

Financial Services to Minorities Denied on Credit Scores

Written by Robert ID3214

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A study conducted by the University of Denver Center for African American Policy has been released by The National Black Caucus of State Legislators (NBCSL).

The study demonstrates how credit scores are used to deny African-Americans and other minorities' access to credit and financial services.

This study breaks new ground by using location mapping and statistical correlation techniques to examine the disparities in accessing mainstream financial services and credit products. These maps overlay credit scores (also known as FICO scores), race, income, employment, ethnicity and other variables with the availability of traditional banking and fringe financial institutions in those communities.

"Credit scores are a key enabler of wealth, but credit scores today are used in a way that denies minority and underserved communities access to the financial services and products they need. This study demonstrates that credit scores -- more so than simply race or income or other variables - are the key factor, and minority communities are disproportionately affected," said Mississippi state Rep. Mary H. Coleman, the immediate past president of the NBCSL.

"Our research found that, while banks site branches in minority and lower credit score communities, they do not provide the same access to their services as those in higher credit score communities," said Coleman. "And, even worse, there is often no way for those trapped with sub-prime credit scores to establish a prime credit score -- which would enable wealth creation."

Entitled "Financial Empowerment for the Unbanked and Underbanked Consumer: "Crossing the Red Line,"" the report was released at the Rainbow/PUSH Wall Street Project's 2007 Economic Summit.

"For the first time, we can now see the "invisible red line" -- the one that everyone's missed," said Tennessee House Speaker Pro Tem Lois DeBerry, the chair of the NBCSL Task Force that studied the issue. "For years, people have wasted time diagnosing the symptoms and missed the underlying disease - how consumers' credit scores are developed, how they are used to

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deny access and how the current system provides few opportunities to graduate from sub-prime to prime credit scores. We need to erase the "red line" and re-write a "green line.""

Dr. Rickie C. Keys, PhD, MPH, of the University of Denver Center for African-American Policy, conducted the study which found that:

*Credit scores are more closely correlated to lack of access to financial services for the unbanked and underbanked communities -- and thus to wealth creation -- than other factors, such as race, income and ethnicity.

*In part, this is because credit scores today are used for an increasing array of basic necessities beyond credit-worthiness to purchase a home or car, such as determining eligibility to: obtain employment; rent a home; obtain insurance; and open accounts for checking accounts, as well as basic utilities like telephone service or electricity.

*The 130-plus million Americans lacking prime credit scores (also the unbanked and underbanked) are disproportionately African-American and Hispanic.

*Although banks may be located in areas with high concentrations of low FICO scores, they do not provide proportional access to their services in these underserved areas, compared to higher FICO score, higher income communities.

*This results in a lack of supply of mainstream financial services to underbanked and unbanked consumers.

*Federal regulations discourage banks from providing equal access by requiring higher capital reserves when lending to low credit score customers.

*There is no endorsed method by which consumers can move from a sub-prime credit score to a prime credit score.

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The data used to construct the maps came from a variety of sources, including the U.S. Census Bureau, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, Federal Depository Insurance Corporation, Credit Union National Association, State Banking Agencies and Telephone Directories.

"Having identified the problem, we found it especially disconcerting that there is no endorsed method by which consumers can move from a sub-prime credit score to a prime credit score," said Colorado State Senate President Pro Tem Peter Groff, who serves as Executive Director of the University of Denver Center for African American Policy. "It's a Catch-22. To build a prime score, banks require consumers to demonstrate positive credit; but banks won't extend credit to these consumers without a prime credit score, leaving many trapped."

Groff added, "Exacerbating the problem is that consumers' on-time payment histories for things like rent, utilities, and non-traditional loans are not reported to credit bureaus. They're responsible borrowers, but they are being prevented from graduating to a prime credit score, and thus from gaining access to the financial services and products needed to establish wealth."

Coleman concluded that, "Industry, working with government, must provide a means by which these consumers can move to prime credit scores.

This must be guided by a new business model and set of regulatory policies that open up access to mainstream products."

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A copy of the report is available at the University of Denver's <http://www.blackpolicy.org> website.