Unpacking the Black Wealth Gap

CFPB FinEx Webinar| February 22, 2022

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Webinar archive

Date	Description	Action
August 18, 2021	**Helping clients who are experiencing housing insecurity**	Watch Read transcript Download slides (CFPB & Treasury | HUD)
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consumerfinance.gov/consumer-tools/educator-tools/adult-financial-education/cfpb_finex

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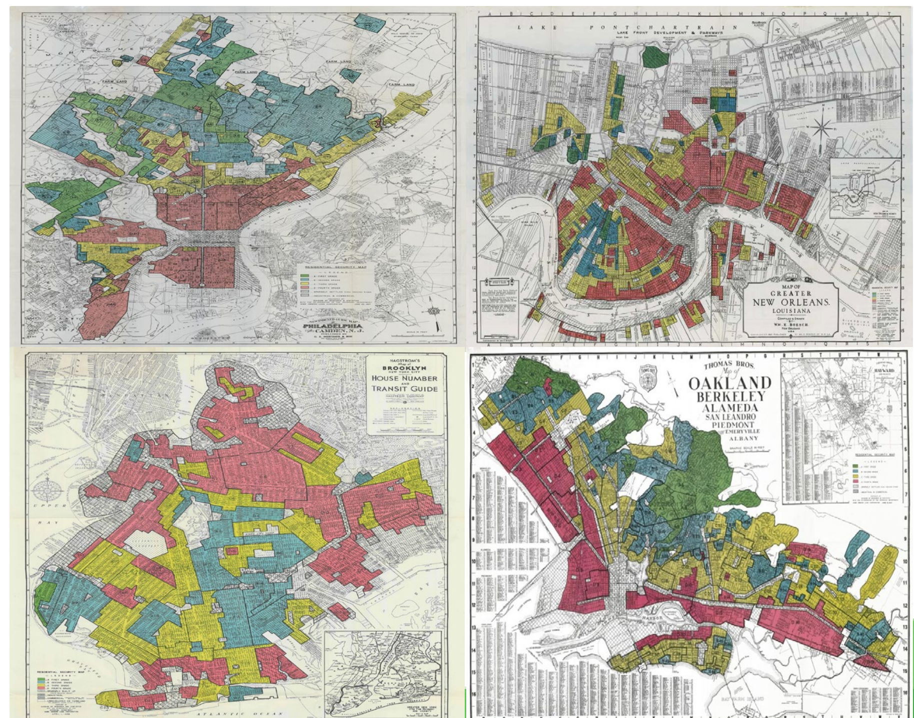
Unpacking the Black Wealth Gap: Historical Origins of Redlining and the Devaluation of Black Communities



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Wealth in the United States

- Wealth is the total extent of an individual's accumulated assets less any debt.
- Wealth has an enormous impact upon a variety of life opportunities, including:
  - Education,
  - Housing,
  - Employment,
  - Social capital, and
  - Intergenerational transfers.
- Wealth is the single best indicator of racial inequality.

Racial Wealth Inequality

- The Federal Reserve released updated racial wealth data from 2019 Survey of Consumer Finance[1]:
  - African-American households had a median net worth of $24,100 and a mean net worth of $142,500.
  - White households had a median net worth of $188,200 and a mean net worth of $983,400.

[1]https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm

Racial Homeownership and Wealth

- In the United States, the single most important means of accumulating wealth for most families is homeownership.
- As of Q4 2021, the homeownership rate gap between African Americans and whites stood at 31.3 percent.
- The racial homeownership gap has consistently exceeded 25 percent throughout the 20th century.

Impact of Racial Homeownership Gap on Wealth Accumulation

A study of Survey of Income and Program Participation (SIPP) data collected in 2011 concluded that eliminating disparities in homeownership rates and returns would substantially reduce the racial wealth gap.

- **If racial disparities in homeownership rates were eliminated**, so that African Americans were as likely as white households to own their homes, median African American wealth would grow $32,113 and the wealth gap between African American and white households would shrink **31** percent.
- **If the return on homeownership was equalized,** so that Blacks saw the same financial gains, i.e. home equity, as whites as a result of being homeowners, median Black wealth would grow $17,113 and the wealth gap between Black and white households would shrink **16** percent.

A Key Component

- One explanation for the racial wealth gap is the racial homeownership gap.
- Since few people have the financial resources to purchase a home without resorting to financing, a key component to achieving homeownership is access to fair and equitable credit.
- However, African Americans have historically faced widespread discrimination in the credit markets.
- One of the main areas of discrimination is redlining - defined as mortgage credit discrimination based on the racial and ethnic characteristics of the neighborhood surrounding the would-be borrower's dwelling.

A Historical Methodology to Analyzing Redlining and the African American Community

- In understanding racial wealth inequality, it is important to understand the historical context of redlining, including:
  - External factors
    - Discrimination
    - Segregation
  - Structural factors
    - Federal, state, and local government action
  - Internal factors
    - Civil rights activism
    - Economic development

The Nexus Between Race and Property Value

- Since the founding of the United States, a negative correlation between race and property value has existed as core pillar of racial discrimination.
  - In 1793, a white minister protested an attempt to locate a "Negro hut" in Salem, Massachusetts noting that it would depreciate property, drive out decent residents, and injure the welfare of the neighborhood.
  - In 1850, a white resident in Indiana complained that establishing a "Negro tract of real estate" would reduce the value of white-owned lots by at least 50%.
  - In 1899, W.E.B DuBois, a civil rights leader, explained that "public opinion in the city [Philadelphia] is such that the presence of even a respectable colored family in a block will affect its value for renting or sale."

The Great Migration

Intent on escaping the violence and discrimination of the South, between 1910 and 1970, millions of African Americans left the rural South for the urban cities of the North, Midwest, and West seeking economic and educational opportunities.

- The Great Migration 1910-1940
  - 1.6 million arrived primarily in the cities of the Northeast.
  - For example, in thirty years, the number of African Americans in the New York City area increased from around 140,000 to over 650,000.
- The Second Great Migration 1940-1970
  - 1940-1970 – 3.5 million arrived in the cities of the Northeast, Midwest and West.
  - For example, in thirty years, the African American populations of Los Angeles (76,200 to 765,800) and San Francisco area (21,600 to 331,700) grew ten times.
- It was the largest internal movement of any group in American history.

African-American Migration Patterns

AFRICAN AMERICAN MIGRATION NORTHWARD, 1910–1920

Mortgage Finance System

- Among the pieces of "cultural baggage" African American migrants brought North was the desire for homeownership.
- In the early 20th century, mortgages typically required a large down payment, usually one-half of the purchase price, with the remainder financed with a "straight" mortgage:
  - 2-6% interest rate with fees ranging from 3-6% of the loan.
  - 5-year term with interest-only and balloon payments.
- Borrowers often took out second mortgages to cover the large down payment amount:
  - 4-12% the interest rate with fees as high as 20% of the loan
  - 1–3 year term with additional fees upon renewal.
- Borrowers even used small third mortgages to cover mortgage fees and the first payment.

African Americans and Mortgages

While the home financing system was a challenge to all consumers, African Americans faced additional barriers.

- Banks simply refused to lend African Americans.
- Even if a bank did make a mortgage loan to African Americans, the terms and conditions were onerous compared to whites.
- Typically, African-American borrowers were charged interest rates and fees at least double those offered to whites.

"[I]f a colored man owned City Hall he would be unable to get a first mortgage on it at this bank. They absolutely refuse to lend money, in any manner to Negroes"

-Raymond Pace Alexander, African-American lawyer, Philadelphia, PA

Federal Government and Homeownership

- Prior to the 1930's, the United States had traditionally considered the selection, construction, and purchase of a residence an inherently individual decision. As a result, the federal government favored a "hands-off policy" regarding housing.
- On October 29, 1929, the stock market collapsed triggering the Great Depression.
- Between 1929 and 1933, over 5,000 banks closed, $7 billion in depositor funds vanished, and housing construction fell by 95%.
- By 1933, one-half of all mortgages were in default with over 1,000 foreclosures per day.
- In response to the crisis, the federal government revolutionized housing finance to rescue the market and to make homeownership more accessible to Americans.
- Unfortunately, the system the federal government introduced to support homeownership placed discriminatory barriers in the path of African Americans.

Home Owners’ Loan Corporation

- In 1933, the Home Owners’ Loan Corporation (HOLC) was established to assist families in danger of foreclosure by refinancing existing delinquent mortgages.
- Between 1933 and 1935, the HOLC supplied over three billion dollars for over one million mortgages.
  - 40% of all qualified mortgagees sought assistance.
  - 15-year term, fully amortized at an interest rate of 5%.
- Since the HOLC was dealing with mortgages in default and potential foreclosure, it introduced standardized appraisals of properties and communities in order to access possible risk.
- While the appraisal was standard in the real estate industry, historian Kenneth Jackson noted that he HOLC created a "formal and uniform system of appraisal, reduced to writing, structured in defined procedures, and implemented by individuals only after intensive training."

Structural Roots of Redlining

- The development of standardized appraisal practices was heavily influenced by urban and neighborhood development theory established by a small group of academics and real estate professionals.
- Frederick Babcock, a Chicago real estate appraiser, posited an ecological theory of gradual but inevitable neighborhood decline accompanied by successive waves of residents, resulting in occupation by "the poorest, most incompetent, and least desirable groups in the city."
- In his influential manual *The Valuation of Real Estate* (1931), Babcock, explained: "Among the traits and characteristics of people which influence land values, racial heritage and tendencies seem to be of paramount importance."
- Babcock argued that "[m]ost of the variations and differences between people are slight and value declines are, as a result, gradual. But there is one difference in people, namely race, which can result in a very rapid decline. Usually, such declines can be partially avoided by segregation and this device has always been in common usage in the South where white and negro populations have been separated"

Structural Roots of Redlining

- In *One Hundred Years of Land Values in Chicago* (1933) and *The Structure and Growth of Residential Neighborhoods in American Cities* (1939), Homer Hoyt, a real estate appraiser and economist, further elaborated on Babcock's work.
- Hoyt developed the "filtering" or "trickle-down" model which suggested that as properties and neighborhoods got older, they filtered down to poorer and less capable persons until they were transformed into slums.
- Hoyt explained: "Part of the attitude reflected in lower land values is due entirely to racial prejudice, which may have no reasonable basis. Nevertheless, if the entrance of a colored family into a white neighborhood causes a general exodus of the white people, such dislikes are reflected in property values…"

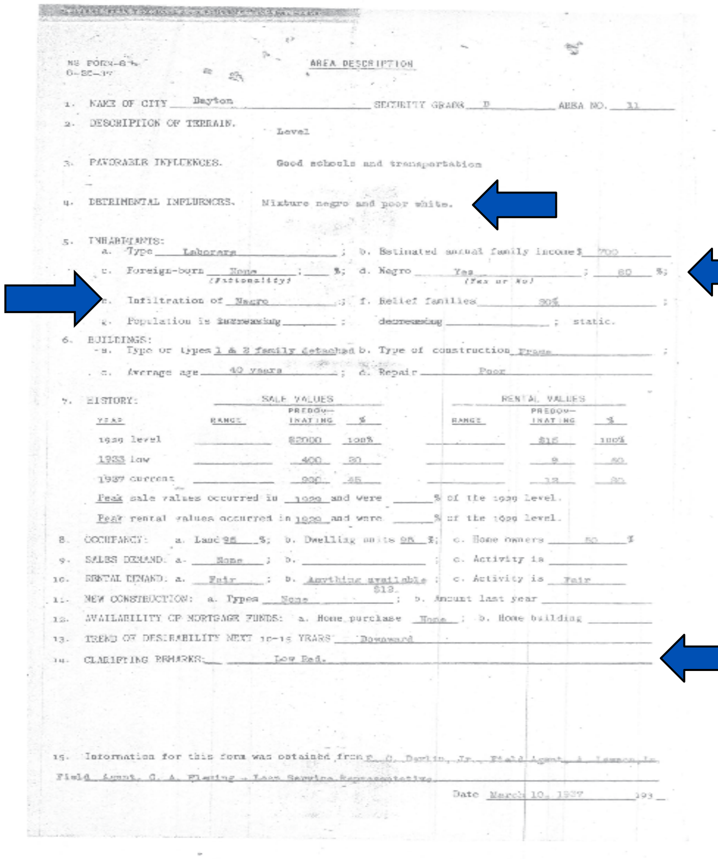
Structural Roots of Redlining

- Hoyt's work included the following ranking of racial and ethnic groups in order of most desirable to those with the most adverse impact on property values:
  - (1) English, Germans, Scotch, Irish, Scandinavians
  - (2) North Italians
  - (3) Bohemians or Czechs
  - (4) Poles
  - (5) Lithuanians
  - (6) Greeks
  - (7) Russians, Jews (lower class)
  - (8) South Italians
  - (9) Negroes
  - (10) Mexicans.
- He explained that "[w]hile the ranking…may be scientifically wrong from the standpoint of inherent racial characteristics, it registers an opinion or prejudice that is reflected in land values."

HOLC City Survey Program

- The HOLC commenced a City Survey Program to appraise the level of real estate risk in 239 cities in the United States.
- HOLC distributed questionnaire forms to local real estate professionals and mortgage lenders to measure risk.
- In the process of rating neighborhoods, the risk assessments incorporated existing "notions of ethnic and racial worth."
- No socioeconomic characteristic was deemed more important by the HOLC, for appraisal purposes, than race.
  - For example, the HOLC monitored the movement of African Americans and charted the density of African American neighborhoods.

HOLC City Survey Form – Dayton, Ohio



NS FORM-8
6-20-37

AREA DESCRIPTION

1. NAME OF CITY Dayton SECURITY GRADE D AREA NO. 31
2. DESCRIPTION OF TERRAIN. Level
3. FAVORABLE INFLUENCES. Good schools and transportation
4. DETRIMENTAL INFLUENCES. Mixture negro and poor white.
5. INHABITANTS:
   a. Type Laborers ; b. Estimated annual family income $ 700
   c. Foreign-born None (Nationality) ; %; d. Negro Yes (Yes or No) ; 80 %;
   e. Infiltration of Negro ; f. Relief families 90% ;
   g. Population is ~~increasing~~ ; ~~decreasing~~ ; static.
6. BUILDINGS:
   a. Type or types 1 & 2 family detached b. Type of construction Frame ;
   c. Average age 40 years ; d. Repair Poor
7. HISTORY:

YEAR	SALE VALUES RANGE	SALE VALUES PREDOMINATING	SALE VALUES %	RENTAL VALUES RANGE	RENTAL VALUES PREDOMINATING	RENTAL VALUES %
1929 level		$2000	100%		$15	100%
1933 low		400	20		9	60
1937 current		900	45		12	80

Peak sale values occurred in 1929 and were % of the 1929 level.
Peak rental values occurred in 1929 and were % of the 1929 level.

8. OCCUPANCY: a. Land 98 %; b. Dwelling units 98 %; c. Home owners 50 %
9. SALES DEMAND: a. None ; b. ; c. Activity is
10. RENTAL DEMAND: a. Fair ; b. Anything available $12. ; c. Activity is Fair
11. NEW CONSTRUCTION: a. Types None ; b. Amount last year
12. AVAILABILITY OF MORTGAGE FUNDS: a. Home purchase None ; b. Home building
13. TREND OF DESIRABILITY NEXT 10-15 YEARS Downward
14. CLARIFYING REMARKS: Low Red.
15. Information for this form was obtained from E. C. Darlin, Jr., Field Agent, A. Lemmon, Jr., Field Agent, G. A. Fleming - Loan Service Representative.

Date March 10, 1937 193

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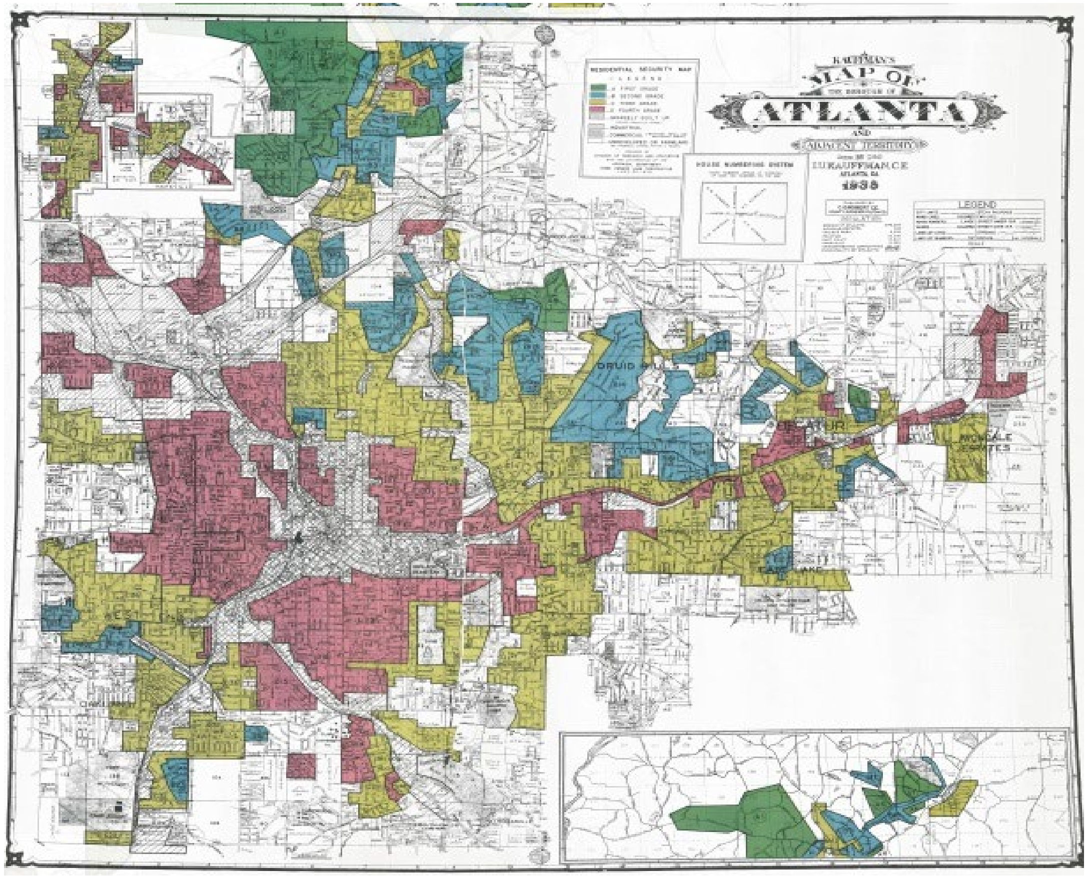
HOLC Risk Assessment

- Based upon the Survey Program, the HOLC developed four color-coded categories of risk.
  - A – Coded Green representing the "best" areas that were "new homogenous, and in demand as residential locations in good times and bad."
  - B – Coded Blue representing areas that had reached their peak but were "still desirable."
  - C – Coded Yellow representing areas that were "definitely declining."
  - D – Coded Red representing "hazardous" areas in "which the things taking place in C areas have already happened…characterized by detrimental influences of a pronounced degree, undesirable populations or an infiltration of it."

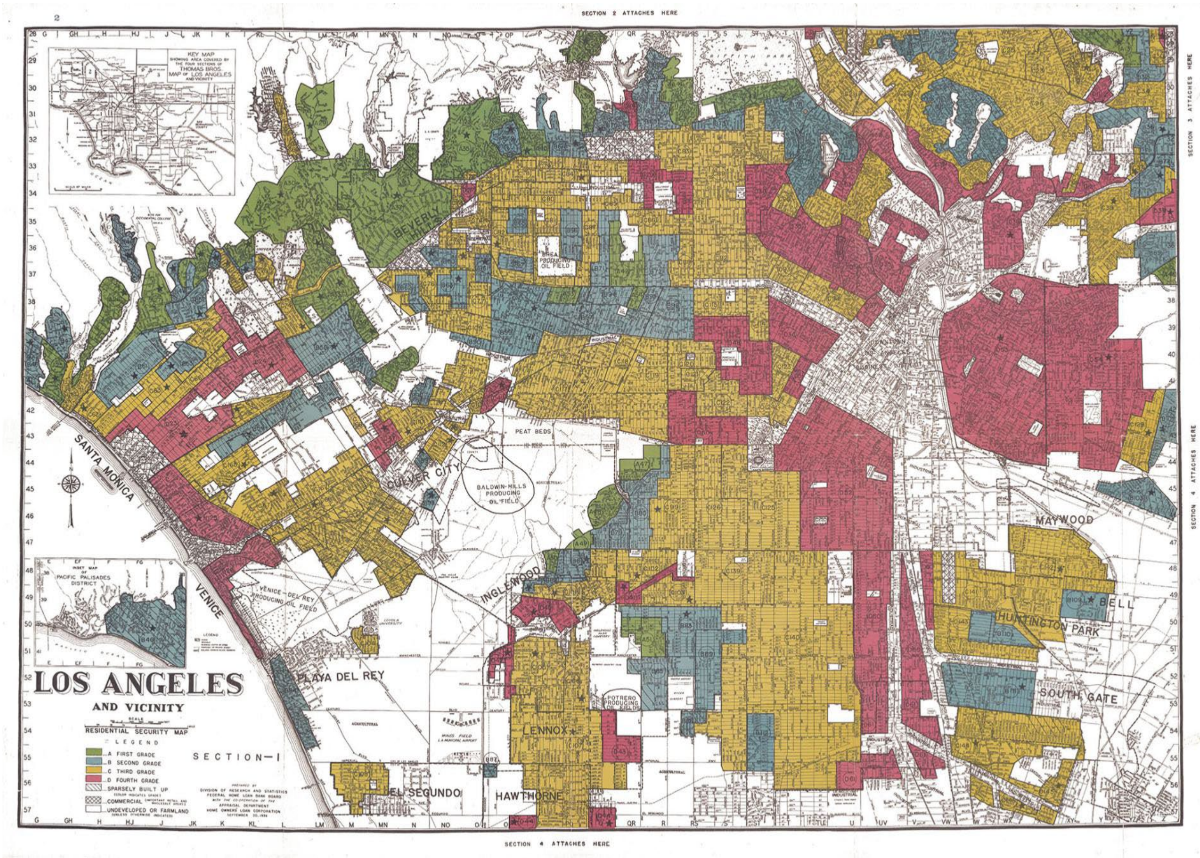
HOLC and Redlining

- African-American neighborhoods were almost always rated fourth by the HOLC and "redlined."
- For example, in Detroit, every neighborhood with any degree of African American population was rated "D" or "hazardous" by federal appraisers.
- Following completion of the rating system, HOLC prepared color-coded residential security maps that detailed the various real estate risk grades.

HOLC City Survey Map – Atlanta



HOLC City Survey Map – Los Angeles



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Impact of the HOLC

- While the HOLC had a mixed record of mortgage lending in neighborhoods coded C-yellow and D-red, African Americans were still subject to discriminatory practices.
  - D-rated areas were charged higher interest rates.
  - Reinforced segregation by refusing to sell and make loans to African Americans for properties in white areas.
  - Under-appraised the value of African American areas.
- The major damage the HOLC caused was adopting, elaborating, and implicitly placing the federal government's seal of approval upon notions of real estate value and race.
- The rating system developed by HOLC was adopted by private financial institutions, thereby institutionalizing the practice of racial redlining.

Federal Housing Administration

- The FHA was established in 1937 to facilitate sound home financing on reasonable terms and conditions.
- While the FHA did not directly lend money to borrowers, it provided financial incentives to private lenders by insuring up to 90% percent on any loss incurred with an FHA-approved mortgage.
- With risk greatly reduced to the lender, the FHA's success was remarkable as housing starts exploded from 332,000 in 1936 to 619,000 in 1941.
- By the end of 1972, the FHA had assisted 11 million families in achieving homeownership.
- This remarkable success came at a price, as it largely provided FHA-financing in whites areas in the suburbs to the detriment of African Americans residing in urban areas.

The FHA and Redlining

- Following its establishment, both Homer Hoyt and Fredrick Babcock join the FHA and work to develop its appraisal and underwriting practices.
- The FHA required an "unbiased professional estimate" as a prerequisite to any loan guarantee in order to ensure that the value of the property would exceed the outstanding mortgage debt.
- Acting on the HOLC's rating system, the FHA developed even more elaborate advice on race and real estate value for its appraisers in its Underwriting Manual.

The FHA's Underwriting Manual

Part II
233–235

UNDERWRITING MANUAL

social groups are present, to the end that an intelligent prediction may be made regarding the possibility or probability of the location being invaded by such groups. If a neighborhood is to retain stability it is necessary that properties shall continue to be occupied by the same social and racial classes. A change in social or racial occupancy generally leads to instability and a reduction in values. The pro-

- The Manual warned of the dangers of "infiltration of inharmonious racial groups and nationality groups."
- To prevent such "infiltration", the Manual recommended "subdivisions regulations and suitable restrictive covenants as an excellent method to maintain neighborhood stability."
- In short, the entire FHA appraisal process was based upon the premise that racial segregation was necessary to ensure property values.

The FHA and Private Financial Institutions

- One of the most significant aspects of the FHA was that it actions were adopted by private financial institutions that institutionalized the discriminatory appraisal process and the practice of redlining.
  - As late as 1951, the *McMichael's Appraising Manual*, the "bible" of appraising, included the Hoyt's ranking of racial and ethnic groups in order of most desirable to those with the most adverse impact on property values.
- In Chicago, a survey of 241 savings and loan institutions found that 19 were willing to make loans to African Americans purchasing homes in African-American areas and 1 was willing to grant a mortgage to African Americans moving to a white neighborhood.

"Today, however, a very decided bias exists on the part of mortgage lending agencies…Upon learning the racial identity of the applicant or on finding that the property is occupied by colored people the loan is often immediately rejected without further investigation."

-I. Maximillian Martin, African-American real estate expert

Detroit and The Impact of the FHA

- In Detroit, a developer proposed an all-white subdivision next to a black neighborhood in the Eight Mile-Wyoming area of the city which a HOLC appraiser had rated as "D" or "hazardous".
- The FHA denied the developer financing due to its close proximity to the "hazardous" black neighborhood.
- As a compromise, the FHA agreed to provide mortgage loan guarantees for the proposed development provided the developer build a foot-thick, six-foot-high wall for a half mile to separate the black and white neighborhoods.

The Impact of the FHA

- On May 26,1936 Ms. Effie M. Dixon and her husband Mr. Edgar Dixon purchased an empty lot in Cleveland Heights, Ohio.
- As the couple strategized to secure the mortgage funding to build a home, they received a letter from the Second Federal Savings and Loan Company containing information on local banks and FHA financing in an attempt to gain the Dixons' business.
- After receiving the letter, the Dixons visited the bank. During their meeting with the bank's mortgage specialist, he openly admitted, "There is no need in me kidding you, Mr. Dixon, and taking your money for appraisal fees"; the bank's loan committee would reject his mortgage loan application.
- The mortgage agent later revealed, "Confidentially, it is the policy of the bank not to loan money to Negroes under any circumstances."

True or False?

- In 1948, an FHA official published a report asserting that "the infiltration of Negro owner occupants has tended to appreciate property values and neighborhood stability."
- A 1952 article reviewing real estate sales in San Francisco published in the *Appraisal Journal* concluded that its analysis did "not show that any deterioration in the market prices occurred following changes in racial patterns."
- In 1960, Luigi Laurenti's *Property Values and Race* represents the most comprehensive analysis of the impact of race upon sales prices of property, primarily in Philadelphia, Oakland, and San Francisco.
- Laurenti analysis concluded when non-whites entered a previously all-white neighborhood consisting primarily of single-family residences, and no other changes in neighborhood character occurred, the prices of residential property were 3.5 times more likely to *increase* as opposed to decrease in price and the prices increased in greater amounts compared to the decreases in price.

The Impact of the FHA

- While exact figures are not available, an analysis of the data on a county basis reveals a clear pattern of redlining in center city areas and abundant loan activity in suburban counties.
- For example, between 1946 and 1960 over 350,000 homes were constructed with FHA-insured financing in Northern California of which less than 100 were for African Americans.
- For example, a statistical analysis of mortgage lending in Philadelphia from 1940 to 1960 concluded that FHA policies "virtually guaranteed that few homeowners in these areas [older homes and concentration of African Americans] were the beneficiary of FHA insurance."
- Overall, during the time period from 1930 to 1960, scholars have demonstrated that "fewer than one percent of all mortgages in the nation were issued to African Americans."

Golden Age of Black Banking

- Throughout urban areas in the North, the development of Black-owned businesses was driven in large part by growing demand for such institutions as the African-American population exploded with the arrival of tens of thousands of migrants during the Great Migration.
- Such demand was fueled by the rapid growth of a concentrated African-American consumer market that was largely scorned and ignored by white businesses.
  - For example, African Americans found limited banking service options at the traditional white-owned financial institutions who typically refused to lend or seek the deposit business of African Americans.
- The overall impact of rapidly growing African-American communities, combined with rigid segregation enforced with brutal violence, created a separate racialized economy providing market conditions conducive to the rapid growth of Black-owned business districts supported by an emerging working class, with "race banks" often at the pinnacle of economic pyramid

"Race Banks"

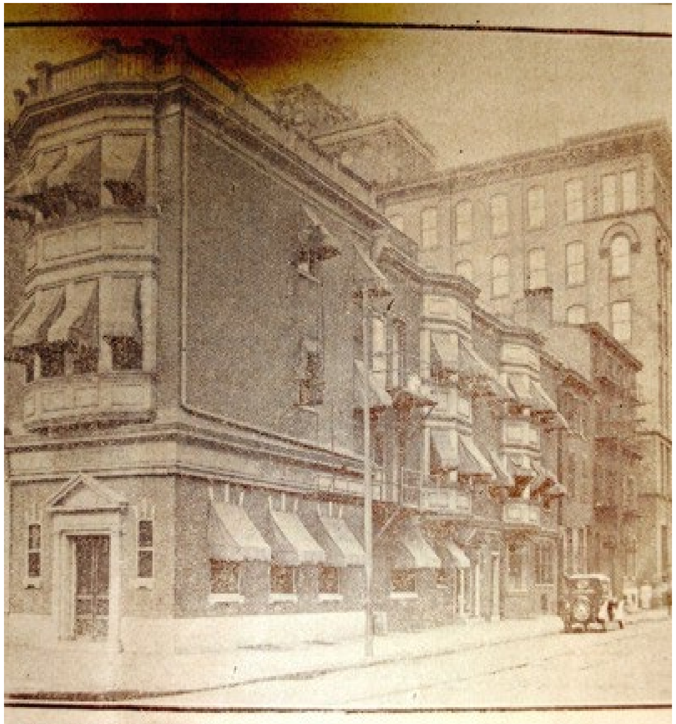
- From 1900 through 1934, 130 African American-owned banks were established throughout the United States.
  - For example, in the1920s, three African-American owned-banks opened in quick succession in Philadelphia, including the Brown and Stevens Bank, founded by Edwin C. Brown and Andrew F. Stevens; Keystone Cooperative Bank, established by John C. Asbury; and the Citizens and Southern Bank and Trust Company under the direction of Richard. R. Wright, Sr
- By 1930, 73 African American-owned building and loan associations were in operation.
  - Indigenous financial institutions provided mortgages with reasonable terms and conditions to African Americans.
    - For example, in Philadelphia from 1910-1929, 19 building and loan associations originated at least 1,216 mortgage loans to African Americans.
- However, African American-owned financial institutions faced capital and liquidity limitations, market constraints, and asset depreciation.

"Race Banks"

- The founders of "race banks" viewed such institutions as essential for the economic development and wealth creation in African-American communities
  - Capital for business development
  - Mortgages for home ownership
- Just as importantly, they also viewed "race banks," not as simple business endeavors, but rather as an essential element of civil rights advocacy
- The leaders of "race banks" protested against racial discrimination and pushed for the passage of civil rights legislation, viewing black-owned banks as a platform to implement economic self-determination while also challenging white oppression

Brown and Stevens Bank

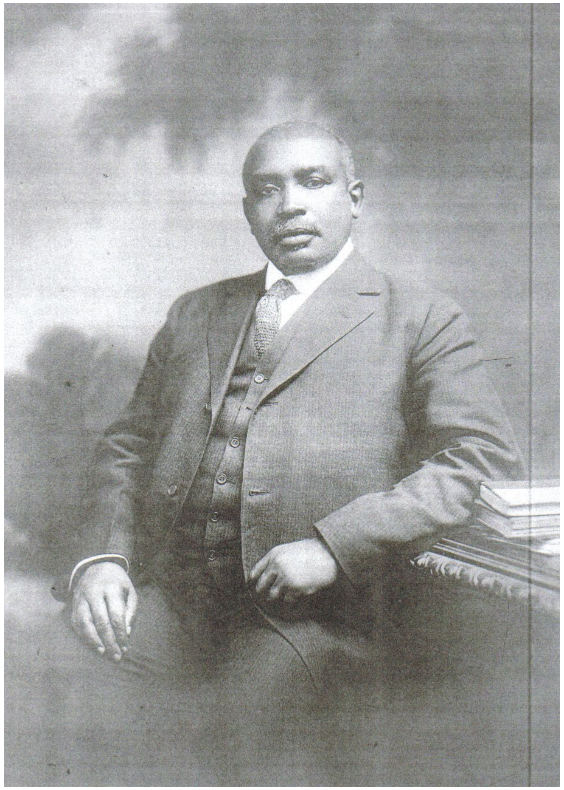
- On January 1, 1916, Andrew Stevens and Edwin Brown opened the Brown and Stevens Bank in Philadelphia.
- The Bank was an immediate success, and, at its peak, it had combined assets of over $1,500,000 with approximately eleven thousand depositors
- The Bank provided financial support to the Black community in numerous ways, including:
  - Employing African Americans;
  - Allowing for wealth accumulation with interest on deposits;
  - Providing credit to borrowers to finance a business or a home;
  - To invest in the African-American community through salaries, dividends, interest and investments.
- Unfortunately, following a run on the Bank, it collapsed in 1926 due to speculative investments and a lack of liquidity.



BROWN & STEVENS BANK, 427 South Broad Street.

Keystone Cooperative Bank Association

- Inspired by the success of the Brown and Stevens Bank, in 1921, John Asbury established the Keystone Cooperative Banking Association.
- The Bank was an affiliate of the Keystone Aide Society, the largest Black-owned insurance company in Philadelphia.
- By 1926, the Bank had grown to 2,000 customers who deposited over $100,000 in mostly small accounts.
- After the collapse of the Brown and Stevens Bank, Asbury realized his Bank also faced dangerously low amount of liquid assets.
- Asbury, in a bid to avoid a potential collapse, contacted Richard R. Wright, Sr., the president of the another African American-owned and operated bank in Philadelphia, Citizens and Southern Bank and Trust Company
- On January 4, 1927, Asbury announced that Keystone and Citizens had merged into a single institution. It represented the first time that two "[r]ace banks" had successfully consolidated their resources and it was hailed as "evidence of a desire to cooperate for the future prosperity of the race."



Stevens and Asbury and Fight for Civil Rights

- From the solid foundation of a “race bank” supported by the community, Stevens and Asbury engaged in traditional civil rights efforts through the political process as members of the Pennsylvania House of Representatives.
- Following a brutal lynching outside of Philadelphia, in 1923, Stevens successfully fought for the passage of an anti-lynching law.
- The rising tide of migration from the South to Philadelphia exacerbated racial prejudice and tensions resulting in de facto segregation with African Americans being banned or segregated in many public accommodations, including schools, restaurants, hotels, and theaters
- Asbury introduced a carefully prepared bill in the PA House of Representatives, know as the Asbury Equal Rights Bill, designed to guarantee equal civil rights for all the citizens of Pennsylvania regardless of race in places of public accommodations. After successfully passing the House, the bill died in the Senate.

A. F. STEVENS AND J. C. ASBURY BEGIN THEIR LEGISLATIVE

Careers Next Monday. Equal Right Bill and Colored Regiment Expected to Do Good Work.

BASS' CAREER AS LAW MAKER

By "An Old Timer."

Note—Thanks to Him who rules the universe, "An Old Timer," after a protracted illness, is able to resume his place on the staff of The Tribune.

Andrew F. Stevens and John C. Asbury, the two colored statesmen who will represent the race of the entire state in the coming sessions of the legislature, have already secured living quarters in Harrisburg, and early next Monday they will both leave for the State Capitol, and will be sworn in before noon as members of the house of representatives.

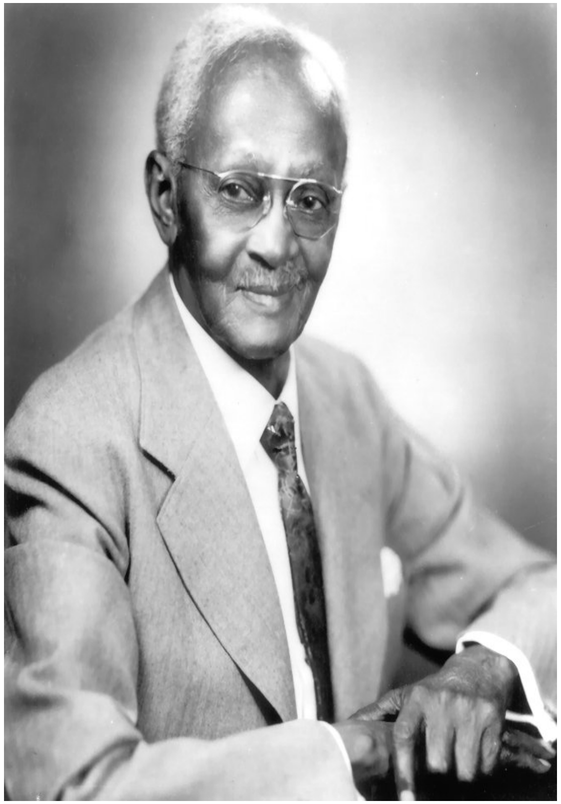
It may seem just a little bit like indulging in factional politics to say that to Charles B. Hall, Senator "Ed" Vare and Billy McCoach belongs the credit of these colored men going to the legislature; but factional politics or not, its the gospel truth, and the action of the Vare faction in the case of these two men will go a long way towards solidifying the colored vote of the city in the interest of those who have proven their real interest in the political advancement and welfare of the race.

The course of both Stevens and Asbury while in the legislature will be watched very closely by their own people. They will be expected, first of all to make herculean efforts to have a strong equal rights bill enacted into the laws of the state and provisions made for the enlistment of colored men in the National Guard of the state.

(Continued on page 2.)

Major Richard R. Wright, Sr. and Citizens Bank

- Richard Wright was born an enslaved person in a log cabin in Dalton, Georgia in 1855.
- He graduated from Atlanta University and became president of the Georgia State Industrial College for Colored Youth, known now as Savanah State University.
- After Wright's daughter was insulted in a local bank while attempting to make a deposit, he demanded an apology from the bank's president.
- The bank president refused to apologize, and Wright vowed to start his own bank.



Major Richard R. Wright, Sr. and Citizens Bank

- At the age of sixty-six, Wright left the South, and on September 15, 1920, he and his family opened the Citizens and Southern Bank in Philadelphia, Pennsylvania.
- To counter discrimination and fraud in the mortgage market, on March 1, 1926, Wright expanded his bank to include a trust company to provide a full-range of financial services to African-American home buyers.
- Wright's goal was to promote savings in order to achieve homeownership and protect African Americans from "real estate sharks."
- By 1930, Citizens had $161,000 in capital, over 6,000 deposit accounts, 1,300 checking accounts and provided 1,000 loans.
- Wright also established and was the first president of the National Negro Bankers' Association.

Conclusion

- One of the primary explanations for the large racial wealth gap is historical and structural discrimination in credit markets, including the practice of redlining.
- Redlining was driven by both external and structural factors that limited access to traditional sources of mortgage credit for African Americans and devalued African American communities.
- Despite such obstacles, African-American communities built "race banks" to provide capital for business development and mortgages for home ownership.
- Just as importantly, "race banks" were not simple business endeavors, but rather an essential cornerstones of civil rights advocacy.

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DOJ's Combatting Redlining Initiative and Recent Enforcement

Varda Hussain
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Housing and Civil Enforcement Section
Civil Rights Division
U.S. Department of Justice

DOJ’s Authority

- The Department of Justice (DOJ) has authority to investigate and file fair lending lawsuits under the Fair Housing Act (FHA) or the Equal Credit Opportunity Act (ECOA).

- DOJ’s fair lending enforcement authority is focused on pattern or practice discrimination cases.

- DOJ has authority to enforce ECOA and the FHA on its own initiative or upon referral from another agency.

What is Redlining?

- Redlining is an illegal practice in which lenders avoid providing services to individuals living in communities of color because of the race or national origin of the people who live in those communities.
- Redlining violates both the FHA and ECOA
- Persistent discrimination issue
- Significant number of DOJ Settlements involving allegations of redlining since 2002

How does DOJ Investigate Redlining?

Our investigations often focus on four categories of evidence to assess the bank's efforts to serve communities of color:

- CRA Assessment Area
- Branch/LPO locations
- Marketing, advertising and outreach
- Statistical analyses

Combatting Redlining Initiative

On October 22, 2021, the Department of Justice announced an unprecedented, coordinated enforcement effort to combat redlining.

"*Lending discrimination runs counter to fundamental promises of our economic system. When a person is denied credit simply because of their race or national origin, their ability to share in our nation's prosperity is all but eliminated*." – Attorney General Merrick Garland.

"*We have a duty to act now. Persisting racial inequality and widening wealth gaps makes clear that simply staying the course is not enough. We must take bold, new action if we are ever going to eradicate redlining and achieve the goal of equal opportunity in our country.*" –Assistant Attorney General for Civil Rights Kristen Clarke.

Combatting Redlining Initiative

Initiative is groundbreaking in critical ways:

- U.S. Attorneys' Offices will act as force multipliers and partnership will enable investigations on a broader geographic scale.
- Department will expand its analyses of potential redlining to both depository and non-depository institutions.
- Enforcement will draw upon strong partnerships with regulatory agencies.
- Initiative will be informed by outreach to consumer advocates, industry stakeholders, state Attorneys General, and other agencies.

Recent Redlining Enforcement Resolutions

United States & CFPB v. Trustmark National Bank (W.D. Tenn.)
- Complaint filed on October 22, 2021
- Consent Order entered on October 27, 2021

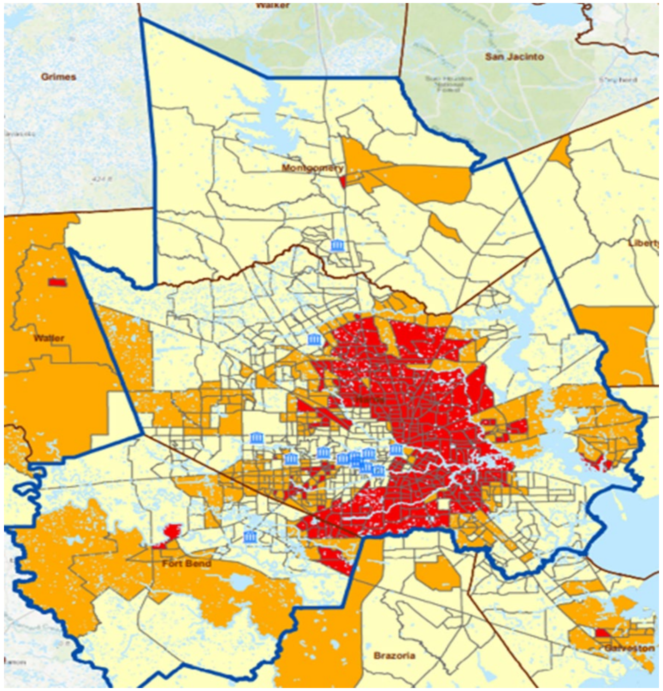
United States v. Cadence Bank, N.A. (N.D. Ga.)
- Complaint filed on August 31, 2021
- Consent Order entered on August 31, 2021

Key Facts – Branch/Loan Officer Locations

- Where are branches located?
- Where are loan officers located?
- Map→

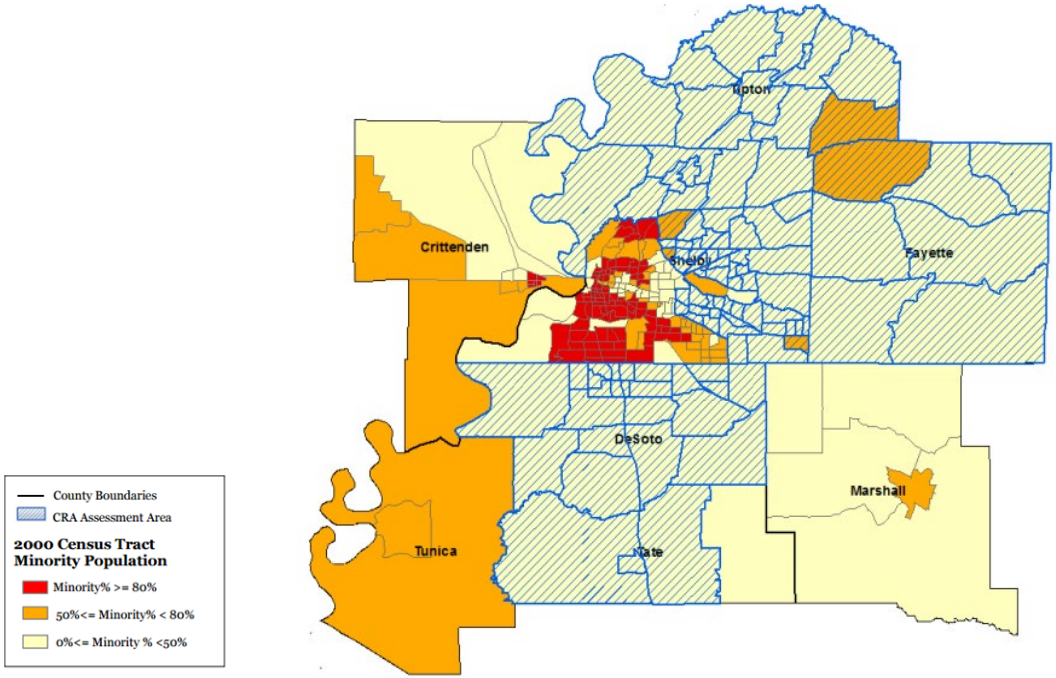
  1 of 13 branches located in a majority-Black and Hispanic neighborhood; 12 of 13 branches were located in majority-white neighborhoods.

  Bank assigned most branches in majority-white areas one or more loan officer. No loan officer was assigned to the sole branch in a majority-Black and Hispanic neighborhood.



Key Facts – CRA Assessment Areas

- Does the lender's CRA assessment area exclude communities of color?
- Bank's CRA assessment area carved out urban areas, excluding 97% of communities of color in Memphis.



Key Facts – Marketing and outreach

- Bank's marketing strategy focused on commercial business, with most of its print advertising appearing in business-focused publications.
  – This includes Chamber of Commerce publications distributed primarily in majority-white areas

- Bank relied on mortgage loan officers – all of whom were assigned offices in branches in majority-white neighborhoods – to distribute marketing materials related to the Bank's mortgage lending.
  – Bank did not monitor where or to whom its loan officers distributed these marketing materials.

DOJ Redlining Settlements

Redlining settlements typically include:

- Loan subsidy funds to generate additional lending in previously redlined areas
- New physical locations in previously- redlined areas
- Outreach & consumer education
- Training and changes to bank procedures

DOJ Redlining Settlements

United States & CFPB v. Trustmark National Bank (W.D. Tenn.)

- $3.85 million in a loan subsidy fund targeted at majority-Black and Hispanic neighborhoods
- $400,000 toward community partnerships to increase access to residential mortgage credit
- $1 million toward advertising, community outreach, and credit repair and consumer financial education
- One loan production office in a majority-Black and Hispanic area

United States v. Cadence Bank, N.A. (N.D. Ga.)

- $4.17 million in a loan subsidy fund targeted at majority-Black and Hispanic neighborhoods
- $750,000 toward community partnerships to increase access to residential mortgage credit
- $625,000 toward advertising, community outreach, and credit repair and consumer financial education
- One branch in a majority-Black and Hispanic area

How Can You Learn More?

www.usdoj.gov/fairhousing

For speeches, complaints, settlements, press releases, and ECOA reports to Congress visit:

http://www.justice.gov/crt/housing-and-civil-enforcement-section

Key links for you

- Protecting Your Finances During the Coronavirus Pandemic:
  consumerfinance.gov/coronavirus
- To order free, bulk copies of CFPB publications:
  http://promotions.usa.gov/cfpbpubs.html
- To sign up for the CFPB Financial Education Exchange:
  CFPB_FinEx@cfpb.gov
- To sign up for the CFPB Financial Education Discussion Group:
  linkedin.com/groups/5056623
- CFPB Resources for Financial Educators webpage:
  consumerfinance.gov/adult-financial-education