Congressional Black Caucus FOUNDATION

Minority Access to Capital and Employment

The Great Recession was a severe U.S. economic downturn following the housing bubble burst in 2007 and had a significant impact on nearly all Americans. Nevertheless, African Americans and minorities were among those who experienced the most devastating blows to their financial stability. The Great Recession resulted in the median Black household's income falling by 10.1 percent between 2007 and 2010 compared to 5.4 percent for White households. During the aftermath of the Great Recession, the annual unemployment rate for African Americans peaked at 15.9 percent in 2010 and 2011. Comparatively, the highest annual unemployment rate for Whites since the onset of the Great Recession was 8.0 percent.[1] This is still less than the pre-recession annual unemployment rate of 8.3 percent for Blacks.[2]

The Obama administration responded to the crisis with the American Recovery and Reinvestment Act of 2009 (ARRA), which was expected to save and create jobs by providing job training and infrastructure investment. One year after the stimulus, many independent macroeconomic firms, including Moody's and IHS Global Insight, estimated that the stimulus saved or created 1.6 to 1.8 million jobs and predicted a total impact of 2.5 million jobs saved by the time the stimulus is completed.[3] While the ARRA may have succeeded overall in stimulating the economy and increasing access to capital, it still came up short in many aspects relating to the economic prosperity of African Americans due to the large volume of Blacks that were affected by the Great Recession.[4]

The Great Recession led to tightened credit conditions that have caused consumer forms of credit to become sparser.[5] Research shows a positive correlation between wealth in startups and their sustainability as businesses. According to the Minority Business Development Agency, there are 5.8 million minority-owned businesses in the U.S. with combined gross receipts of $1 trillion. Comparatively, there are 20.1 million non-minority businesses with combined gross receipts of $9.8 trillion.[6]

ACCESS TO LOANS

Although the Small Business Administration (SBA) was expanded by the ARRA, African Americans and other minorities still face a disproportionate obstacles in applying for and receiving loans.[7] In 2009, Time Magazine reported that in many cases, stimulus money was bypassing the low-income communities it was designed to help and more affluent communities benefited instead due to loan discrimination.[8]

1 "African Americans." *The State of Working America*. Economic Policy Institute, n.d. Web. 26 Aug. 2015. http://www.stateofworkingamerica.org/fact-sheets/african-americans/

2 Ibid.

3 Leonhardt, David. "Judging Stimulus by Job Data Reveals Success." *The New York Times*. *The New York Times*, 16 Feb. 2010. Web. 26 Aug. 2015. http://www.nytimes.com/2010/02/17/business/economy/17leonhardt.html?_r=0

4 Holan, Angie Drobnic. "Economic stimulus sends money to minority-owned business." *Tampa Bay Times* [Tampa] 2 Dec. 2009: n. pag. *Tampa Bay Times*. Web. 23 June 2015. http://www.politifact.com/truth-o-meter/promises/obameter/promise/16/increase-minority-access-to-capital/

5 Ibid.

6 "The Great Paper Chase: Minority Access To Employment And Capital." *Diversity Connex*. Risha Grant LLC, n.d. Web. 23 June 2015.

7 Ibid.

8 Padgett, Tim. "Are Minorities Being Fleeced by the Stimulus?" *Time* 23 Nov. 2009: n. pag. Web. 23 June 2015. http://content.time.com/time/nation/article/0,8599,1940338,00.html?xid=rss-topstories

Although the Executive Office has said it is working to make sure stimulus money goes to the most disadvantaged in the business world, little progress has been made since 2009 in diverting that funding to those who need it most.[9] This is partially because policies lack a multi-tiered approach in combating various problems associated with issuing loans, such as discrimination and insufficient outreach.

SBA officials report that the stimulus provided $14.7 billion in small business loans as of late 2009 with 20 percent of the money given to minorities.[10] Despite public outreach to inform minorities of loan opportunities, many African Americans still remain unaware of loan prospects or, worse, are unwilling to apply due to fear of rejection.[11] This fear is, unfortunately, not unfounded, as statistics show that minority-owned firms are more likely to be denied loans than non-minority firms. According to data from the Survey of Small Business Finances, among firms with annual gross receipts under $500,000, minority firms are denied loans about three times as often, at 42 percent, compared to those of non-minority-owned firms, at 16 percent.[12] For firms with annual gross receipts of $500,000 or higher, the rate of loan denial was almost twice as high for minority firms as for non-minority firms.[13] Furthermore, if minority firms are able to procure a loan, they are still met with discrepancies in interest rates with minority firms paying 7.8 percent on average for loans compared to only 6.4 percent for non-minority firms.[14] Borrowing challenges are often exacerbated by firms relying on consumer forms of credit (such as credit cards), which provide smaller loans and higher costs.[15]

Although lower owner net worth, credit rating, firm age, and other factors account for some of the discrepancies in access to loans, research has shown that African-American businesses with similar firm and owner traits and credit histories receive less access to bank credit than their White-owned firm counterparts.[16] These disparities not only exemplify the barriers minorities face in accessing capital, but explain why opportunities for minorities in business ownership have diminished since the Great Recession.

ACCESS TO EMPLOYMENT OPPORTUNITIES

Access to employment has always been an obstruction to the economic prosperity of minority populations in the U.S. and the recession has only exacerbated these barriers. According to 2015 data from the U.S. Bureau of Labor Statistics, the unemployment rate for African Americans was 10.4 percent, while the unemployment rate for Whites was 4.7 percent.[17]

[9] Ibid.

[10] Holan, "Economic stimulus" (see footnote 1).

[11] Ibid.

[12] Fairlie, Robert W., and Alicia M. Robb. *Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs*. N.p.: U.S. Department of Commerce Minority Business Development Agency, 2010. Web. 23 June, 2015. http://www.mbda.gov/sites/default/files/DisparitiesinCapitalAccessReport.pdf

[13] Ibid.

[14] Ibid.

[15] Bates, Timothy, and Alicia Robb. "Minority-Owned Businesses Come Up Short in Access to Capital: It's Time to Change the Equation for MBEs." *Forbes* 20 July 2012: n. pag. Web. 23 June 2015. http://www.forbes.com/sites/kauffman/2012/07/30/ minority-owned-businesses-come-up-short-in-access-to-capital-its-time-to-change-the-equation-for-mbes/

[16] Bates and Robb. "Minority-Owned Businesses" (see footnote 9).

[17] Morrison, Aaron. "Black Unemployment Rate 2015: In Better Economy, African-Americans See Minimal Gains." *International Business Times* 8 Mar. 2015: n. pag. Print.

When the Obama administration introduced the ARRA in 2009, many hoped that some of the money would aid in funding transportation expansion plans to link minority communities to employment centers via public transportation.[18] Unfortunately, very little of this money was made available for these types of projects and many African-American communities still remain isolated from downtown areas with job opportunities.[19]

As significant as employment barriers are, it is equally important to understand why these hindrances may exist. A March 2015 article in the International Business Times stated that although the unemployment rate for Blacks has fallen more quickly than for non-Blacks since the Great Recession, this is only a victory on the surface because the unemployment rate for Blacks rose much higher, faster, and earlier than for other groups throughout the recession.[20] Government data indicates that recent job creation since the recession has been less beneficial to African Americans than to other groups because jobs available to Blacks are skewed toward lower-wage industries with a high turnover rate.[21] Unequal access to education for African Americans, as well as racial discrimination in the hiring process are also potential culprits in high unemployment rates.[22]

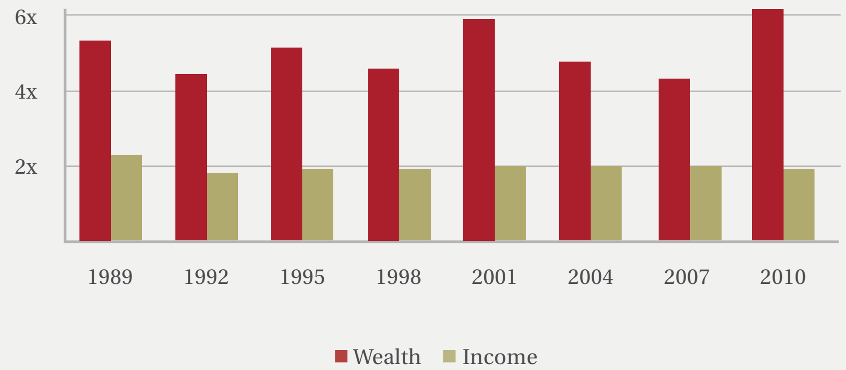
RECOMMENDATIONS

Obstructions to access of capital and employment opportunities have greatly harmed the financial prospects of the African-American community. As can be observed in the chart entitled "Ratio of average wealth and income of Whites to Blacks and Hispanics," the gap between the wealth of White families and Black families has grown during the recession, resulting in the average White family being six times wealthier than the average Black family. The gap between the income of Whites and Blacks has remained relatively steady with White families earning twice as much income, on average, as Black families.

Although efforts have been made since the Great Recession to combat these issues, African-American businesses and workers are still struggling to catch up.

Easing impediments on African-American access to capital will result in economic and employment growth in minority communities and the U.S. overall. While there are laws prohibiting loan discrimination on the basis of race, regulatory agencies need to improve upon enforcing regulations at a national level. In order to increase African-American access to loans, bank regulatory agencies and the U.S. Department of Justice (DOJ) must ensure that these laws are enforced by streamlining oversight of banks and their lending practices.[23] For additional oversight, the Government Accountability Office (GAO) could also perform an investigation of whether or not the DOJ is effectively enforcing these regulations and how funds are being appropriated.

Ratio of Average Wealth and Income of Whites to Blacks and Hispanics



Source: The Urban Institute. *The New York Times*.

[18] Padgett. "Are Minorities Being Fleeced" (see footnote 3).

[19] Ibid.

[20] Morrison. "Black Unemployment Rate 2015" (see footnote 13).

[21] Ibid.

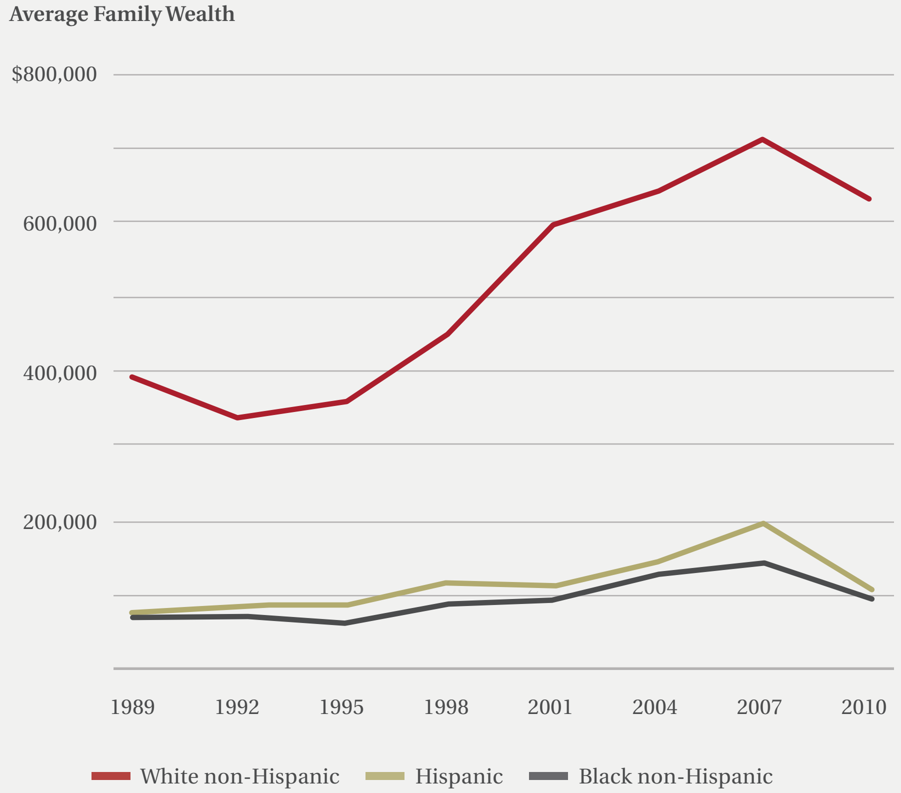
[22] Ibid.

[23] Bates and Robb. "Minority-Owned Businesses" (see footnote 9).

Poor credit ratings are a significant loan barrier for African-American businesses. In addition to enhancing regulatory enforcement of current policies to combat predatory lending, supplementary policy to aid in stronger minority-owned businesses should be considered. Additional policies may include the following: 1) promoting and equipping cash-strapped minority-owned businesses with resources for paying their bills on time, 2) implementing more flexible terms of short-term relief to prevent going out of business, and 3) aiding businesses in strengthening their balance sheets and other materials that banks look at in issuing loans.[24] Funds could be provided for these measures through ARRA or similar policies dedicated to enhancing fiscal stabilization. Alternatively new policies and funds, including debt relief, could be created to specifically promote African-American economic prosperity. If policies were created to mitigate this problem, a higher proportion of minority-owned businesses would receive loans.

Enforcing existing laws against loan discrimination and creating new policies to alleviate common barriers to loans for minority-owned businesses will result in an increase to access to employment for African Americans. Then, larger numbers of financially stronger minority-owned businesses would be in a better position to create new jobs, particularly in minority neighborhoods where access to employment centers is an ongoing problem.[25] Most African-American-owned businesses are concentrated in and targeted toward minority communities. Consequently new jobs are mostly filled by Blacks in those communities.[26] Reducing obstacles to loans will also strengthen existing African-American businesses, thus preserving jobs that could be lost if firms were to face liquidity. These recommendations are incremental rules and regulations that will improve African-American access to capital and employment over time, and lead to a potential increase in wealth and income.

The gap between the wealth of different races grew during the recession, with the average White family now about six times as wealthy as Black and Hispanic families. The ratio of White average income to that of Blacks and Hispanics has remained smaller and more steady.



[24] Ibid.

[25] Ibid.

[26] Ibid.