0 to 100. Financial Health Scores between 0 and 39 are classified as Financially Vulnerable; those between 40 and 79 are classified as Financially Coping; and scores between 80 and 100 are classified as Financially Healthy. According to the 2020 U.S. Financial Health Pulse [Report](#), there were significant disparities in financial health by race. In 2020, only 15 percent of Black people were considered Financially Healthy compared to 39 percent for white people. An important conclusion from the 2019 U.S. Financial Health Pulse [Report](#) is that the income an individual earns is directly related to their financial health score. Approximately 40.1 percent of Black people earn \$34,999 per year or less, with 28.7 percent earning below the national poverty level compared to 23.3 percent of white people earning \$34,999 per year or less, and 15.3 percent earning below the national poverty level. Table 1 shows income distribution by race for 2019.

Table 1. Income Distribution by Race. 2019

	Under \$15,000	\$15,000 to \$24,999	\$25,000 to \$34,999	\$35,000 to \$49,999	\$50,000 to \$74,999	\$75,000 to \$99,999	\$100,000 to \$149,999	\$150,000 to \$199,999	\$200,000 and over
White	7.8	7.5	8.0	11.5	16.7	12.7	16.3	8.7	10.8
Black	17.2	11.5	11.4	13.7	16.8	9.8	10.8	4.2	4.6
Asian	6.5	5.0	5.2	8.7	12.9	12.5	17.9	12.5	18.9
Hispanic	10.7	8.8	10.5	14.1	19.5	12.2	13.0	5.9	5.3

Source: U.S. Census Bureau

In addition to low levels of income, income volatility impacts several aspects of an individual's financial health, either directly or indirectly. Income volatility directly impacts two indices, Pays Bills on Time and Manageable Debt. According to the Life-Cycle Hypothesis (Modigliani, 1966), younger people take on debt, while saving occurs during middle age years in order to maintain the level of consumption into old age. As the Hypothesis predicts, the higher volatility of income requires more debt to smooth the consumption. Therefore, it is critical for financial institutions to assist with stabilizing the volatility of income for individuals.

Generally, financial institutions provide some financial tools, such as credit cards, personal loans, 401(k) loans, and personal lines of credit. Fundamentally, financial institutions rely on traditional metrics, particularly credit scores, in decisions over the provision of liquidity to individuals – but these measurements may be subject to racial bias, thereby contributing to wealth inequality.¹

Key Takeaways

- Earning, spending, saving, borrowing, and planning are key components of financial health that also affect wealth creation, management, and accumulation.
- The notion of financial health is pertinent to discussions around both wealth and income, as it includes measures of earnings, fixed or non-discretionary expenses, savings, and debt, which ultimately affect the value of net assets, i.e. wealth.
- According to the 2020 U.S. Financial Health Pulse Report, there were significant disparities in financial health by race. In 2020, only 15 percent of Black people were considered Financial Healthy compared to 39 percent for white people.
- According to the 2019 U.S. Financial Health Pulse Report, the income an individual earns is directly related to their financial health score.
- Low income is correlated with vulnerabilities in financial health and has long-term implications on wealth creation. Black people are almost twice as likely as White people to earn \$34,999 or less, and almost twice as likely as White people to earn below the poverty line. Financial services can help provide tools to ease income volatility but should rely on nontraditional methods of assessing creditworthiness to account for racial biases.

¹ https://www.nclc.org/images/pdf/credit_discrimination/Past_Imperfect050616.pdf

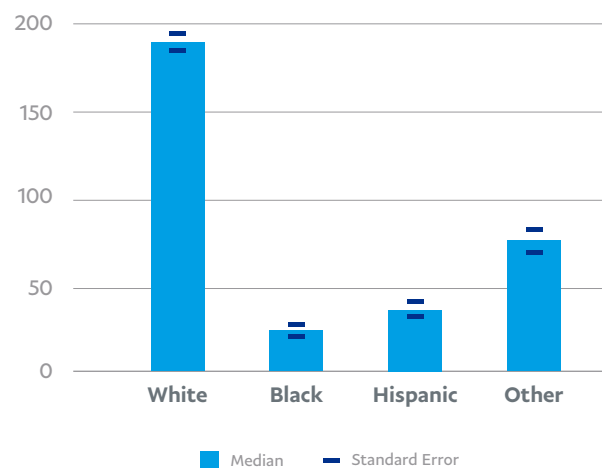
Financial health makes accumulating wealth possible, and in the United States household wealth varies significantly among racial groups. The racial wealth gap and other racial inequalities, including educational attainment, housing ownership, and employment rates, stem from 400 years of subjugation and discrimination based on race. Economists and other social scientists have conducted numerous studies on the issue of Black-white economic inequality and the racial wealth gap. Explanations for the racial wealth gap have focused on human capital attainment (e.g. [Mincer 1974](#), [Becker 1975](#) and [Chiswick, 1983](#)), differences in cultural and behavioral factors (e.g. [Altonji and Doraszelski 2005](#)), and structural determinants related to capital ownership opportunities (e.g. [Conley 1999](#)). The common implication of all of these explanations is that what really enables whites to engage in discrimination against Blacks with adverse effects on black income is the Black disadvantage in physical capital ownership ([Darity, 1975](#)).

The racial distribution of wealth is a comparison of the wealth of members of different racial groups and demonstrates significant economic inequality in the United States. In 1990, white people accounted for 75.64 percent of the United States population and in the first quarter of that year white households held \$18.88 trillion (90.1 percent) in household wealth, compared to \$0.83 trillion (4 percent) held by Black households where Black people accounted for 11.75 of the population and \$0.44 trillion for Hispanic households (2.1 percent) with Hispanic or Latino people making up 8.99 percent of the population ([Federal Reserve](#) and [U.S. Census Bureau](#)). Thirty years later, in the second quarter of 2020, white households held \$94.04 trillion (83.9 percent) in household wealth while according to 2019 U.S. Census data white people accounted for 60.1 percent of the U.S. population. Though the percentage of white people in the U.S. population decreased by 15.5 percent, the share of wealth held by white households only decreased by 6.2 percent. Comparatively Black people accounted for 13.4 percent of the U.S. population in 2019 and Black households held \$4.64 trillion (4.1 percent) in household wealth in the second

quarter of 2020. The Hispanic or Latino population increased to 18.5 percent in 2019 and Hispanic or Latino households held \$2.69 trillion (2.4 percent) in household wealth ([Federal Reserve](#) and [U.S. Census Bureau](#)).

In 2016 the median net worth (in 2019 dollars) of the typical white non-Hispanic household was \$181,900, nearly ten times greater than that of the typical Black household's wealth, \$18,200 ([Board of Governors of the Federal Reserve System](#)). Four years later, in September 2020, new data was released in the [2019 Survey of Consumer Finances](#) (SCF), which showed a continuation of the long-standing and substantial wealth disparity between Black and white households. The data showed a slight decrease in the disparity in family wealth for white and Black families. In 2019, the median net worth of a typical white household, \$188,200, was 7.8 times greater than that of a typical Black household, \$24,100 ([Board of Governors of the Federal Reserve System](#)). Figure 1 shows median net worth by race in 2019. Between 2016 and 2019 white household wealth increased by 3 percent, while Black household wealth increased by 33 percent. Hispanic or Latino households experienced the greatest percentage increase in household wealth between 2016 and 2019, 65 percent, from \$21,900 to \$36,200.

Figure 1. Median Net Worth by Race: 2019

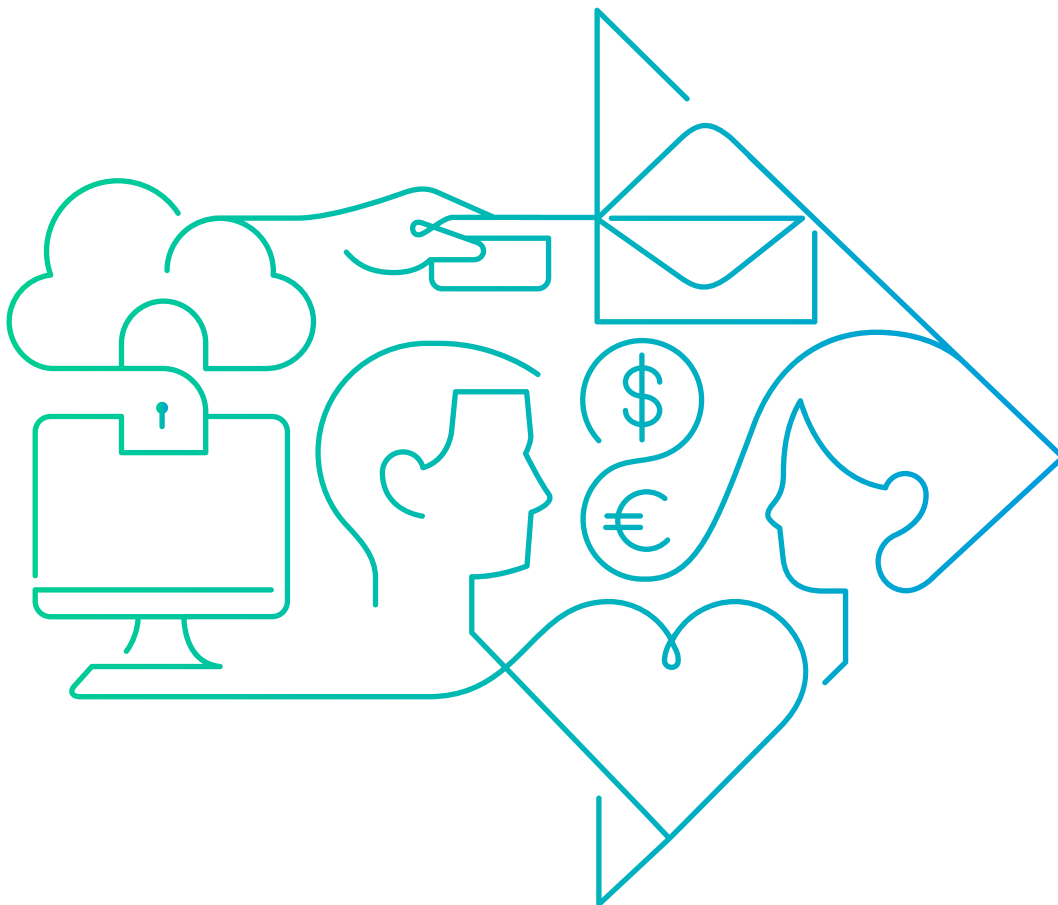


Source: [Board of Governors of the Federal Reserve System](#)

While the numbers discussed in the previous paragraph illustrate a small redistribution of wealth between white, Black and Hispanic or Latino households, they also illustrate the historical racial wealth gap that exists in the United States. And though the racial wealth gap has decreased since 2016, only one percent (or fewer) of the wealthiest families in the U.S. were Black or Hispanic in 2019 (Bricker, et. al, 2020). According to the Survey of Consumer Finances, nearly 75 percent of the families in the wealthiest 1 percent own privately held businesses and private business assets make up more than one-third of their balance sheets, illustrating the importance of private business ownership to wealth accumulation (Bricker, et. al, 2020). In addition to private business ownership that leads to a positive return on investment, net worth or wealth is a function of inheritance, past levels of disposable income, and the propensity to save (Lamas and McNeil, 1988). In addition to its obvious negative impact on Black and Hispanic individuals and communities, the racial wealth gap also constrains the U.S. economy as a whole and it is estimated that it will dampen consumption and investment by between \$1 and 1.5 trillion between 2019 and 2028, 4 to 6 percent of the projected GDP in 2028 (Noel, et al., 2019).

Key Takeaways

- Financial health makes accumulating wealth possible, and in the United States household wealth varies significantly among racial groups.
- Private business ownership and inheritance are two key factors for wealth accumulation.



Determinants of Racial Disparities in Financial Health & Wealth Creation



1. Banking Access and Fees

When assessing the financial health gap and thereby addressing racial wealth disparity, it is important to first look towards the root of people's financial lives. Achieving the American dream – the opportunity to succeed, to provide food and shelter for family members, education for children, hope for a better life, and freedom of opportunity – requires capital. But, in the United States, access to capital for individuals and business owners is uneven based on race. And with advancements in technology, online banking, and increased use of fintech platforms for financial transactions, comes the need for consumers to accumulate knowledge on how to properly use new technologies and platforms in their financial decision making as they seek to earn and accumulate capital. This lack of access to traditional financial services and increase in costs prevents the ability to improve one's financial health and is a barrier to accumulating wealth.

Historical Context

Removal of Africans from their rich commercial environments in kingdoms including Ghana, Mali and Songhai through the slave trade between the 14th and 18th centuries did not destroy their proclivity for business and trade (Ammons, 1996). Since the time when Black people in America secured the right to earn capital for their labor following Emancipation, they have faced systemic financial discrimination with respect to banking access and fees. Over a century ago, racism and segregation required Black people to pool their resources to support each other and Black owned banks played a vital role in the economic health of Black communities (Gerena, 2007). In 1888, Capitol Savings Bank in Washington, D.C. became the first bank organized and operated by African Americans. Within four years of opening, the bank's deposits had grown to over \$300,000 (Partnership for Progress). Between the end of the Reconstruction era and the beginning of the Great Depression, over 130 Black-owned banks opened, providing capital to Black entrepreneurs, businesses, and prospective homeowners (Gerena, 2007).

In 2008, the Partnership for Progress was launched by the Board of Governors of the Federal Reserve to help promote and preserve minority banks. But despite its efforts, the number of Black owned banks has declined, from 48 in 2001. (McKinney, 2019). According to FDIC data, in the fourth quarter of 2020 there were only 18 Black or African American owned banks in the US. Combined, these banks had \$4.58 billion in assets. For context, in the fourth quarter of 2020 Wells Fargo & Company alone had approximately \$1.9 trillion in assets.

Racial Inequality in Banking Access

According to the Fed, in 2019 the majority of U.S. adults had a bank account and relied on traditional banks or credit unions to meet their banking needs, but gaps in banking access existed. Six percent of American adults were unbanked meaning that they did not have a checking, savings, or money market account. Approximately 40 percent of unbanked adults used an alternative financial service during 2018 – such as a money order, check cashing service, pawn shop loan, auto title loan, payday loan,

paycheck advance, or tax refund advance. Unbanked and underbanked rates were higher among lower-income households, less-educated households, Black households, Hispanic households, American Indian or Alaska Native households, working-age disabled households, and households with unstable incomes (FDIC, 2020). Table 3 shows the banking status for Black, Hispanic and white Americans in 2019.

Table 3. Banking Status Percentage by Race/Ethnicity: 2019

Characteristic	Unbanked	Underbanked	Fully Banked
White	3	11	86
Black	14	32	54
Hispanic	10	22	68
Overall	6	16	79

Source: Board of Governors of the Federal Reserve System

The unbanked and underbanked rates in 2019 were highest for Black adults – making it more difficult for them to effectively manage finances, save and plan for the future. According to 2020 survey data from Bankrate, minorities, millennials and Northeasterners reported paying higher bank fees. The data showed that the average checking account holder at a bank or credit union paid \$8 per month in fees, including routine service charges, ATM fees and overdraft penalties, but fees paid varied by race. White checking account holders reported paying the lowest amount in monthly bank fees, \$5, compared to \$12 for Black account holders and \$16 for Hispanic account holders.

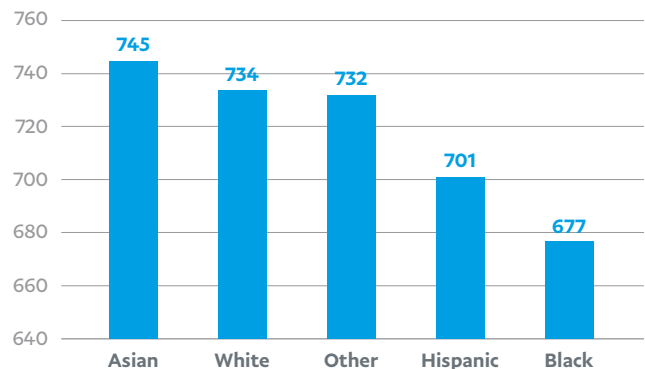
The financial services industry has expanded beyond banks and credit unions. While the majority of Americans complete their basic financial transactions at banks and credit unions, consumers who operate outside of the formal banking system may be more likely utilize informal, alternative financial service providers including payday lenders (Dunham, 2018).

Payday loans, cash advance loans, check advance loans, post-dated check loans and deferred deposit loans are short-term, high interest rate loans provided by check

cashers, finance companies and others that come at a very high price to a clientele that mainly consists of low- and moderate-income working people who have bank accounts, but who lack credit cards, have poor credit histories, or have reached their credit limit (Federal Trade Commission). According to the St. Louis Fed, in 2019 the average interest rate on the average payday loan is 391 percent, compared to 17.8 percent for the average credit card, and 10.3 percent for the average personal loan from a commercial bank.

The FICO scoring system, created in 1989, was designed to assess the creditworthiness of consumers (Shift, 2021). Scores range from 300 to 850. The FICO credit score is used by financial institutions as a qualifier to assess financial health. It is not easy for individuals to improve their financial health once their credit score is damaged. Black people are more likely to be excluded from conventional financial services based on their credit scores. Figure 6 shows credit scores by race for 2021. Because Black people are more likely to have lower credit scores², they are more likely to be unbanked or underbanked, causing them to pay higher service fees to receive financial services and making them more likely to depend on alternative financial institutions. Financial institutions rely on FICO credit scores as a screening tool to protect themselves from financial loss due to asymmetric information. However, developing alternative screening methods is necessary to reduce the disparity in banking access and fees.

Figure 6. Average Credit Score by Race. 2021



Source: Shift (2021)

² https://www.nclc.org/images/pdf/credit_discrimination/Past_Imperfect050616.pdf

Given the reasons described above and the fact that there are fewer banks in Black and Hispanic neighborhoods, Black and Hispanic people are more likely than white people to depend on high interest financial services like check cashing counters and payday lenders, which could lead to high fees and penalties, and unsustainable debt loads. Thus, the use of alternative financial services can adversely impact the users' financial health, i.e., their ability to save, plan, and borrow in the future. Repayment of unsustainable debt loads can deplete assets such as savings, thus inhibiting wealth accumulation. Increasing access to banking services could save Black and Hispanic Americans up to \$40,000 over their lifetime (Moise, 2019). The percentage of Black adults who are not digitally literate – 22 percent is about twice the percentage of White adults – 11 percent. Both the disparity in access to banks and digital literacy threaten their ability to grow wealth in the digital economy.

Key Takeaways

- Black people are more likely than white people to be unbanked or underbanked, pay high banking fees (like ATM withdrawal, overdraft), and depend on high interest financial services (like check cashing and payday lenders). Black people are more likely to have lower credit scores due to historical and institutionalized racist biases and practices limiting their ability to access cost-effective banking products.
- The Black community's ability to borrow, spend, save, and plan for resilience and opportunities, i.e., to build and maintain robust financial health, has been limited by the current financial system.

Racial Inequality in Credit Access for Small-Businesses

The higher fees and reliance on outdated methods of assessing creditworthiness such as FICO also have a negative impact on the Black small business community. A lower level of business ownership and business assets among Black households is a contributing factor to the racial wealth gap. Limited access to capital is the most important factor that constrains the establishment, expansion and growth of Black-owned businesses (Fairlie, Robb, and Hinson, 2010). According to a 2020 report from The Brookings Institution, "Black people represent 12.7 percent of the U.S. population but only 4.3 percent of the nation's 22.2 million business owners." Black entrepreneurs face barriers to opening businesses with respect to access to credit. Henderson et al. (2015) examined the influence of racial and gender-related factors on access to business credit lines and found that Black-owned startups receive lower than expected business credit scores and that white-owned startups with the same firm characteristics as Black-owned startups are treated more favorably.

Blanchflower, Levine and Zimmerman (2003) found that between 1993 and 1998, Black-owned small businesses were about twice as likely to be denied credit even after controlling for differences in creditworthiness and other factors, suggesting that the racial disparity in credit availability was likely caused by discrimination. Fairlie, Robb, and Robinson (2020) explored racial differences in capital market outcomes associated with launching a new business and found that Black entrepreneurs are less likely to apply for loans than white entrepreneurs because they expect to be denied credit, even when they have a good credit history.

This gap, in addition to systemic discrimination, can be explained by the outdated methods of assessing the creditworthiness of a business, some of which is linked to the racial wealth gap. For instance, one of the key factors of the racial wealth gap explored later in this paper, is access to assets and many financial institutions still rely on collateral requirements for small business loans. Lifting collateral

requirements has been shown to increase access to capital ([Campello and Larrain, 2015](#)). Black-owned businesses are also more likely to fund their business with personal credit ([2016](#)). Using credit to finance a business, thereby taking on more debt, impacts the financial health of the owner and becomes a cyclical issue when trying to access financing.

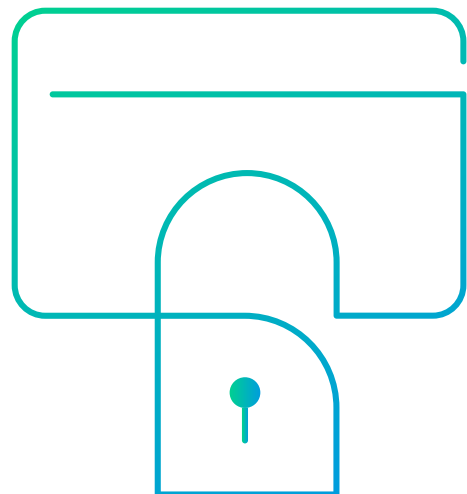
The COVID-19 pandemic has exacerbated the aforementioned challenges faced by minority-owned businesses ([Marte, 2021](#)). Data from the [2020 Small Business Credit Survey](#) found that 92 percent of Black-owned businesses reported experiencing financial challenges in 2020, compared to 79 percent for white-owned firms. According to a survey conducted by [Reuters](#), Black business owners were more likely than any other group to suffer financially during the pandemic – 38 percent borrowed money from a friend or relative, 25 percent worked a second job and 74 percent dipped into their personal funds to cover costs.

The Small Business Administration’s Paycheck Protection Program, established to help vulnerable businesses during the pandemic, largely failed in reaching Black-owned small businesses. According to a [New York Federal Reserve report](#), of the 30 counties with the highest density of Black business activity, 22 of those counties were below the national average in PPP loan coverage. The report cites financial health and racial disparity in relationships to banks as key factors in the inability of Black business owners to access the PPP program.

Black business ownership can be a powerful factor in addressing the racial wealth gap and improving financial health. A Congressional Black Caucus Foundation study finds that Black business owners have a net-worth 12 times greater than non-business owners ([2019](#)). This not only impacts the owner but also helps the community. However, the barriers to capital and business creation are preventing one possible solution to closing the racial wealth gap and thereby improving financial health.

Key Takeaways

- Business ownership is an important pathway to earn income, build financial health, and create wealth. The ability to borrow for income generation and wealth creation is critical for financial health.
- A lower level of business ownership and business assets among Black households is a contributing factor to the racial wealth gap. Limited access to capital is the most important factor that constrains the establishment, expansion and growth of Black-owned businesses.
- Black-owned small businesses have faced huge challenges in credit availability, which contributes the racial disparities in income, financial health, and wealth. The COVID-19 crisis has exacerbated the problem, with government programs like the Paycheck Protection Program largely failing to help Black-owned SMBs .



Racial Distribution of Wealth and Economic Inequality

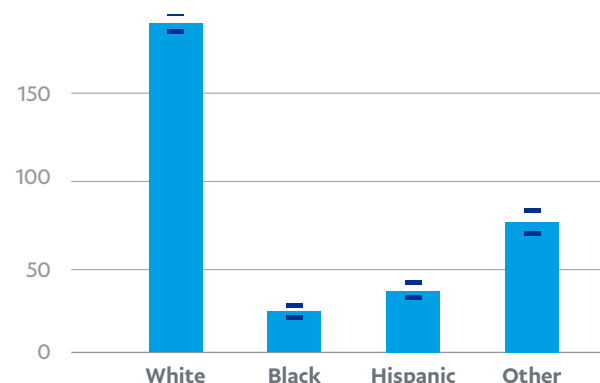
Financial health makes accumulating wealth possible, and in the United States household wealth varies significantly among racial groups. The racial wealth gap and other racial inequalities, including educational attainment, housing ownership, and employment rates, stem from 400 years of subjugation and discrimination based on race. Economists and other social scientists have conducted numerous studies on the issue of Black-white economic inequality and the racial wealth gap. Explanations for the racial wealth gap have focused on human capital attainment (e.g. [Mincer 1974](#), [Becker 1975](#) and [Chiswick, 1983](#)), differences in cultural and behavioral factors (e.g. [Altonji and Doraszelski 2005](#)), and structural determinants related to capital ownership opportunities (e.g. [Conley 1999](#)). The common implication of all of these explanations is that what really enables whites to engage in discrimination against Blacks with adverse effects on black income is the Black disadvantage in physical capital ownership ([Darity, 1975](#)). In other words, economists have tried to explain the racial wealth gap by looking at cultural and behavioral factors, but the real problem is racism.

The racial distribution of wealth is a comparison of the wealth of members of different racial groups and demonstrates significant economic inequality in the United States. In 1990, white people accounted for 75.64 percent of the United States population and in the first quarter of that year white households held \$18.88 trillion (90.1 percent) in household wealth, compared to \$0.83 trillion (4 percent) held by Black households where Black people accounted for 11.75 percent of the population and \$0.44 trillion for Hispanic households (2.1 percent) with Hispanic or Latino people making up 8.99 percent of the population ([Federal Reserve](#) and [U.S. Census Bureau](#)). Thirty years later, in the second quarter of 2020, white households held \$94.04 trillion (83.9 percent) in household wealth while according to 2019 U.S. Census data white people accounted for 60.1 percent of the U.S. population. Though the percentage of white people in the U.S. population decreased by 15.5 percent, the share of wealth held by white households

only decreased by 6.2 percent. Comparatively Black people accounted for 13.4 percent of the U.S. population in 2019 and Black households held \$4.64 trillion (4.1 percent) in household wealth in the second quarter of 2020. The Hispanic or Latino population increased to 18.5 percent in 2019 and Hispanic or Latino households held \$2.69 trillion (2.4 percent) in household wealth ([Federal Reserve](#) and [U.S. Census Bureau](#)).

In 2016 the median net worth (in 2019 dollars) of the typical white non-Hispanic household was \$181,900, nearly ten times greater than that of the typical Black household's wealth, \$18,200 ([Board of Governor of the Federal Reserve System](#)). Four years later, in September 2020, new data was released in the [2019 Survey of Consumer Finances](#) (SCF), which showed a continuation of the long-standing and substantial wealth disparity between Black and white households. The data showed a slight decrease in the disparity in family wealth for white and Black families. In 2019, the median net worth of a typical white household, \$188,200, was 7.8 times greater than that of a typical Black household, \$24,100 ([Board of Governors of the Federal Reserve System](#)). Figure 1 shows median net worth by race in 2019. Between 2016 and 2019 white household wealth increased by 3 percent, while Black household wealth increased by 33 percent. Hispanic or Latino households experienced the greatest percentage increase in household wealth between 2016 and 2019, 65 percent, from \$21,900 to \$36,200.

Figure 1. Median Net Worth by Race: 2019



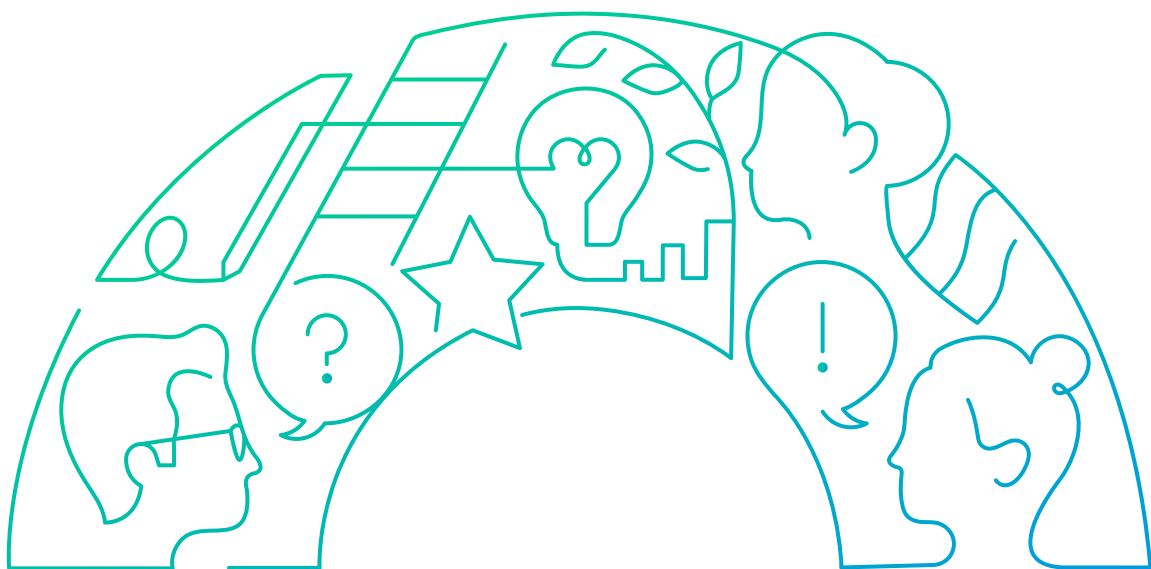
Source: Board of Governors of the Federal Reserve System

While the numbers discussed in the previous paragraph illustrate a small redistribution of wealth between white, Black and Hispanic or Latino households, they also illustrate the historical racial wealth gap that exists in the United States. And though the racial wealth gap has decreased since 2016, only one percent (or fewer) of the wealthiest families in the U.S. were Black or Hispanic in 2019 (Bricker, et. al, 2020). According to the Survey of Consumer Finances, nearly 75 percent of the families in the wealthiest 1 percent own privately held businesses and private business assets make up more than one-third of their balance sheets, illustrating the importance of private business ownership to wealth accumulation (Bricker, et. al, 2020). In addition to private business ownership that leads to a positive return on investment, net worth or wealth is a function of inheritance, past levels of disposable income, and the propensity to save (Lamas and McNeil, 1988). In addition to its obvious negative impact on Black and Hispanic individuals and communities, the racial wealth gap also constrains the U.S. economy as a whole and it is estimated that it will dampen consumption and investment by between \$1 and 1.5 trillion between 2019 and 2028, 4 to 6 percent of the projected GDP in 2028 (Noel, et al., 2019).

Key Takeaways

- Over time, the share of wealth held by white households has not decreased proportionately to the decrease in percentage of U.S. population who identify as white.
- Even as the racial wealth gap has slightly narrowed among the white population and Black or Hispanic population, fewer than one percent of the wealthiest families in U.S. are Black or Hispanic.
- Private business ownership and inheritance play large role in wealth.

We have explored the ways that financial institutions and capital constraints are one key determinant of the financial health gap which feeds into the wealth gap. There are other critical factors including Education, Income and Assets that directly impact the financial wealth of a family. These factors impact the ability to accumulate wealth and play a major role in the financial health of an individual.





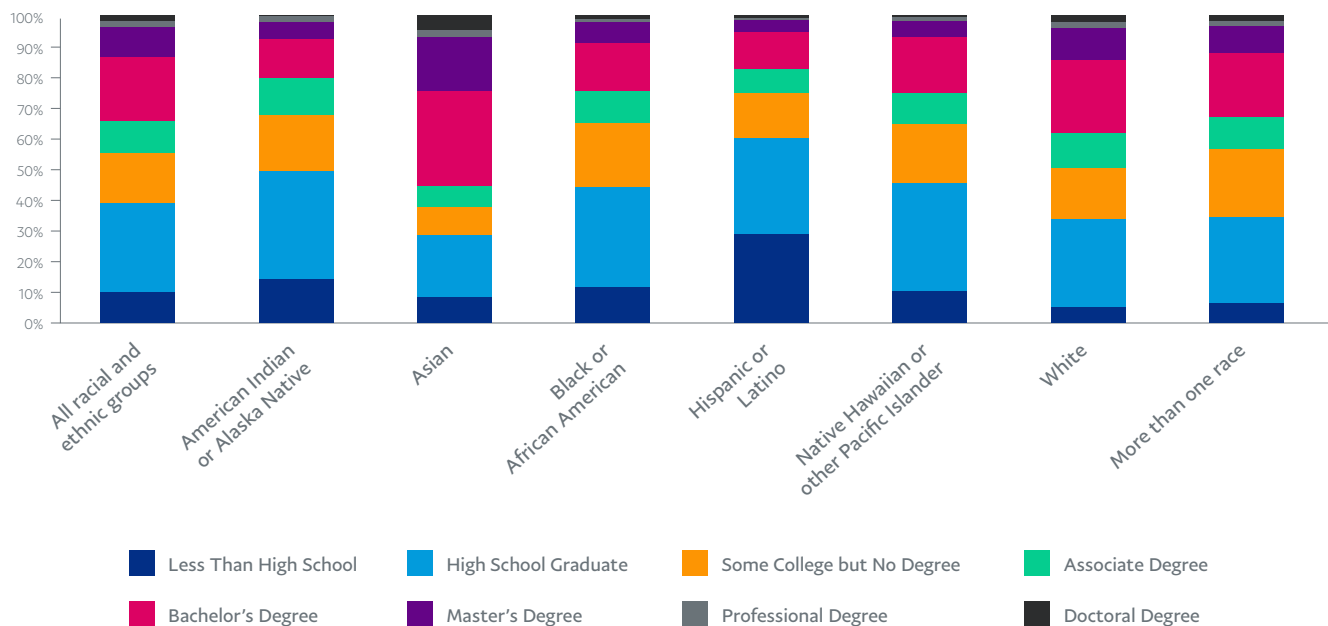
2. Education

Level of Educational Attainment by Race and Ethnicity

There is a positive correlation between education and income in the United States. Addressing the disparities in education can reduce income volatility, build wealth and improve upon the financial health of an individual and their family. Education can be seen as an investment in human capital. Human capital theory suggests that low incomes are the result of low wages, low wages are the result of workers holding low productivity jobs, and holding low productivity jobs is the result of workers having a lower ability or skill level. It suggests that workers can increase their human capital by increasing their education (Sowell, 1971). But differences in college and post-graduate attainment alone explain less than half of the Black-white wealth gap, as significantly different wealth outcomes can be found among people of different racial and ethnic groups within the same educational level (Emmons and Ricketts, 2017). Nevertheless, it is important to address the racial disparity in educational achievement and the associated debt burden.

According to a report by the American Council on Education, in 2017, 44.4 percent of U.S. adults ages 25 and older had attained an associate degree or higher. Racial disparities exist with respect to educational achievement. Figure 2 shows educational attainment for adults ages 25 and older by race and ethnicity in 2017. For 33 percent of African Americans and 31 percent of Latinos, high school was the highest level of education, compared to 28.3 percent for white Americans. White Americans (23.7 percent) were more likely to have earned a baccalaureate than African American Americans (15.3 percent) or Latinos (12.2 percent). The disparity in educational achievement is even more pronounced for graduate degrees. In 2017, 1.1 percent of African Americans and .7 percent of Latinos had earned a doctoral degree, compared to 2 percent of white Americans (American Council on Education).

Figure 2. Educational Attainment of Adults Ages 25 and Older, by Race and Ethnicity: 2017



Source: American Council on Education

Student Loan Borrowing by Race and Ethnicity

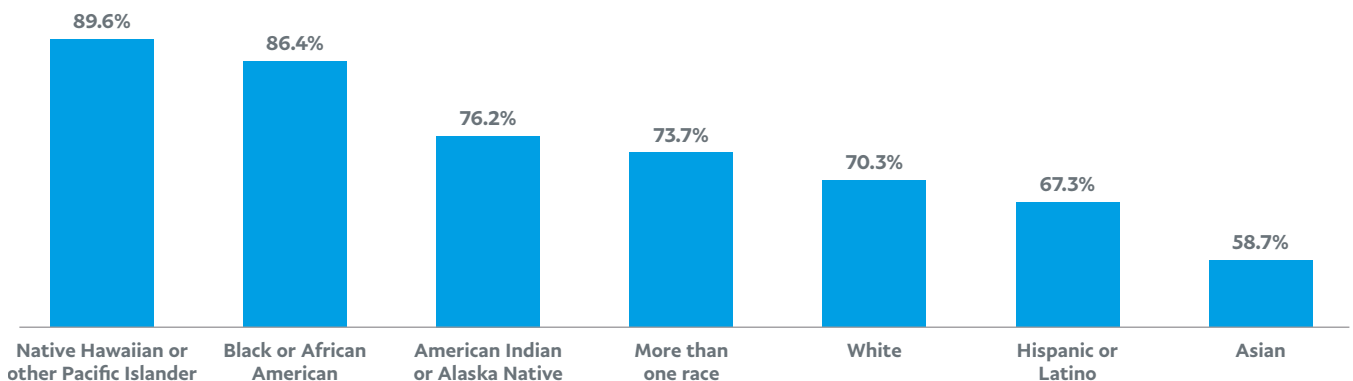
While white students are more likely to earn a baccalaureate degree, Black and Latino bachelor's degree graduates shoulder a higher financial burden. Kim et al. (2016) suggests this is because Black students are more independent than their white counterparts and hence receive less financial support from family and relatives than whites. Further, the racial wealth gap, discussed in the previous section may play a role in the ability of Black parents and family members to contribute. Table 2 shows total borrowing for bachelor's degree recipients by race and ethnicity for the 2015-16 academic year. Black bachelor's degree graduates borrowed at a higher rate than their white counterparts, 86.4 percent compared to 70.3 percent and they borrowed more on average \$29,390 compared to \$21,184. Black students were also more likely to earn a bachelor's degree at a for-profit institution, 18.3 percent compared to 6.6 percent for white graduates, where according to a [report](#) by the Brookings Institution, "students pay more and benefit less than from education in other sectors."

Table 2. Total Borrowing: Bachelor's Degree Recipients, by Race and Ethnicity: 2015-16

Race and Ethnicity	Share of Total	Percent Who Borrowed	Average Amount Borrowed per Student	Percent Completing at Public Four-Year	Percent Completing at Private Nonprofit Four-Year	Percent Completing at For-Profit
All racial and ethnic groups	100.0%	68.9%	\$20,432	59.8%	27.9%	8.9%
American Indian or Alaska Native	0.7%	76.2%	\$20,103	59.9%	14.5%	11.70%
Asian	6.6%	58.7%	\$14,968	63.0%	28.8%	7.2%
Black or African American	12.0%	86.4%	\$29,390	53.7%	24.8%	18.3%
Hispanic or Latino	15.0%	67.3%	\$17,183	61.2%	21.5%	12.4%
Native Hawaiian or other Pacific Islander	0.4%	89.6%	\$23,756	53.6%	13.9%	25.5%
White	58.5%	70.3%	\$21,184	60.3%	29.7%	6.6%
More than one race	3.0%	73.7%	\$22,053	61.5%	27.3%	8.8%

Source: U.S. Department of Education, National Postsecondary Student Aid Study, 2016

Figure 3. Percent of Bachelor's Degree Recipients who Borrowed by Race and Ethnicity: 2015-16



Source: U.S. Department of Education, National Postsecondary Student Aid Study, 2016

Historically Black Colleges and Universities (HBCU)

The **Higher Education Act of 1965**, as amended defines an HBCU as:

“any historically black college or university that was established prior to 1964, whose principal mission was, and is, the education of Black Americans, and that is accredited by a nationally recognized accrediting agency or association determined by the Secretary of Education.”

Since the founding of Cheyney University of Pennsylvania on February 25, 1837, 184 years ago, historically black colleges and universities (HBCUs) have provided African American students with the best mechanism, and for some, the only opportunity to receive a collegiate education (**Broady, Todd, and Booth-Bell, 2017**). Today, 101 HBCUs like Dillard University, Wiley College, Jackson State University, Alcorn State University and others continue the mission that began in 1837.

Dr. Curtis Todd writes in *Dreaming and Doing at Georgia HBCUs: Continued Relevancy in ‘Post-Racial’ America*,

“the well-preserved intentions of HBCUs since their founding has been to provide African Americans and other minority groups a seat at the proverbial table of higher education and to make possible life altering opportunities beneficial for their families, communities, as well as for America and the world. Although their product is well documented, the viability of HBCUs, their relevancy and need to exist continues to be questioned by oftentimes ill-informed pundits, detractors and factions armed with marginalized, poorly considered and constructed arguments with dubious validity.”

While the previous section addressed the cost burden of higher education, tuition at a typical HBCUs is lower than the national average (**Thurgood Marshall College Fund**). In 2018, HBCUs enrolled 291,767

students (**National Center for Education Statistics**). In 2014, the nation’s HBCUs generated \$14.8 billion in economic impact annually, employed 134,090 people and increased the earning potential for their graduates (United Negro College Fund).

By reducing the financial burden of educational attainment, it opens the door to a more financially healthy individual. However, it is important to also consider the impact of financial literacy as a piece of education. Financial literacy among the Black community tends to be lower than whites (Yakoboski, 2020). Younger students who are required to take courses in personal finance are more likely to attain financial help paying for college and less likely to rely on higher-cost alternatives (Stoddard, Urban, 2018). Personal finance knowledge also tends to vary by income and employment status, demonstrating that addressing all of these factors can work towards improving an individual’s financial health and reduce the wealth gap.

Key Takeaways

- Higher education attainment is positively correlated with income.
- While Black individuals are less likely than white counterparts to receive a college education, the Black students who do go to college shoulder a heavier financial burden.
- HBCUs are an important avenue for students to receive high caliber college educations at affordable costs.
- Addressing the disparities in education can help ensure stability and security of income, which enables spending, saving, borrowing, and planning in ways that enhance financial health and build wealth of an individual and their family.



3. Employment

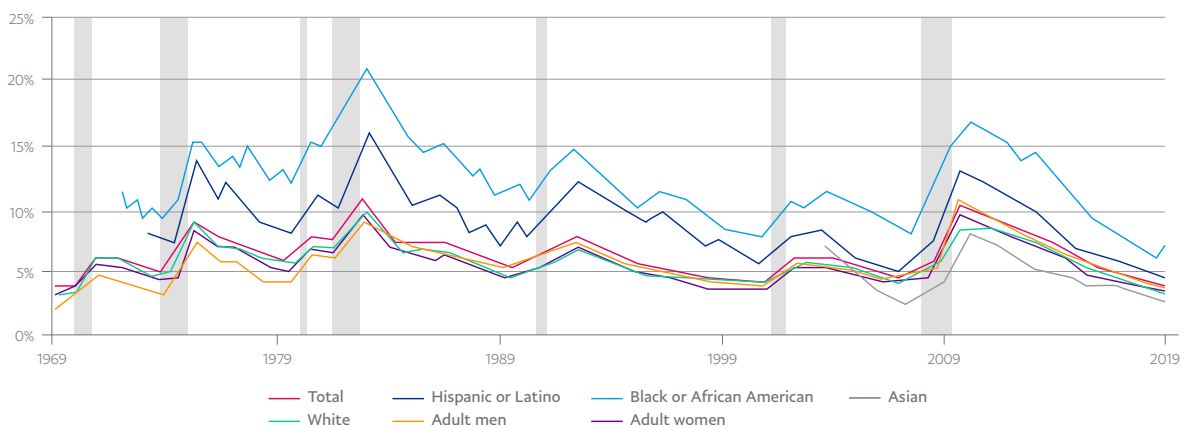
Since the beginning of the COVID-19 pandemic, job losses have been concentrated among women, minorities and low-wage workers. At the beginning of the pandemic, in March 2020, the U.S. unemployment rate was 4.4 percent. However, the unemployment rate for Black workers was 6.7 percent, compared to 4 percent for white workers. By August 2020, the unemployment rate for Black workers had increased to 13 percent, almost twice the rate for white workers, 7.3 percent. As businesses began to reopen and restrictions were loosened, the U.S. unemployment started to decrease, falling to 6.7 percent in November 2020, but the unemployment rate for Black workers, 10.3 percent, was still 4.4 percentage points higher than the rate for white workers, 5.9 percent. The latest [report](#), for August 2021, reveals the continued disparity. In August 2021, the U.S. unemployment rate was 5.2 percent. But the unemployment rate for Black workers was 8.8 percent, compared to 4.5 percent for white workers.

According to the [Joint Economic Committee](#), “the U.S. economy provides Black Americans with far fewer opportunities for stable, well-paying employment than their white counterparts.” Black workers experience systematically higher unemployment rates, lower pay – as explained in the next section, fewer job opportunities, poorer benefits, and greater job instability, reflecting systematic barriers to quality

jobs, including outright discrimination ([Waller, 2019](#)). Research has shown that names matter in the employment process and applicants with Black-sounding names fair less well than those with white-sounding names. A 2004 [study](#) by Bertrand and Mullainathan, found that resumes with white-sounding names received 50 percent more callbacks than those with Black-sounding names. Similarly, Watson et al. (2011) found that applicants for outside sales jobs with Anglicized-names received more favorable pre-interview impressions than did ethnic-named applicants. Voice, too, is important. Kushins (2014) found in a study of employability based on voice alone, that judges rated a Black speaker at least eight times less likely to be hired than a white or Asian American speaker.

Figure 4 shows the seasonally adjusted unemployment rate by sex, race and ethnicity from 1969 to 2019. Since January 1972, when the [Bureau of Labor Statistics](#) (BLS) began reporting the seasonally unemployment rate for African Americans, the unemployment for African American job-seekers has been 2.17 times higher on average than the rate for whites. BLS began reporting the seasonally adjusted unemployment rate for Hispanic people in March 1973. Between 1973 and 2019 the seasonally adjusted unemployment rate for Hispanic job-seekers has been 1.59 times higher than that for whites. Figure 4 shows that the

Figure 4. Unemployment rates by sex, race, and ethnicity, seasonally adjusted: 1969 to 2019



Note: Shaded areas represent recessions as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics

unemployment rate for African Americans has been the highest since the commencement of reporting in 1972. Further, the reported rates only count people who are actively seeking work, excluding those who could not find a job and stopped looking, thereby likely understating the unemployment rate.

When good jobs are not accessible or available, income stability and security is hard to attain. According to Aliprantis and Carroll (2019), the racial income gap is “the primary driver behind the wealth gap and it is large enough to explain the persistent difference in wealth accumulation.” With the exception of periodic interruptions due to recessions, the U.S. median household income has trended up since 1990. In 2019 the median household income was \$68,703, 6.8 percent higher than in 2018 and 20.6 percent higher than in 1990 when it was \$56,966. But household income varies by race.

Despite declines in racial gaps in educational attainment and efforts by the federal government following the civil rights movement to reduce racial disparities (see Pedriana and Stryker, 2017), the racial income gap persists. The decade of the 1960s was a time of significant growth in public action at the federal level to reduce poverty and racial inequality, including the Kennedy Administration’s Public Welfare Amendments to the Social Security, Aid to Families with Dependent Children – Unemployed Parent (AFDC-UP) program, and the Johnson Administration’s Great Society agenda which included the Civil Rights Act of 1964 (Loury, 1976; Marx, 2011). Between 1968, four years after the passage of the Civil Rights Act, and 2016, the Black-white disparity in family income decreased by almost one-third, however the relative gain was negated by changes in national income distribution (Manduca, 2018). Manduca (2018) argues that the dramatic increase in the share of economic resources going to the very wealthy combined with income stagnation has disproportionately harmed Black Americans, who are overrepresented in the less affluent portions of the income distribution

Despite federal efforts to reduce poverty and racial inequality and despite progress Black and

Hispanic families have made since the passage of the Civil Rights Act of 1964, they still face systemic and cumulative barriers to financial health wealth accumulation due to discrimination, poverty, and a shortage of social connections as a result of racial economic inequality (Chetty, et al., 2020). According to a 2019 study by McKinsey and Company, Black Americans can expect to earn up to \$1 million less than white Americans over their lifetimes. In 2019 the median household income for the typical Asian family was \$98,174, compared to \$76,057 for the typical white (non-Hispanic) family, \$56,113 for the typical Hispanic family, and \$45,438 for the typical Black family (U.S. Census).

Key Takeaways

- Employment affects income, and income insecurity and/or volatility has a cascade impact on the ability to spend, save, borrow, and plan (key determinants of financial health and wealth).
- Unemployment during the COVID-19 crisis has hit Black Americans especially hard.
- But opportunities for stable, well-paying employment have been unequal between Black and white individuals for much longer, and reduction in disparities in financial health and wealth creation necessarily requires improvements in employment and income-generating opportunities.





4. Homeownership

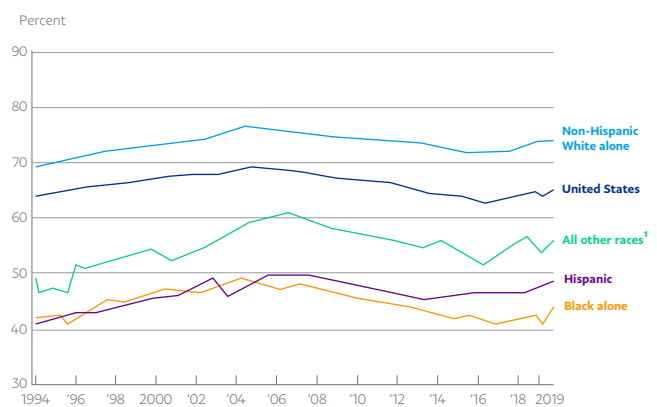
For many American families, owning a home is part of the American dream that conveys economic benefits, including the ability to accumulate wealth, which for some is the biggest component of wealth (Bhutta, et. al, 2020, U.S. Department of Housing and Urban Development). Homeownership has even more of an impact on wealth accumulation for low-and moderate-income households. Turner and Luea (2009) found that each additional year of homeownership increased total net wealth by \$13,700 on average for a sample of low-and moderate-income households in the mid-to-late 1990s.

The U.S. homeownership rate is defined by the U.S. Census Bureau as the proportion of households that are owners. It is computed by dividing the number of households that are owners by the total number of occupied households. Like employment and the median household income, the U.S. homeownership rate varies significantly by race and ethnicity and is lowest for Black people. According to report by Zillow, between 1990 and 2018 the homeownership rate between Black and white households increased from 27.6 percentage points to 30.3 percentage points. An analysis by Charles and Hurst (2002) found strong evidence that “Black mortgage applicants were almost twice as likely as comparable white households to be rejected, even when credit history proxies and measures of household wealth were accounted for.” Hence, their study showed that Black people were less likely to apply for mortgages.

In the third quarter of 2020, the U.S. homeownership rate was 67.4 percent. Figure 5 shows the quarterly homeownership rate by race and ethnicity between 1994 and 2019. According to data from the U.S. Census Bureau, in the third quarter of 2020 the homeownership rate for white non-Hispanic Americans was 75.8 percent, compared to 61 percent for Asian Americans, 50.9 percent for Hispanic Americans, and 46.4 percent for Black Americans (U.S. Census Bureau).

Black and Hispanic families are not only less likely to own a home, but according to a report by the Hamilton Project at the Brookings Institution, their homeownership also yields lower levels of assets. A 2020 Zillow report revealed that “the typical home owned by Black and Latino homeowners is 16.2 percent and 10.2 percent less valuable, respectively, than the typical U.S. home overall.”

Figure 5. Quarterly Homeownership Rate by Race and Ethnicity: 1994 to 2019



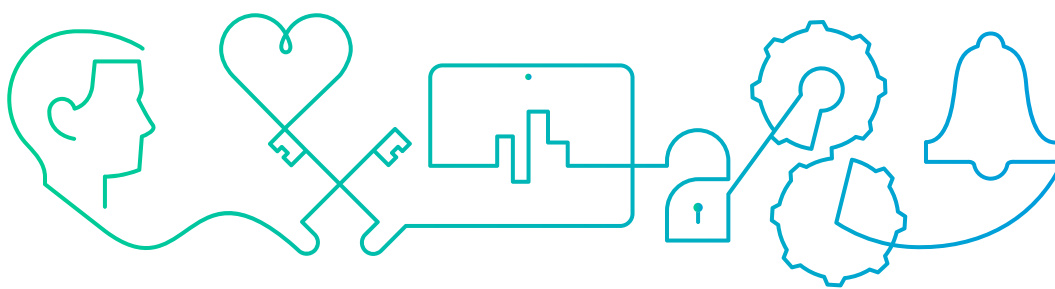
¹ Includes Asian, Native Hawaiian and Other Pacific Islander, American Indian and Alaska Native, and Two or More Races.

Source: The U.S. Census Bureau

Key Takeaways

- Home ownership is related to the present and future ability to earn, borrow and plan, and has a significant impact on wealth accumulation, particularly for low-and moderate-income households. U.S. homeownership rate varies significantly by race and ethnicity and is lowest for Black people.
- Black people are twice as likely than their white counterparts to be denied a mortgage loan (when all other factors are equal), and when they do own a home, it yields lower values of assets.

Recommendations: How Private and Public Sector Can Enhance Financial Health Through Responsible Fintech



Financial technology (fintech) companies can mitigate racial financial health and wealth gaps that hamper Black and Hispanic families' financial security through product offerings and policies they put in place. Through technology and automation, they can reduce costs and prices, speed up delivery and increase convenience for underserved populations (Saunders, 2019). Over the past 20 years, fintech companies have provided new ways to capture data, reach broader audiences, and expand access to credit (Strochak, 2017). These companies also have the potential to think differently about policies and programming that can amplify opportunities for Black and minority communities. These private sector innovations can be paired with public policy interventions as well to address some of the systemic issues that have contributed to the financial health and wealth gaps.

This section addresses what additional actions the fintech industry can take to mitigate racial financial health and wealth gaps and then explores policy recommendations that can also address the factors that contribute to those gaps:

- **Look to partner with HBCUs, particularly those that don't get substantial national attention, on financial health curriculum, education, and recruiting.** Today, the nation's 106 HBCUs make up just 3% of America's colleges and universities, yet they produce almost 20% of all African American graduates and 25% of African American graduates in the STEM fields of science, technology, engineering and mathematics—the critical industries of the future. And HBCU tuition rates are on average almost 30% less than at comparable institutions—that's why they're often referred to as the best buy in education. At a time when parents and students are more concerned than ever about the cost of attending college, HBCUs deliver higher returns at a lower cost. (Lomax, 2015). HBCUs are uniquely positioned to build our financial health curriculum that could aid in narrowing the racial financial health and wealth gaps.
- **Establish company missions that focus on serving the underserved.** Building products and services around this mission is key to pivoting financial services away from solely profit-driven decision making.

- **Create inclusive financial services products for people who are credit invisibles or low credit individuals. For example:**

Cash Flow

- > **Smooth and stabilize cash flow by collaborating with enterprise.** As explained in previous sections, financially vulnerable populations experience greater income and expense volatility. Offering accounts that do not have overdraft fees, minimum balance requirements, and account maintenance fees can help reduce the negative impacts of this volatility (Walsh, 2020).
 - One example is the Build Card. Through its Build Card, a \$500 unsecured credit card, FS Card (acquired in 2018), Inc., founded in 2014 by Marla Blow, an African American woman, looks beyond past credit history to provide customers with a buffer to pay for necessities when their income is unexpectedly lower or when expenses rise without warning (Gerhardt, 2017). FS Card is designed to move small-dollar loan customers into more affordable products and provide honest mainstream financial products to the mass market, allowing under-served borrowers to meet their everyday liquidity needs (The Moguldom Nation).
- > **Provide interest-free buy now, pay later capabilities so that consumers can comfortably make purchases and spread out payments as they get paid.**
 - Buy Now, Pay Later products allow you to split the cost of your purchase into four smaller payments, without paying any interest or impacting your credit score. This allows consumers the ability to try items before you pay for them and only pay for items that you keep.

Saving and Investing

- > **Help Americans build emergency savings.** According to an AARP 2020 national survey of U.S. adults aged 30 and older, 3 in 5 African Americans experienced an unexpected financial challenge in the past year. A study by EPI found that in 2016 half of families had no retirement savings at all and that disparities existed by race. Two-thirds (68 percent) of white non-Hispanic families had retirement savings, compared to 41 percent for Black families and 35 percent for Hispanic families. To increase the saving ability of Black and Hispanic families, fintech companies can offer high-yield savings accounts, automated savings features, and robo and micro investing tools to increase savings opportunities (Walsh, 2020).

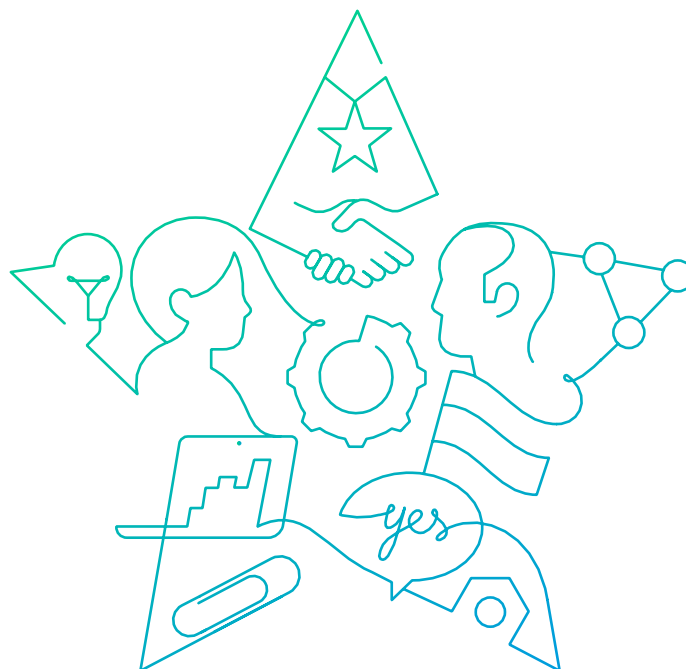
Credit

- > **Use alternative data and machine learning to extend affordable credit to a larger population of consumers (Walsh, 2020).** While traditional credit-scoring mechanisms are backward looking, new data and algorithms provide the opportunity for fintech companies to use better indicators to determine creditworthiness (Strochak, 2017). People generally need credit and access to other financial services to buy homes and cars, finance businesses, and send their children to college, in addition to non-credit contexts including hiring processes for some jobs (Robin u, 2014). Credit scores can significantly impact consumers' financial lives as lenders rely extensively on them in decision making for mortgages, auto loans and credit cards

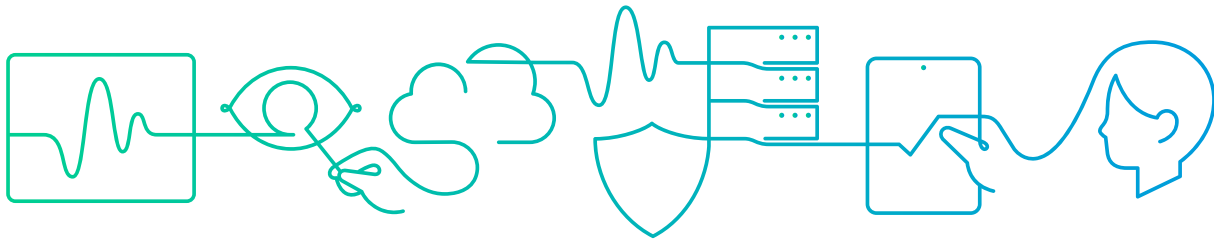
([Consumer Financial Protection Bureau](#)). Financial institutions are exposed to the risk of adverse selection. To mitigate this risk, FICO credit scores are used to assess the financial health of potential customers and borrowers. Providing an alternative application method that includes cash flow data, or an interview to assess creditworthiness would provide access to credit services for populations that may not qualify through traditional credit scoring. Additionally, fintech companies should participate in algorithmic bias assessments in order to identify and solve for potential inherent biases in their machine learning capabilities that may be part of any credit underwriting assessments.

- > **Provide fast, fair, and flexible small business lending products that do not require a personal credit score for underwriting.** The same alternative data and machine learning solutions mentioned above in the context of consumer credit, can also be applied to small business lending. Eliminating the use of FICO scores and reducing collateral requirements will enable greater access to these underserved communities of entrepreneurs.
 - For example, PayPal Working Capital (PPWC), established in 2014, offers fixed-rate loans to small business owners based on the small business' sales to assess creditworthiness. This method allows for a transparent and flexible fixed cost loan that can be repaid through a percentage of the small business' future sales. Past research, conducted by PayPal has shown that PPWC loans are over-indexing to low- and-moderate income communities as well as areas with greater minority population.
- **Focus on access to capital through a racial equity lens. In addition to being deliberate in how small business credit products meet the needs of Black-owned small businesses, capitalize on opportunities to work with government stakeholders and provide a fintech perspective so that as laws and regulations are updated they reflect the changing landscape of financial services. For example:**
 - > Participate in the Consumer Financial Protection Bureau's [Special Purpose Credit Program \(SPCP\)](#) that encourages the extension of equitable and nondiscriminatory credit.
 - > Engage with Office of the Comptroller of the Currency [Project REACh](#) that brings together leaders from the banking industry, national civil rights organizations, business, and technology to reduce specific barriers that prevent full, equal, and fair participation in the nation's economy.
 - > Engage with Federal Deposit Insurance Corporation [tech sprints](#) or with the [Mission Driven Bank Fund](#), a capital investment vehicle developed to support insured Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs).
- **Offer products that bridge the gap between cash and traditional financial services that empower people to participate in the digital economy. For example:**
 - > Customers can use the PayPal app or the PayPal Cash Card to load money or withdraw cash from your PayPal account at Walmart.

- **Hire more people of color and institute employee financial wellness initiatives like providing equity to all employees and raising wages.** As described in this paper, income disparity falls squarely at the intersection between racial wealth inequality and financial health. Fintech companies should institute hiring policies that require interviewing a diverse pool of applicants for any open position. They should also implement employee financial wellness initiatives whereby employees at all levels earn a living wage (target 20% of net disposable income), and are provided with company equity as part of base compensation.
- **Meet people where they are in their communities, working more intentionally with local leaders, MDIs (Minority Depository Institutions) and CDFIs (Community Financial Depository Institutions).**
 - > **MoCaFi** is a great example. Founded by Wole Coaxum, an African American, Oxford-educated Wall Street executive in 2014, Mobility Capital Finance Inc. (MoCaFi) is a digital banking platform that has enrolled more than 25,000 users, raised more than \$6 million in seed funding, collaborated with Fortune 100 companies, and established a presence in major U.S. cities. MoCaFi's objective is to empower Black households and businesses by:
 - Collaborating with community organizations, local officials, and area businesses in targeted cities;
 - Addressing unbanked and underbanked communities of color by providing affordable banking and credit counseling services;
 - Increasing African American homeownership by 100 percent in designated cities; and
 - Working with cities to implement a plan for African American business hubs (**MoCaFi**).
- **Partner with banks that are focused on racial equity.** Whether national or regional banks, do your research to ensure that financial institutions you partner with are meaningful and deliberate in their hiring practices, investments, and products offerings.
- **Engage with BIPOC venture capital funds when looking for financing and with BIPOC asset managers**



Public Policymakers Can Take Steps to Increase Financial Health



- **Create a mandatory financial health curriculum for middle and high schoolers.** As referenced in the introduction of this paper, financial knowledge or financial literacy determine an individual's or group's financial behavior with regard to the accumulation or loss of wealth. Congress has the ability to mandate that our public schooling system equip middle and high schoolers with some form of education so that they know what types of products are available to best meet various needs throughout their adult lives.
- **Raise minimum wage for companies with over 500 employees.** By design, minimum wages boost the pay of workers who are among the lowest-paid in the U.S. labor market. And Black workers have the highest share of those who are paid the minimum wage among all major racial and ethnic groups in the United States. Increasing the minimum wage to \$15 an hour, for example, would increase the earnings of 38.1 percent of Black workers, compared to 23.2 percent of White workers. This calculation is based on a combination of workers in states whose minimum wage is determined by the current federal minimum wage of \$7.25 per hour, workers in states with a state minimum wage below the federal minimum, and workers in all other states who are currently earning less than \$15 per hour ([Derenoncourt, Montialoux and Bahn, 2021](#)).
- **Increase Investments in the CDFI Fund and Make Any Relevant Programs that Sunset (like the New Markets Tax Credit) permanent.** Housed under the U.S. Department of Treasury, the Community Development Financial Institutions Fund (CDFI Fund) plays an important role in generating economic growth and opportunity in some of our nation's most distressed communities. By offering tailored resources and innovative programs that invest federal dollars alongside private sector capital, the CDFI Fund serves mission-driven financial institutions that take a market-based approach to supporting economically disadvantaged communities³.
- **Foster Utilization of the CFPB Special Purpose Credit Program (SPCP).** The Equal Credit Opportunity Act (ECOA) and Regulation B prohibit discrimination on a prohibited basis in any aspect of a credit transaction. The Special Purpose Credit Program (SPCP) provisions of the Equal Credit Opportunity Act (ECOA) and Regulation B, however, provide targeted means by which creditors can meet special social needs and benefit economically disadvantaged groups⁴.

³ <https://www.cdfifund.gov>

⁴ <https://www.consumerfinance.gov/about-us/blog/expanding-access-credit-underserved-communities/>

- **Revise and Revive the SBIC program under the SBA to incentivize private sector investments in BIPOC founders.** SBA's Office of Investment and Innovation (OII) leads programs that provide the high-growth small business community with access to two things: financial capital and R&D funds to develop commercially viable innovations. Small Business Investment Company (SBIC) Program is an investment program that increases access to capital for growth stage businesses. The SBIC program is effective and distinct because the private sector leads with its capital and investment expertise, and then SBIC leverage follows to augment the impact of the private investment. The government does not pick winners and losers, private investors guide capital to the companies with the best potential⁵.

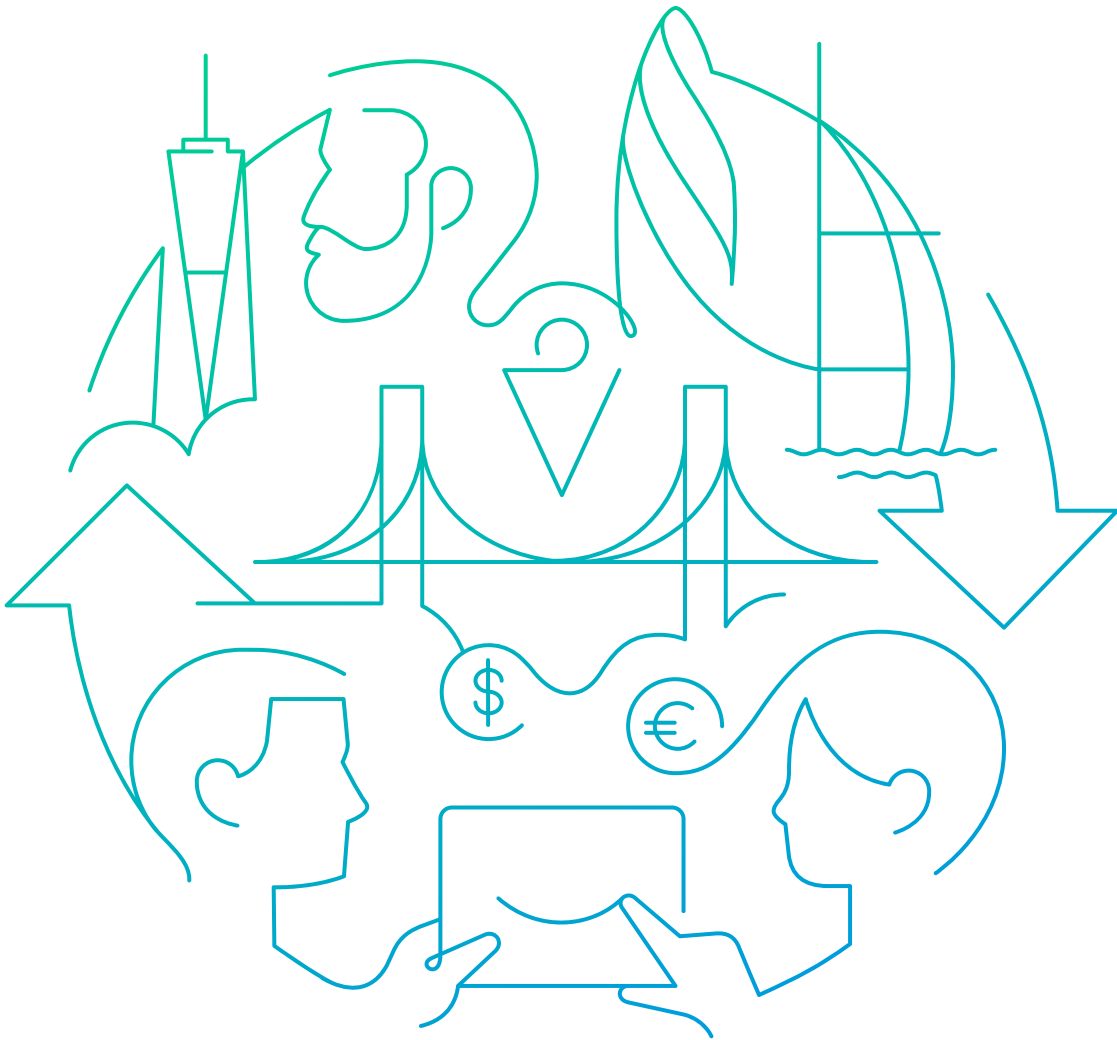
- **Revise SBA 7(a) program to enable fintechs to more easily engage with the program.** By modernizing the SBA's lending facilities, private sector participants can come in and help distribute capital to the most underserved areas. Some key aspects of this modernization include, reducing paperwork, improving API architecture to streamline functionality and data access, and update how the lender interacts with the SBA's systems and personnel.
 - > The cap on guarantee is at 50% for 7(a) Express program similar to regular 7(a)
 - A higher guarantee will provide better terms (rate and duration)

 - > Extending the term of the loan to enable greater cashflow, particularly during this time as SMBs are recovering will be key
 - Innovative companies like PayPal and our competitors have the ability to use innovative underwriting process to serve small businesses. We would love to work with SBA to use technology to expand opportunities.

- **Enhance broadband deployment.** The potential that fintech provides can only be fully realized when there is 5G internet capabilities spread evenly across the country. Federal and state/local governments should prioritize connectivity, particularly in low income areas so these communities can unlock the potential of digitization.

Conclusion

The ongoing COVID-19 pandemic has disproportionately impacted the Black community in terms of health and economic effects and shined a light on historical racial wealth and financial health gaps in America. Closing these gaps will require that structural, systemic, and historical economic disparities are addressed through significant public policy changes (Moss et al., 2020). Financial technology companies can use technological innovations to mitigate racial financial health and wealth gaps.



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