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Impact of race on personal finances

Economic inequities: The impact of systemic racism on your finances

By Ruth Susswein

People of color—particularly Black people—have been treated unfairly and unequally for generations in the area of personal finance and beyond. Centuries of racism have denied Blacks, Native Americans and many immigrants an equal opportunity to build a solid financial foundation (*https://www.americanprogress.org/issues/race/reports/2019/08/07/472617/systemic-inequality-displacement-exclusion-segregation/*).

Analysts point to the systemic racism that is woven into many of our nation's institutions as the legacy of our shameful early history of enslaving Africans.

Evidence of entrenched discrimination can be seen in this country's economic, educational, law enforcement, prison and healthcare systems.

Institutional racism

The U.S. Social Security system, designed to protect older and disabled Americans, originally excluded domestic and field workers, which accounted for two-thirds of Black Americans in the 1930s.

Black consumers were often locked out by the mainstream mortgage system, making it difficult, if not impossible, for them to buy homes. Many neighborhoods across the nation had covenants banning Blacks, Jews and immigrants. Yet investing in a home, and building equity, is the primary way that people in the U.S. build wealth.

After World War II, white working-class and middle-income Americans were eligible, upon returning from the war, to acquire mortgages through federal loan programs, while Black Americans were systematically excluded (*https://www.americanprogress.org/issues/race/reports/2019/08/07/472617/systemic-inequality-displacement-exclusion-segregation/*) from these opportunities, merely because of the color of their skin. The GI Bill did nothing to prevent local banks from denying Black veterans home loans, even though the federal government would be the guarantor of mortgages for veterans, according to the Center for American Progress.

Redlining

Neighborhoods in or near many major American cities were off limits for Black homebuyers in the 1930s, '40s and '50s, and the effects of this policy are visible to this day in homeownership rates, access to credit, and family wealth.

The government-sponsored Home Owners' Loan Corporation drew a red line around some communities and designated them "hazardous" areas to finance a mortgage in, leaving Black consumers without access to credit in many neighborhoods and fostering racial segregation. These areas were deemed "hazardous" because appraisers believed that the "presence of Blacks and other minorities would undermine property values." These maps, with "redlined" areas (*https://www.nytimes.com/2017/08/24/upshot/how-redlinings-racist-effects-lasted-for-decades.html*), were used by the Federal Housing Administration (FHA) and the Veterans Administration (VA) to prevent Black buyers from obtaining home loans, regardless of their creditworthiness.

With little access to mortgages, "hazardous" communities would often deteriorate. Today, 74% of the neighborhoods deemed "hazardous" back then remain low-to-moderate-income and primarily non-white (*https://www.washingtonpost.com/news/wonk/wp/2018/03/28/redlining-was-banned-50-years-ago-its-still-hurting-minorities-today/*).

Government-sanctioned segregation has created inequities that limit minorities' access to other goods and services—a lack of grocery stores, and limited or no local access to banks and affordable financial products, for example.

Health

Today, the same neighborhoods that were intentionally deprived of loans and financial opportunities are linked to higher risk of poor outcomes from COVID-19 (*https://ncrc.org/holc-health/?mc_cid=a9108bde40&mc_eid=6f00b54003*).

Black Americans, who are more likely to suffer from diabetes, asthma, hypertension and other chronic conditions, have been harder hit by the coronavirus pandemic than white people. Blacks (30%) and Latinos (33.9%) are dying from COVID at more than twice the rate of whites (13.2%), according to the Centers for Disease Control and Prevention (CDC)(*https://www.statnews.com/2020/07/10/covid-19-disparity-black-hispanic-americans-deaths-under-65/*). This may be partially attributable to Black and Latino workers holding more essential jobs, which cannot be performed from home.

Education and beyond

Black students are more likely to attend public schools that lack the resources to thrive, in part because their communities receive less funding from property taxes due to lower home values.

Students from underfunded schools are less likely to achieve the levels of academic performance that would afford them opportunities to be educated at highly respected public and private universities, attendance at which would allow them to advance their careers and financially prosper.

Without family financial support (*https://www.nytimes.com/2020/06/09/your-money/race-income-equality.html*), Black students often borrow up to twice as much as white students to go to college; are less likely to graduate; and default on student loans at more than five times the rate of white borrowers.

Without a degree, people often earn smaller salaries which can amount to fewer opportunities to build assets and more dollars devoted to higher finance charges. Over time, this can result in meager savings and few, if any, funds to pass on to future generations.

Racial disparity and prison

Continuing outcry over unprovoked police violence against people of color has drawn attention, yet again, to widespread racial inequities in our criminal justice system.

Blacks and Native Americans are disproportionately locked up in local jails and prisons relative to their share of the population, according to data collected by the Prison Policy Initiative (*https://www.prisonpolicy.org/blog/2020/07/27/disparities/*). Most people in prison are poor, and the poorest are women and people of color.

Poor Black people have been subject to hefty prison sentences, while the same violation by a white person often results in less severe penalties. Black men sentenced for the same crime as white men received federal prison sentences that were 20% longer, according to the United States Sentencing Commission (*https://www.washingtonpost.com/news/wonk/wp/2017/11/16/black-men-sentenced-to-more-time-for-committing-the-exact-same-crime-as-a-white-person-study-finds/*).

Once out, the "prison penalty" paid by the previously incarcerated greatly affects the chances of employment upon reentry, and disproportionately impacts Black men and women.

Without comparable access to criminal justice, homeownership, higher education and economic opportunities, many Black people and other minorities have been excluded from building a strong, secure financial foundation for themselves and their families. In 2019, the average Black family had less than 15% of the financial cushion that white families had. Black households accumulated $24,100 in wealth versus $188,200 for the average white household, according to the Federal Reserve (*https://www.federalreserve.gov/econres/scfindex.htm*).

The impact of systemic racism is undeniable. Today, the majority of Americans are prepared to recognize and address at least some of the enduring consequences of this unequal and unjust system. Since the death of George Floyd in May at the hands of Minneapolis police, millions of Americans from diverse backgrounds have poured into the streets to protest racial injustice.

In the articles ahead, we examine many areas of personal finance affected by systemic and institutional racism—from car and student loans to mortgages and auto insurance—and we consider some of the proposals for dismantling the barriers to financial inclusion.

Unstacking the deck of discrimination

By Monica Steinisch

More than 45 years after the enactment of the Equal Credit Opportunity Act, the U.S. is still grappling with systemic injustice in the financial services industry. How did we get here, and what are the prospects for ending financial discrimination?

Thwarted from the start

Black people have routinely and continually been excluded from the American financial system over the course of more than a century. From the overt (the declaration by insurance companies in 1881 that policies held by Black customers were worth one-third of the value of equivalent policies held by white customers) to the covert (unfair markups on auto loans for non-white buyers; see "Unfair loans hobble Black borrowers," on page 6), public policies and private practices have created a system in which communities of color can't get a leg up—or even a fair shake.

You need look no further than basic banking to find an example of exclusion. A traditional checking account is the financial backbone for most households, yet it costs Black communities more to open an account and more to avoid account maintenance fees than it costs white customers. According to New America's "The Racialized Cost of Banking" report (*https://www.newamerica.org/family-centered-social-policy/reports/racialized-costs-banking/overview/*), the average white American needs to deposit approximately 3% of a paycheck to open a checking account in their neighborhood, and keep 28% of a paycheck deposited to avoid a fee or account closure, while a Black American needs to deposit 6% of a paycheck to open an account, and keep 60% unused in the account.

A vicious cycle

Decades of discriminatory pricing and other exclusionary practices have served to deter Black consumers from joining the financial mainstream. FDIC data in 2017 showed that nearly half of Black households were unbanked or underbanked (*https://www.fdic.gov/analysis/household-survey/*).

Without a banking relationship, carrying out basic financial transactions such as cashing a paycheck or paying bills can cost a household more than $40,000 in fees for alternative financial services (check cashers, money orders, etc.) over the course of a lifetime (*https://www.brookings.edu/research/banking-on-wealth-americas-new-retail-banking-infrastructure-and-its-wealth-building-potential/*).

Lack of a credit history also is detrimental (*https://www.cnbc.com/2019/09/01/many-minorities-avoid-seeking-credit-due-to-decades-of-discrimination.html*). While a small loan from a bank or the responsible use of a credit card can help someone establish or build credit, ultimately qualifying the borrower for cheaper credit and more options, the use of payday (and similar) loans doesn't boost a borrower's credit score because such lenders typically don't report to credit bureaus. Too often payday borrowers get stuck in a cycle of debt that is impossible to break.

Lost opportunity

Despite all the obstacles, including redlining, some Black consumers have been able to become homeowners. However, much of the wealth accumulated by Black communities in the form of home equity was wiped out by the subprime mortgage crisis and Great Recession of 2008. Leading up to the mortgage meltdown, lenders targeted low- and moderate-income people and communities of color for high-interest loans that were destined to result in default and, ultimately, foreclosure.

"Beyond Broke: Why Closing the Racial Wealth Gap Is a Priority for National Economic Security" explains that communities of color are more dependent (*https://globalpolicysolutions.org/wp-content/uploads/2014/04/Beyond-Broke_Exec_Summary.pdf*) on home equity as a source of wealth—for Black Americans, it accounts for nearly all of their personal net worth (92%). So, while millions of Americans of all races and ethnicities were impacted by the crisis, the median net worth of Black households dropped by 53% between 2005 and 2009, while white household net worth dropped by 17%.

After the crisis, lenders would extend mortgages to only those borrowers with excellent credit scores, yet Black and Hispanic consumers are significantly more likely to be "credit invisible" (have no credit record) (*https://www.cnbc.com/2015/05/05/credit-invisible-26-million-have-no-credit-score.html*). Of those who do have a score, only 21% of Black households had a FICO score above 700, compared with more than 50% of white households (*https://www.urban.org/urban-wire/breaking-down-black-white-homeownership-gap*).

Closing the gap

Many public and private entities are supporting greater financial inclusion. Proposals for helping narrow the racial wealth gap in the U.S. include:

• Extending low-cost and no-cost financial services to the unbanked, possibly through traditional banking institutions; expanding the range of financial services offered by community development financial institutions (CDFIs); and implementing U.S. Postal Service banking. Read about these and other ideas in "Beyond Broke: Why Closing the Racial Wealth Gap Is a Priority of National Economic Security" at *https://globalpolicysolutions.org/wp-content/uploads/2014/04/BeyondBroke_Exec_Summary.pdf*.

• Appealing to banks' bottom line. McKinsey & Company concluded (*https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-case-for-accelerating-financial-inclusion-in-black-communities*) that granting greater access to financial services regardless of race could bring companies "up to $60 billion in additional revenue from Black customers each year."

• Expanding investment in underserved areas. JPMorgan Chase has committed $30 billion (over five years) in new mortgages and home refinancing, small business loans, affordable rental housing, and personal lines of credit in communities of color. Bank of America, Citi and other lenders have made similar, if smaller, financial commitments.

• Expanding access (*https://fortune.com/2020/08/13/black-owned-banks-opportunity-zones-racial-inequality/*) to bank loans for minority-owned small businesses through Opportunity Zone-type investments to minority depository institutions (MDIs) and CDFIs, and shifting money from mainstream banks to Black lenders to increase capital available to Black communities. Read about "Netflix's Big Idea to Support Black Communities" at *https://www.nytimes.com/2020/06/30/business/dealbook/netflix-black-owned-banks.html*.

• Reinstating borrowers' payday loan protections, which were rescinded under Trump-appointed CFPB leadership (*https://www.cnbc.com/2019/02/06/trump-administration-rolls-back-payday-loan-protections.html*).

• Continuing to evaluate the impact of artificial intelligence (AI) so that the algorithms used to make automated lending decisions don't perpetuate discrimination (*https://www.brookings.edu/research/reducing-bias-in-ai-based-financial-services/*).

• Creating scoring models that include the full range of financial transactions a household makes (*https://grow.acorns.com/how-credit-scoring-contributes-to-racial-wealth-gap/*). Reports that reflect rent and utility payments, employment status, income, savings, and bank account transactions could help lower-income consumers build healthy credit scores (*https://www.cnbc.com/2019/02/27/american-consumer-credit-rating-system-is-broken.html*).

While these and other efforts are a move in the right direction, the report "What We Get Wrong About Closing the Racial Wealth Gap" makes it clear that the path to a fair and inclusive financial system is neither short nor straightforward (*https://insightcced.org/wp-content/uploads/2018/07/Where-We-Went-Wrong-COMPLETE-REPORT-July-2018.pdf*).

The enduring financial injustice of mortgages denied because of race

By Ruth Susswein

"More than 50 years after Congress passed the Fair Housing Act, access to housing remains unequal… This is not an accident. This is by design," said Senator Sherrod Brown (D-OH) in a recent report on housing access and homeownership in the U.S. today (*https://www.banking.senate.gov/imo/media/doc/Banking%20Civil%20Rights%20Report%20-%20Executive%20Summary.pdf*).

Redlining

U.S. government housing policies promoted—even mandated—segregation, racial discrimination, and racial and ethnic inequities that profoundly affect communities of color to this day. Blacks and other minorities were barred from borrowing money to buy homes in neighborhoods that were deemed "hazardous" by government appraisers (*https://ncrc.org/holc/*). Based on government maps that marked non-white neighborhoods in red, the Federal Housing Administration (FHA) refused to insure mortgages in or near Black communities for fear that properties there were too risky to finance. This practice of "redlining" effectively excluded many Black buyers from homeownership—even if they could afford the loan.

Federal government investment in developing white-only suburbs, and displacement of minority residents through gentrification, helped expand white homeownership and undermine financial stability and wealth-building in Black neighborhoods (*https://www.americanprogress.org/issues/race/reports/2019/08/07/472617/systemic-inequality-displacement-exclusion-segregation/*).

Black consumers who were prohibited from purchasing homes in many neighborhoods across the nation (from the 1930s through the 1960s) lost out on the opportunity to build wealth over time through increased home values (home equity). Meanwhile, many white families benefited from those gains in home equity, which afforded them the ability to fund their children's education or their own retirement. Even today, most communities in the U.S. remain segregated by race.

Fair housing gains

Housing discrimination continued legally until 1968, when the federal government passed the **Fair Housing Act** to protect people seeking to rent or buy a home or get a mortgage. The Act makes it illegal to rent, sell or negotiate for housing based on a person's race, color, religion, sex, disability, familial status or national origin. Among other things, it prohibits setting different terms or charging different rates or fees for equally qualified buyers, and forbids making any decision to rent or sell a house based on race and other protected characteristics. There are additional protections for people with disabilities. To learn more about Fair Housing Act protections, visit HUD.gov (*https://www.hud.gov/program_offices/fair_housing_equal_opp/fair_housing_act_overview*).

In 2018, the National Fair Housing Alliance (NFHA) sued Facebook for Fair Housing Act violations. NFHA argued that Facebook's targeted advertising lists allowed home sellers to exclude people based on race, family status, gender and disability. Last year, Facebook settled with NFHA and limited the ways advertisers can target potential homebuyers (*https://nationalfairhousing.org/2019/03/18/national-fair-housing-alliance-settles-lawsuit-with-facebook-transforms-facebooks-ad-platform-impacting-millions-of-users/*).

If you believe your rights have been violated, you can file a housing discrimination complaint (*https://www.hud.gov/program_offices/fair_housing_equal_opp/online-complaint*) with the Department of Housing and Urban Development (HUD).

Disparate impact and other protections

A part of the Fair Housing Act called the **Disparate Impact rule** protects consumers against lending practices that *unintentionally* harm people (*https://nationalfairhousing.org/disparateimpact/*). The rule is used to prevent housing discrimination and unfair lending to people of color and other protected groups by prohibiting lenders, landlords, insurers and local government from applying practices that have a disproportionately negative effect on those protected by the Fair Housing Act—even if those practices appear to be neutral. For example, an apartment complex that bans part-time workers might unintentionally discriminate against disabled people, who may be able to afford the rent but not be able to work full time.

The **Equal Credit Opportunity Act** (ECOA) also prohibits lenders from discriminating against applicants based on race, color, religion, national origin, sex, marital status, age, or because the applicant receives public assistance (*https://www.consumerfinance.gov/about-us/blog/what-you-need-know-about-equal-credit-opportunity-act-and-how-it-can-help-you-why-it-was-passed-and-what-it/*). ECOA applies to home loans, credit cards, auto loans, student loans and small business loans. You can file a lending discrimination complaint (*https://www.consumerfinance.gov/complaint/*) with the CFPB.

The **Community Reinvestment Act** (CRA) was designed to increase access to credit, particularly for low-to-moderate-income consumers (*https://www.chicagofed.org/region/community-development/community-economic-development/community-reinvestment*). CRA requires federal regulators to assess if lenders are meeting the credit needs of the communities in which they are located (offering local home loans and investing in local small businesses, for example). A bank's CRA evaluation is an important factor in deciding if the lender will be approved to merge with another bank.

Fair housing losses

The Black homeownership rate advanced for about four decades, especially during the early 2000s, but predatory loans also exploded during this period. Many in communities of color by 2008 found themselves trapped in unaffordable mortgages and home equity loans that resulted in foreclosure, leaving many families without a home, without home equity, and financially decimated.

Today, Black homeownership has dropped to 47%. Latino homeownership is at 51%; the figure is 76% for white consumers.

More recently, actions taken by the Trump administration have gutted the Disparate Impact rule and other fair-housing protections, such as the Affirmatively Furthering Fair Housing (AFFH) rule (*https://nationalfairhousing.org/affirmatively-furthering-fair-housing/*), that aim to expand housing options and prevent systemic discrimination.

Changes to the Disparate Impact rule make it much harder to prove housing discrimination. HUD's revised rule (*https://www.federalregister.gov/documents/2020/09/24/2020-19887/huds-implementation-of-the-fair-housing-acts-disparate-impact-standard*) places the burden on consumers to prove that a policy has had a significant discriminatory effect (*https://nationalfairhousing.org/2020/09/24/trump-administration-guts-fair-housing-protections/*), and gives housing providers more ammunition to defend discriminatory practices.

Lenders like Bank of America, Citi, Chase and Quicken Loans, along with the National Association of Realtors, opposed these drastic revisions, particularly during a global pandemic and nationwide protests against racial injustice.

In his report (*https://www.banking.senate.gov/imo/media/doc/Banking%20Civil%20Rights%20Report%20-%20Executive%20Summary.pdf*), Senator Brown argues that the Trump administration has rolled back 50 years of progress toward fair housing and fair lending and gutted access to credit for communities of color. He calls on Congress and the administration to reverse course, reckon with racial injustices and invest in community development.

Housing help

Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act in March, entitling homeowners with a government-insured mortgage to a forbearance (a pause in payments) through the end of the year if they've been affected by the pandemic.

Important: Homeowners must contact their mortgage servicer to request relief; it is not automatic.

Renters who live in government-insured housing can avoid eviction (*https://www.consumerfinance.gov/coronavirus/mortgage-and-housing-assistance/*) through Dec. 31, 2020, if they cannot pay their rent due to COVID-19.

Important: While no proof is required, renters must fill out a form (*https://www.consumerfinance.gov/coronavirus/mortgage-and-housing-assistance/renter-protections/*) declaring their need to postpone rent payments and submit it to their landlords.

For more information, see Consumer Action's COVID-19 Resource Guide at *https://www.consumer-action.org/covid-19*.

Unfair loans hobble Black borrowers

By Monica Steinisch

For most households, it's impossible to get ahead without being able to borrow money and, through repayment, build a beneficial credit score. Yet discriminatory practices prevent many Black consumers from accessing the same basic loan products at the same terms that white households take for granted.

Decades of unfair auto loans

Americans were repaying around 115 million auto loans in 2019 (*https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2019Q4.pdf*), a statistic that reflects how fundamental auto financing is for most people, to get to work, school and worship. Yet this essential financial tool has, for decades, cost Black borrowers more than their less-qualified white counterparts.

As far back as 1991, a study found that Black male secret shoppers were asked to pay more than twice the markup of white male testers at new car dealerships in Chicago (*https://ianayres.yale.edu/fair-driving-gender-and-race-discrimination-retail-car-negotiations-104-harvard-law-review-817-1991*), confirming a long-held suspicion that non-white car buyers often received unfair dealer markups on auto loans.

Despite class action lawsuits (*https://www.nclc.org/litigation/case-index-closed-cases.html*) in the late 1990s against the major auto finance companies, this type of discrimination has persisted. In 2013, the Consumer Financial Protection Bureau (CFPB) ordered Ally Financial Inc. and Ally Bank (Ally) to pay $18 million in penalties and $80 million in damages to Black, Hispanic, and Asian and Pacific-Islander borrowers harmed by the company's discriminatory pricing system (*https://www.consumerfinance.gov/about-us/newsroom/cfpb-and-doj-order-ally-to-pay-80-million-to-consumers-harmed-by-discriminatory-auto-loan-pricing/*).

Five years later, the National Fair Housing Alliance's (NFHA) investigation (*https://nationalfairhousing.org/wp-content/uploads/2018/01/Discrimination-When-Buying-a-Car-FINAL-1-11-2018.pdf*) into discriminatory car sales and financing by auto dealerships found that white testers still were being offered more financing options than non-white testers (75% of the time); dealers offered to help bring down interest rates and car prices for white testers more often than they did for non-white testers; non-white testers who were more qualified than their white counterparts received more costly auto pricing and financing options (62.5% of the time); and, on average, non-white testers who experienced discrimination would have paid an average of $2,662 more over the life of the loan than less-qualified white testers.

Owning a reliable means of transportation makes it possible for people to seek better-paying jobs and opportunities in other areas. Overpaying for a car or car loan siphons dollars that could be put toward savings, other bills or financial goals.

Small-dollar loan abyss

Decades of lingering institutional racism have prevented and dissuaded many minority consumers from seeking to establish the mainstream banking and credit accounts that would enable them to thrive in the long-term (*https://www.cnbc.com/2019/09/01/many-minorities-avoid-seeking-credit-due-to-decades-of-discrimination.html*).

Nearly 50% of Black consumers are unbanked or underbanked (*https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-case-for-accelerating-financial-inclusion-in-black-communities*), and only 21% have a credit score over 700 (*https://www.urban.org/urban-wire/breaking-down-black-white-homeownership-gap*). Consumers without an established banking or credit relationship often are left no other option than to turn to payday and other usurious loan products (auto title, pawn, etc.)

when faced with even a minor financial emergency.

While small-dollar loans are no bargain at most mainstream financial institutions (*https://www.wsj.com/articles/banks-urged-to-issue-more-small-dollar-loans-in-response-to-outbreak-11585239163*), they don't approach the usurious triple-digit price tag—as high as 400% APR—and impossible repayment terms of payday and similar loans. The CFPB found that more than four out of five payday loans are reborrowed within a month, and nearly one in four payday loans are reborrowed nine times or more, creating an unescapable cycle of indebtedness (*https://www.consumerfinance.gov/about-us/newsroom/cfpb-finalizes-rule-stop-payday-debt-traps/*).

Contending with discrimination

Despite federal laws, including the Equal Credit Opportunity Act (ECOA) and the Dodd-Frank Wall Street Reform and Consumer Protection Act, intended to prohibit discrimination in financial services, it's clear that the industry remains far from color blind. "Discrimination is a serious issue across every consumer credit market," then-CFPB Director Richard Cordray said at the time of the Ally decision.

These tips might help consumers outwit a deeply unfair financial system:

• **Establish a checking and savings account.** Where you work, live, study or worship could qualify you to join a credit union (*http://www.asmarterchoice.org/*). These member-owned financial institutions typically have more consumer-friendly policies and products than mainstream banks (*https://www.depositaccounts.com/credit-unions/*). Or consider joining a Black-owned bank (*https://www.thesimpledollar.com/banking/how-to-support-black-owned-financial-institutions-in-2020/*). At mainstream banks, ask about free, low-cost or "lifeline" checking accounts. Establishing a banking relationship can make access to future loans and credit more likely throughout your financial lifecycle.

• **Build a positive credit history.** Even if you don't need the money, take out a loan or open a credit card or line of credit (*https://www.consumer-action.org/english/articles/credit_scores_in_the_us*). The amount can be small—what's important is that you make consistent on-time payments that are reported to one or more of the three major credit bureaus (Equifax, Experian, TransUnion).

• **Avoid payday, car title, pawn and other high-cost lenders.** Most payday loan borrowers can't dig their way out of the hole created by these predatory products. Consider "7 Alternatives to Costly Payday Loans" (*https://loans.usnews.com/articles/alternatives-to-costly-payday-loans*).

• **Become money smart.** A 2019 study reveals a financial literacy gap among Black adults (*https://www.tiaainstitute.org/publication/2019-tiaa-institute-gflec-personal-finance-index*). Close the gap with resources from the National Endowment for Financial Education (NEFE)(*https://www.smartaboutmoney.org/*), the American Institute of CPAs (*https://www.360financialliteracy.org/*) and the CFPB (*https://www.consumerfinance.gov/consumer-tools/*). Visit the National Foundation for Credit Counseling (NFCC) (*https://www.nfcc.org/*) to find personal money management and debt counseling services. For a good introduction to money management at all stages of life, see Consumer Action's Money Management 1-2-3 (*https://www.consumer-action.org/modules/module_money_management_1-2-3*).

Discriminatory insurers take Black drivers for a ride

By Lauren Hall

Despite the fact that discrimination based on race is technically illegal in every state, automobile insurers continue to charge Black drivers higher prices to insure their vehicles than they do white drivers, according to research (*https://consumerfed.org/press_release/systemic-racism-in-auto-insurance-exists-and-must-be-addressed-by-insurance-commissioners-and-lawmakers/*) by the Consumer Federation of America (CFA). The study found that insurers use proxies—substitute criteria—for race that disproportionately harm Black consumers. The resulting pricing differences are based in part on socioeconomic factors that do not reflect a person's driving history. In almost all states, auto insurance is mandatory: If you're caught driving without insurance, you run the risk of being ticketed and fined, or having your vehicle impounded and your license suspended.

Proxies

Because auto insurance can be so costly, some Americans experience lapses in coverage or purchase less expensive, lower-limit coverage (e.g., $30,000 per accident). Lower-cost coverage and insurance lapses are two of the proxies insurance companies use to hike rates. Other proxies that penalize people with higher premiums include being someone who: rents rather than owns a home; is unmarried; does not have a college degree; has a "blue-collar" job; and has an average credit score. Black consumers are disproportionally represented when these factors are considered, which can result in higher premiums for the same coverage.

A single, Black female renter with a safe driving record likely will be charged more for auto insurance then her white, married home-owning counterpart. This disparity is so great that CFA calculated (*https://consumerfed.org/wp-content/uploads/2015/11/151118_insuranceinpredominantlyafricanamericancommunities_CFA.pdf*) that drivers in predominantly Black urban ZIP codes are subject to premiums a whopping 60% higher than those living in predominantly white urban ZIP codes—regardless of how well they drive! This amounted to a difference of over $500 a year—$1,797 versus $1,126 in 2015.

While insurers claim that these proxies are race neutral, Black drivers are paying the price. CFA discovered that the average insurance premium for a Black driver in an upper-to-middle-income predominantly Black ZIP code was $2,113, compared to $717 for a "similarly situated" driver in a predominantly white middle-to-upper-income ZIP code.

Tackling discriminatory premiums

Some states are waking up to discriminatory pricing in auto insurance. California has taken the biggest steps to stop the practice by prohibiting penalties for lapses in coverage—a safeguard that has become increasingly important during the pandemic, as low-income Americans lose their jobs and find themselves facing difficult choices, like paying to maintain coverage or opting to keep the lights on. Massachusetts, Hawaii and California also prohibit insurers from using a driver's credit history to determine premium pricing. Meanwhile, both Michigan and New York State prohibit factoring a driver's level of education or their job into determining premiums.

One comprehensive bill, the Prohibit Auto Insurance Discrimination Act (HR 3693)(*https://www.govtrack.us/congress/bills/116/hr3693*), would make it illegal nationwide for any insurance company to take into consideration irrelevant non-driver-related factors like employment, homeownership, marital status, credit score, or prior purchase of insurance when determining a customer's eligibility for obtaining auto insurance or calculating rates. Another bill, the Preventing Credit Score Discrimination in Auto Insurance Act (HR 1756) (*https://www.govtrack.us/congress/bills/116/hr1756*), would prohibit the use of consumer credit scores in setting an individual's premiums.

Since, as yet, no federal law exists to rein in auto insurance discrimination, if you suspect you've been a victim of this practice, report it to your state insurance commissioner (*https://content.naic.org/state_web_map.htm*). For help navigating and negotiating auto insurance rates, visit *https://content.naic.org/consumer/auto-insurance.htm*.

Also, check out Consumer Action's "Auto Insurance: The Basics" fact sheet, available in English, Chinese, Korean, Spanish and Vietnamese (*https://www.consumer-action.org/modules/articles/auto_insurance_the_basics*).

Racism and the student loan debt crisis

By Alegra Howard

It's long been believed that higher education is key to upward financial mobility in America. However, much of the financial benefit from education depends on the school you attend, whether you graduate, and how much debt you take on to finance your degree. For many people of color, systemic racism has limited their educational and financial opportunities.

A history of educational discrimination

Discrimination has permeated higher education in this country. The GI Bill helped white veterans obtain college degrees and enter the white-collar workforce after World War II. However, this educational benefit went largely unfulfilled for Black soldiers (*https://www.history.com/news/gi-bill-black-wwii-veterans-benefits*). Many Black veterans couldn't afford to attend school because they needed to work or they lacked the required foundation to attend college due to poor or limited public school education. Many were urged by the government to enroll in vocational training programs (instead of universities), solidifying a future in blue-collar, lower-paying jobs. The pervasive racism involved in distributing GI Bill benefits squandered the opportunity for upward mobility for a generation of Black veterans.

Generational wealth gap and student loan debt

The need to finance higher education is partially due to the generational wealth gap for Black families. According to the National Center for Education Statistics (NCES)(*https://nces.ed.gov/programs/raceindicators/indicator_REC.asp*), 72% of Black students received a Pell Grant—a need-based federal program—to help fund their education in 2015-2016. However, Pell Grants (*https://www.cbpp.org/research/federal-budget/pell-grants-a-key-tool-for-expanding-college-access-and-economic-opportunity*) cover just 28% of the average public college tuition (compared to 80% in 1975). The result: Almost 90% of Black students take out federal loans to pay for four-year college, compared to nearly 60% of white students (*https://studentloanhero.com/featured/study-student-loans-weigh-heaviest-black-hispanic/*). On average, a Black student graduates with $7,400 more in student loan debt than a white peer (*https://www.brookings.edu/research/black-white-disparity-in-student-loan-debt-more-than-triples-after-graduation/*).

Black and Latino students also are less likely than their white classmates to graduate from college. Almost two-thirds (64%) of white students obtain a bachelor's degree within six years, while 54% of Latino students and 40% of Black students graduate within that time (*https://nces.ed.gov/fastfacts/display.asp?id=40*). Nevertheless, borrowers are required to pay back student loans regardless of whether they obtain a degree. Jobs available to non-degree holders typically pay much less, making the burden of student loan repayment even more difficult.

Black students are nearly five times as likely to default on their student loans than their white classmates. A Brookings Institution study (*https://www.brookings.edu/research/the-looming-student-loan-default-crisis-is-worse-than-we-thought/*) credits this disparity to for-profit college enrollment and lower earnings for Black students upon graduation.

The for-profit college dilemma

For-profit college enrollment boomed after the Great Recession, and most of the new students were people of color (*https://www.aspeninstitute.org/blog-posts/worse-off-than-when-they-enrolled-the-consequence-of-for-profit-colleges-for-people-of-color/*). Degrees earned at for-profit technical schools tend to be of poor quality, cost 30-40% more than a nonprofit public school and have graduation rates of only about 25% (*https://nces.ed.gov/fastfacts/display.asp?id=40*).

The high proportion of students of color at for-profit colleges is no accident. These schools, which often falsely promise lucrative careers after certification or graduation, heavily target mostly female, Black and Latino students who have the biggest financial need and qualify for the maximum amount of federal student aid. For-profit colleges receive 80-90% of their revenue from federal financial aid (*https://www.brookings.edu/blog/brown-center-chalkboard/2017/01/11/how-much-do-for-profit-colleges-rely-on-federal-funds/*).

Many for-profit schools' recruitment practices are aggressive and misleading (*https://prospect.org/labor/betrayers-dream/*) and include lying to students about job placement rates, future salary, ease of credit transfers and the school's accreditation.

Shaun Joyce, a Black student who attended the unscrupulous Art Institute, was recruited at age 17 and promised a job in the video game industry upon graduation, according to a CNBC report (*https://www.cnbc.com/2018/06/22/thousands-of-students-who-say-they-were-defrauded-by-the-art-institute-awaiting-an-answer-from-the-government--.html*). Joyce was encouraged by administrators to borrow more than $60,000 in student loans to pay for school. Joyce says his school failed to prepare him for a job in video game design, and today he works in an unrelated field making $30,000 a year. His student loan debt totals more than $100,000 and he has fallen behind on payments, impacting his credit score and ability to rent a place to live. Sadly, Joyce's story echoes (*https://www.responsiblelending.org/research-publication/debt-and-disillusionment-stories-former-profit-college-students-shared-florida*) that of thousands of students who have attended for-profit schools—many of which, like dozens of Art Institute affiliates, have closed following exposure of their practices.

What is the government doing?

Federal oversight of financial assistance in higher education falls under the Higher Education Act of 1965 (HEA), which needs an update to simplify student aid applications, called FAFSA (*www.understandingfafsa.org*); increase the size of Pell Grants for low-income students; and improve federal oversight of for-profit colleges. While Congress has considered revisions to the HEA, the coronavirus pandemic has stalled any plans for the near future.

States are starting to take up the challenge of protecting student loan borrowers with student loan borrower "bills of rights." The legislation is aimed at protecting borrowers from predatory student loan servicing policies that mislead borrowers to increase profits (*https://www.cnbc.com/2019/09/11/loan-servicers-preying-upon-students-lawmakers-look-to-change-that.html*). This type of regulation has passed in California, Connecticut, Illinois and the District of Columbia.

Students seeking to stay out of crippling student loan debt should consider attending a local community college for a fraction of the cost of other schools (*https://www.consumer-action.org/modules/articles/job_training_schools#community*). Many students work part-time while in school, or at a paid internship or apprenticeship. Try to avoid private student loans: They offer neither borrower protections nor the array of repayment plans that federal loans do. For full-time students, look for schools that offer banded tuition (*https://www.usnews.com/education/best-colleges/articles/2019-02-19/2-tuition-options-international-students-should-know-about*), which allows students to pay a flat rate rather than per credit, and possibly graduate in less time for less money.

To tackle student loan debt, check out Consumer Action's Student Loan Resource Guide (*https://www.consumer-action.org/english/articles/student_loan_and_education_resource_list*). You might qualify for an income-driven repayment plan or even student loan forgiveness (*https://studentloanhero.com/featured/the-complete-list-of-student-loan-forgiveness-programs/*). If you were scammed by a for-profit college, you can file a Borrower Defense to Repayment claim (*https://www.nerdwallet.com/article/loans/student-loans/borrower-defense-repayment*) to request cancellation of your federal student loan debt.

The awful enduring legacy of slavery and centuries of segregation policies in America have led to a wealth gap that is seemingly insurmountable, even when higher education is pursued. Until we address the racist structures built into our education systems, the benefits of higher education for Black families may not match that of white families.

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