Perspectives on Minority Business Development
Tuesday, April 20, 4:00-8:45 p.m. EDT

Session 3: Perspectives of Bankers and an SBA Expert
5:15 - 5:45 p.m. EDT

Discussion Leader: Kay Gordon, partner at Nelson Mullins, New York City

Presenters: Dana Peterson, Chief Economist at The Conference Board and former Citi Banker; Gina D. Nisbeth, Director of Structured Lending and Investments, Citi Community Capital; and Ethan Smith, Co-founder and Managing Partner of Starfield & Smith and expert in SBA lending

Event Co-Chairs:

Samuel C. Thompson Jr.
Professor and Arthur Weiss Distinguished Faculty Scholar at Penn State Law

Sabrina Conyers
Partner at Nelson Mullins Riley & Scarborough

pennstatelaw.psu.edu/events/mbd-perspectives
DISCUSSION LEADER: KAY GORDON, PARTNER AT NELSON MULLINS, NEW YORK CITY
PRESENTERS: DANA PETERSON, CHIEF ECONOMIST AT THE CONFERENCE BOARD AND FORMER CITI BANKER; GINA D. NISBETH, DIRECTOR OF STRUCTURED LENDING AND INVESTMENTS, CITI COMMUNITY CAPITAL; AND ETHAN SMITH, CO-FOUNDER AND MANAGING PARTNER OF STARFIELD & SMITH AND EXPERT IN SBA LENDING

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CLOSING THE RACIAL INEQUALITY GAPS
The Economic Cost of Black Inequality in the U.S.

Citi GPS: Global Perspectives & Solutions
September 2020

Citi is one of the world’s largest financial institutions, operating in all major established and emerging markets. Across these world markets, our employees conduct an ongoing multi-disciplinary conversation – accessing information, analyzing data, developing insights, and formulating advice. As our premier thought leadership product, Citi GPS is designed to help our readers navigate the global economy’s most demanding challenges and to anticipate future themes and trends in a fast-changing and interconnected world. Citi GPS accesses the best elements of our global conversation and harvests the thought leadership of a wide range of senior professionals across our firm. This is not a research report and does not constitute advice on investments or a solicitations to buy or sell any financial instruments.

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Dana M Peterson Director, is a Global Economist with Citi Research. Her goal is to provide high value, accurate and timely analysis that informs Citi’s top tier clients in their investment, risk, and business planning decisions. Dana has specific responsibility for identifying, analyzing, and publishing research papers on important global economic themes having direct financial market implications. Such global economic themes include, monetary policy, fiscal and trade policy, debt, taxation; ESG; and demographics. Dana also examines U.S. themes using granular data. Dana and her research have been featured by U.S. and international news outlets in print and on television, including the CNBC, Bloomberg, Thomson-Reuters, WSJ, the Financial Times (FT), Fox Business News Network, BNN-Bloomberg, Globe and Mail, CBC, and National Post.

Please note: This is the last report written by Dana Peterson in her role as Global Economist at Citi. We thank Dana for her insights and dedication to global thematics and in particular her work on this important Citi GPS report. We wish her all the best in her new role as Chief Economist at The Conference Board.

Catherine L Mann is the Global Chief Economist at Citigroup where she is responsible for thought leadership, research guidance of a global team of economists, and cross-fertilization of research across macroeconomics, fixed-income, and equities. Prior to this position, she was Chief Economist at the OECD, where she also was Director of the Economics Department and was Finance Deputy to the G20 (2014-2017). Prior to the OECD, she held the Barbara ’54 and Richard M. Rosenberg Professor of Global Finance at the International Business School, Brandeis University, where she also directed the Rosenberg Institute of Global Finance (2006-2014). She spent 20-plus years in Washington, DC (1984-2006) where her positions included Senior Fellow at the Peter G. Peterson Institute for International Economics; Economist, Senior Economist, and Assistant Director in the International Finance Division at the Federal Reserve Board of Governors; Senior International Economist on the President’s Council of Economic Advisers; and Adviser to the Chief Economist at the World Bank. Dr. Mann received her PhD in Economics from the Massachusetts Institute of Technology and her undergraduate degree is from Harvard University.
CLOSING THE RACIAL INEQUALITY GAPS
The Economic Cost of Black Inequality in the U.S.

In his Letter from a Birmingham Jail, Dr. Martin Luther King Jr. wrote, “We are caught in an inescapable network of mutuality, tied in a single garment of destiny. Whatever affects one directly, affects all indirectly.”

Today, more than at any time since Dr. King’s assassination, we are bearing witness to the grave injustices affecting our fellow citizens. Black, Latinx, and Native Americans have been hospitalized for COVID-19 at a disproportionately high rate, a direct result of what the Centers for Disease Control and Prevention has identified as “long-standing systemic health and social inequities.” Blacks and People of Color are also bearing a disproportionate share of the pandemic’s economic devastation. And the killings of Ahmaud Arbery, Breonna Taylor, and George Floyd have finally shaken the U.S. and the world awake to the egregious racial inequities in our criminal justice system.

As Dr. King noted, these injustices affect all of us. Higher rates of infection among some affect the health of all, and the loss of health, life, and livelihood among communities of color diminish everyone’s economic security. No one should want to live in a society that incarcerates or kills so many of its citizens just because they are black or brown.

The privileges we enjoy by working for Citi come with responsibilities. While elected officials and community activists must do their part, so must we. One important thing we can do is to show the costs of racial inequality through objective analysis which is what the authors of this report have sought so effectively to demonstrate. Our overarching goal for the Citi GPS series is not only to tackle the key opportunities and challenges of the 21st century, but also to address complex societal questions and to not shy away from difficult subjects. As such, we believe we have a responsibility to address current events and to frame them with an economic lens in order to highlight the real costs of longstanding discrimination against minority groups, especially against Black people and particularly in the U.S.

The analysis in the report that follows shows that if four key racial gaps for Blacks — wages, education, housing, and investment — were closed 20 years ago, $16 trillion could have been added to the U.S. economy. And if the gaps are closed today, $5 trillion can be added to U.S. GDP over the next five years.

I write this forward as Citi’s Vice Chairman and Chairman of our Global Banking, Capital Markets and Advisory business, but my journey began at the bottom. My two brothers and I were raised in Dayton, Ohio by our single mom and her parents, who had migrated from Georgia to escape the injustice and terror of Jim Crow. They worked tirelessly as janitors, social workers, and leaders at our local church to give us every opportunity. At any given time, we shared our home with five to eight foster siblings.

Yet even today, with all those credentials and as one of the leading executives on Wall Street, I am still seen first as a six-foot-four, two-hundred-pound Black man wherever I go — even in my own neighborhood. I could have been George Floyd. And my wife and I are constantly aware that our children could have their innocence snatched away from them at any given moment, simply for the perceived threat of their skin color. I hope that the analysis in this report brings sober perspective as well as hope to our readers as we collectively find substantive and sustainable opportunities to address the gaps we identify.
A Path Towards Equality

NOT ADDRESSING RACIAL GAPS BETWEEN BLACKS AND WHITES HAS COST THE U.S. ECONOMY UP TO $16 TRILLION OVER THE PAST 20 YEARS

WHAT CAN INDIVIDUALS DO?

WHAT CAN THE GOVERNMENT DO TO CLOSE THE GAPS BETWEEN BLACKS AND WHITES?

- Closing the Black Wage Gap could have added $2.7 trillion in income or +0.2% to GDP per year.
- Improving access to housing credit might have added an additional 770,000 Black homeowners, adding $218 billion in sales and expenditures.
- Facilitating easy access to higher education for Black students could have increased lifetime incomes $90-$113 billion.
- Providing fair and equitable lending to Black entrepreneurs might have resulted in the creation of an additional $13 trillion in business revenue and potentially created 6.1 million jobs per year.

If these racial gaps were closed today, we could see $5 trillion of additional GDP over the next 5 years, or an average add of 0.35 percentage point to U.S. GDP growth per year and 0.09 percentage point to global growth per year.

WHAT CAN INDIVIDUALS DO?

- Advocate for one’s career
- Utilize political power
- Use education as a pathway for success
- Embrace delayed gratification and risk to generate wealth
- Provide guaranteed wages, incomes and jobs
- Implement tax reform
- Promote financial inclusion
- Decouple healthcare
- Encourage work
- Implement housing incentives
- Invest in wealth building
- Invest in protections against discrimination
- Implement salary history bans

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ATTITUDES AND POLICIES THAT UNDERMINE EQUAL ACCESS ARE AT THE ROOT OF THE RACIAL GAPS PLAGUING U.S. SOCIETY

**Housing**
The gap between white and Black home ownership remains wide with discriminatory practices still an issue.

**Policing**
Blacks are 5x as likely to be incarcerated vs. whites and make up an oversized percent of the U.S. prison population – 33% vs. 12% of total U.S. population.

**Income**
Peak income occurs sooner and is lower for Black males (age 45-49, $43,859) vs. white males (age 50-54, $66,250).

White families have 8x as much wealth as Black families and lower debt-to-asset ratios (~10% vs. ~30%).

**Voting**
Over past 10 years, 25 of 50 States have implemented voting restrictions which disproportionately affect Black voters.

Of the 3.1 million American adults estimated as banned from voting, 2.2 million are Black Americans.

**WHAT CAN CORPORATES DO?**

**SUPPORT DIVERSITY AND INCLUSION INITIATIVES FROM THE TOP**

**ADDRESS RACIAL GAPS IN HIRING, RETENTION, AND FIRING**

**ENGAGE IN CORPORATE SOCIAL RESPONSIBILITY**

**DISMANTLE STRUCTURAL BARRIERS TO HIRING BLACK TALENT**

**DEVELOP METRICS TO ANALYZE, REPORT, AND REACT**

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Source: Census Bureau, FRED
Source: NAACP
Source: The Sentencing Project
Source: Census Bureau, Federal Reserve

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**U.S. Home Ownership Rate by Race (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>White</th>
<th>Black</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>80</td>
<td>60</td>
</tr>
<tr>
<td>1960</td>
<td>85</td>
<td>70</td>
</tr>
<tr>
<td>1970</td>
<td>90</td>
<td>80</td>
</tr>
<tr>
<td>1980</td>
<td>95</td>
<td>85</td>
</tr>
<tr>
<td>1990</td>
<td>100</td>
<td>90</td>
</tr>
</tbody>
</table>

**Median Income by Race and Age 2018 (US$ 000's)**

<table>
<thead>
<tr>
<th>Age</th>
<th>White Male</th>
<th>Black Male</th>
</tr>
</thead>
<tbody>
<tr>
<td>15-24</td>
<td>30-34</td>
<td>25-29</td>
</tr>
<tr>
<td>25-29</td>
<td>30-34</td>
<td>25-29</td>
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<td>30-34</td>
<td>35-39</td>
<td>30-34</td>
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<td>35-39</td>
<td>40-44</td>
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<td>40-44</td>
<td>45-49</td>
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<td>45-49</td>
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<td>55-59</td>
<td>50-54</td>
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<td>55-59</td>
<td>60-64</td>
<td>55-59</td>
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<tr>
<td>60-64</td>
<td>65-69</td>
<td>60-64</td>
</tr>
<tr>
<td>65-69</td>
<td>70-74+</td>
<td>65-69</td>
</tr>
</tbody>
</table>

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The Economic Costs of U.S. Racial Inequality

A useful definition of racial equity hails from the San Francisco Fed: “racial equity means just and fair inclusion in an economy in which all can participate, prosper, and reach their full potential. We will know we have achieved racial equity when race no longer predicts life outcomes.”

A plethora of data, studies, and societal ills indicate the U.S. has yet to achieve the point of racial equity, given the prevalence of major gaps in economic opportunity, education, income, housing, and wealth that run along racial fault lines.

The COVID-19 pandemic and the deaths of several Black people while in police custody in rapid succession have laid bare the United States’ longstanding problem of discrimination against minority groups, especially against Black people. Moreover, it has laid bare how inequality has produced real economic costs and social losses.

These costs are most evident in racial gaps: wide numerical differences in key social and economic indicators between Black and white Americans. These gaps are apparent in unemployment, net worth, debt levels, wages, peak income, financing for businesses, spending on education, and rates of imprisonment and sentencing levels. The gaps in many cases remain wide 60 years after the Civil Rights Movement. In some cases, including in homeownership rates and college degree attainment, the gaps are wider now than in the 1950s and 1960s.

This report (1) identifies the underlying causes of the racial and economic gaps exacerbated by the COVID-19 pandemic; (2) discusses the value of closing gaps; and (3) outlines how governments, corporations, and individuals can work together to eliminate gaps for good.

We discover that closing racial gaps is a pareto improvement to both the U.S. economy and society. If racial gaps for Blacks had been closed 20 years ago, U.S. GDP could have benefitted by an estimated $16 trillion. If we close gaps today, the equivalent add to the U.S. economy over the next five years could be $5 trillion of additional GDP, or an average add of 0.35 percentage points to U.S. GDP growth per year and 0.09 percentage points to global GDP growth per year.

- Closing the Black racial wage gap 20 years ago might have provided an additional $2.7 trillion in income available for consumption and investment.
- Improving access to housing credit might have added an additional 770,000 Black homeowners over the last 20 years, with combined sales and expenditures adding another $218 billion to GDP over that time.
- Facilitating increased access to higher education (college, graduate, and vocational schools) for Black students might have bolstered lifetime incomes that in aggregate sums to $90 to $113 billion.
- Providing fair and equitable lending to Black entrepreneurs might have resulted in the creation of an additional $13 trillion in business revenue over the last 20 years. This could have been used for investments in labor, technology, capital equipment, and structures and 6.1 million jobs might have been created per year.

■ Closing the wage, housing, education, and business investment racial gaps can help narrow the wealth gap, which is significant for facilitating homeownership, business, and job creation, plus establishing a pipeline for intergenerational wealth accumulation.

Figure 1. Racial Gaps Cause Economic Harm

Figure 2. The Economic Case for Closing Racial Gaps is Highly Compelling
Dual health and economic crises resulting from the coronavirus lays bare long simmering racial tensions and inequities in the U.S.

The dual health and economic crises resulting from the coronavirus lays bare long simmering racial tensions and inequities that have plagued the U.S. for centuries. The overlay of deep job cuts, threat of eviction, hunger, business closures among minority groups, and uneven fiscal supports, with high rates of infections and deaths, plus repeated incidences of police brutality involving Black Americans has proven too great to ignore. The result not only has precipitated protests in the streets, but also a general reassessment of the very soul of the nation. Specifically, how past and current biases have embedded themselves into the economy and society, and what should be done to rectify them.

While all racial and ethnic groups are suffering from the fall-out of the pandemic, data reveal the burden is falling more heavily on certain demographics. Black persons, in particular, appear to have suffered greater job losses amid government-ordered shutdowns; found themselves in industries that are essential but low paying; possessed more pre-existing factors leading to COVID-19 mortality; owned businesses that closed permanently or were unable to access Paycheck Protection Program (PPP) loans; and reported elevated rates of food, income, and housing insecurity amid the crisis. The tangible and emotional hardships of the virus impact spilled over into national outrage about the deaths of several Black people during altercations with the police. Most notably, the video-taped death of George Floyd.

The combination of the pandemic and deadly community policing tactics leads us to revisit the problem of racial gaps in the U.S., and the case for closing them. First we review the disproportionate impact of the virus on minority groups, and Black persons in particular, plus the linkages to preexisting racial gaps.
Health Divide

Ethnic minorities were more likely to contract and perish from COVID-19. Death rates tallied by the U.S. Center for Disease Control (CDC) for New York City — a particularly hard hit region — showed mortality figures for Black/African American persons (92.3 deaths per 100,000 population) and Hispanic/Latino persons (74.3) were substantially higher than that of white (45.2) or Asian (34.5) persons. A Federal Reserve Bank of New York study reveals there is a high significance of death from COVID-19 and the existence of various conditions, including belonging to a low income group, living in a densely populated urban area, and/or being a member of a major minority group (Figure 4). Indeed, an overlay of COVID-19 deaths and U.S. counties having large minority populations indicates a higher prevalence of perishing from COVID-19 if one belongs to a racial minority: Black, Hispanic, and Native American plus select Asian and Pacific Islander population groups (Figure 5).

Figure 4. Being a Minority with Low Income, and/or Residing in Densely Populated Urban Areas Raised the Likelihood of Death from COVID-19

Regressions of Cases and Deaths on Demographics

<table>
<thead>
<tr>
<th>Low Income</th>
<th>Majority Minority</th>
<th>In Metropolitan Statistical Area</th>
<th>Log Population Density</th>
<th>Low Income x Majority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cases/ 1,000 population (1)</td>
<td>Cases/ 1,000 population (2)</td>
<td>Cases/ 1,000 population (3)</td>
<td>Cases/ 1,000 population (4)</td>
<td></td>
</tr>
<tr>
<td>.5843***</td>
<td>1.183***</td>
<td>.8616***</td>
<td>.1192***</td>
<td></td>
</tr>
<tr>
<td>(2.46)</td>
<td>(5.18)</td>
<td>(3.37)</td>
<td>(9.09)</td>
<td></td>
</tr>
<tr>
<td>3.838***</td>
<td>2.887***</td>
<td>2.453***</td>
<td>.0951***</td>
<td></td>
</tr>
<tr>
<td>(14.91)</td>
<td>(11.58)</td>
<td>(8.34)</td>
<td>(6.64)</td>
<td></td>
</tr>
<tr>
<td>1.837***</td>
<td>-1.381***</td>
<td>-1.465***</td>
<td>-.1096***</td>
<td></td>
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<tr>
<td>(6.68)</td>
<td>(-4.51)</td>
<td>(-4.77)</td>
<td>(-6.23)</td>
<td></td>
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<tr>
<td>1.41***</td>
<td>1.404***</td>
<td>.1177***</td>
<td></td>
<td></td>
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<tr>
<td>(20.35)</td>
<td>(20.26)</td>
<td>(29.57)</td>
<td></td>
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<tr>
<td>1.335***</td>
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<td>(2.77)</td>
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</tr>
<tr>
<td>Observations</td>
<td>3216</td>
<td>3136</td>
<td>3135</td>
<td>3136</td>
</tr>
</tbody>
</table>

Note: \( t \) statistics in parenthesis; Significance: * 10% level, ** 5% level, *** 1% level
Source: Federal Reserve Bank of NY

Federal data corroborate the racial disparity of COVID-19 death. The Centers for Disease Control (CDC) stated that contributing factors included living conditions (densely populated, residential segregation, multi-generational households, incarceration), work circumstances (critical workers, lack of paid sick leave), and underlying health conditions (lack of access to health insurance, serious underlying medical conditions, stigma, and systemic inequalities). Regarding health conditions, the SHADAC analysis of the American Community Survey (ACS) Public Use Microdata Sample (PUMS) files reveals that although the number of uninsured persons has fallen since passage of the Affordable Care Act in 2012, ethnic minorities are still less likely to have health insurance (Figure 7).

Wealth and income gaps between Black families and Hispanic, Asian, and white families have remained wide for last 40 years.

The eroded sentiment among minorities amid the pandemic, and Black Americans in particular, reflects not only policing and health care inequities, but also long simmering economic disparities. Both the wealth and income gaps between Black and Hispanic families and white and Asian families have remained wide over the last 40 years for which the U.S. Census Bureau has collected data. The real median income (Figure 8) and wealth (Figure 9) disparities continue to be stark for Black Americans. These gaps have been exacerbated by business shutdowns amid the coronavirus pandemic. In the latest Bureau of Labor Statistics (BLS) employment report, the civilian unemployment rate in the U.S. continues to edge lower. Nonetheless, jobless rates are falling for white persons faster than for other minorities, and the unemployment rate for Black workers at 13.0 percent is the highest (Figure 10). Moreover, the NBER reported there was greater business destruction over the February-April 2020 span for Black-owned firms, in terms of percentage decline, than for businesses owned by other ethnicities (Figure 11).
Insecurity

Managing the basics of daily living have been more difficult for Black households amid the COVID-19 pandemic. Food sufficiency has been a greater challenge for select households of color, and Black households in particular, during the COVID-19 pandemic. The Census Bureau’s Household Pulse Survey revealed that in June 2020, it was more likely the case for Black, Hispanic, and Other Racial category households to have inadequate access to food during the pandemic than was the case for white and Asian households. Black households were more likely to say that they sometimes or often did not have enough to eat (Figure 12). Meanwhile, it was more likely the case that Black, households fell behind on rent or mortgage payments amid the coronavirus pandemic than white households (Figure 13). Black households were also less confident they could make future housing payments than were white households.

Figure 11. Black-Owned Businesses Suffered Brunt of COVID-19 Disruptions

-22% -25% -20% -20% -32% -17% -18% -41% -45% -35% -25% -15% -5% 0% 5% 10% 15% 20% 25% 30% 35% 40% 45%
Total Female Male Black Latinx Asian White Immigrant Native
Source: NBER, Citi Research

Figure 12. Black Households Had Significant Challenges Related to Lack of Adequate Access to Food During the Coronavirus Pandemic

-45% -40% -35% -30% -25% -20% -15% -10% -5% 0% 5% 10% 15% 20% 25% 30% 35% 40% 45%
Hispanic White Black Asian Other Races
Source: Census Bureau Household Pulse Survey, Citi Research

Black households have had more difficulty managing the basics of daily living amid the COVID-19 pandemic.
The unequal nature of job losses, which heavily affected low-skilled and discretionary sectors that largely employ minorities, was directly linked to food and housing insecurity levels.

Essential vs. Nonessential

Food and housing insecurity during the pandemic were directly linked to the unequal nature of job losses that heavily affected low-skilled and discretionary sectors employing large shares of minorities. The U.S. Private Sector Job Quality Index ® (JQI) listed jobs in the food and beverage services, retail, travel and attractions, and the auto sector among the most vulnerable amid COVID-19 disruptions (Figure 14). Many of these jobs rank low in the quality index. The JQI interprets “job quality” as meaning the weekly dollar income a job generates for an employee. Hence, it is also likely many of these jobs have low skills requirements given the relatively low quality of pay. U.S. job cuts among these sectors were disproportionately skewed toward women and minorities due to labor market segmentation into areas that were discretionary in nature and/or impossible to execute in a work-from-home scheme. Indeed, a staggering 14 million white workers were laid off, but this is compared to 8 million minorities, which comprise 23 percent of the working age population. In the second quarter of 2020, Black persons working in coronavirus disruption-sensitive sectors experienced an employment loss of 2.7 million. However, as a share of the number of employed Black persons one year prior, the loss was 14 percent compared to 12 percent for white persons (Figure 15). For Hispanic and Asian people the loss was 15 percent, each.
For Black persons who maintained their jobs, the split between essential and non-essential work highlighted that the most hazardous jobs were also among those with the lowest pay. According to the U.S. Bureau of Labor Statistics (BLS), only 30 percent of U.S. workers are able to telework (work-from-home or WFH). Hispanic and Black workers were the least able to WFH (16 percent and 20 percent, respectively). (Figure 16). The BLS also reported laborers who are below the 50th percentile in terms of wage level were the least likely to WFH: <25th percentile (9 percent) and 25th to 50th percentile (20 percent) (Figure 17). Moreover, many of the jobs deemed essential by governments were the least amenable to WFH (Figure 18). Of essential jobs with high exposure to infection, many of them are low wage jobs in which Black workers are clustered (Figure 19). Healthcare, food service, and child care stand out as low-wage, essential occupations employing large numbers of Black employees.
Figure 16. Only 20% of Black Workers Can Work from Home

![Graph showing the share of workers who can telework by race and ethnicity.]

Source: Bureau of Labor Statistics, Citi Research

Figure 17. Low Income Workers Less Likely to Work from Home

![Graph showing the share of workers who can telework by wage level.]

Source: Bureau of Labor Statistics, Citi Research

Figure 18. Low Wage Industries Less Amenable to Work from Home

![Graph showing the share of workers who can telework by industry.]

Source: Bureau of Labor Statistics, Citi Research

Figure 19. Black Workers Are Overrepresented in Many of the Lowest Wage Jobs Considered High-Contact, Essential Services

![Graph showing the share of workers in high-contact essential services by annual income.]

Note: Dotted line denotes Black workers as a percent of the civilian non-institutional population 20 and over or 12.6 percent.

Uneven Relief

The CARES Act of 2020 legislated the Paycheck Protection Program (PPP), which provided loans to businesses suffering coronavirus disruptions. The potentially forgivable loans were designed to encourage firms to invest and retain workers until domestic demand improved. A Bloomberg News analysis of Small Businesses Association (SBA) data revealed that in the initial wave of the program, minority-owned firms received fewer loans as a share of the total number of minority-owned businesses (17 percent) than did white-owned firms (27 percent). The percentages improved and largely evened out in the second tranche of PPP loans at 75 and 72 percent, respectively (Figure 20). Nonetheless, minority firms found themselves shut-out of the initial rounds of relief and struggled to receive funding from large financial institutions at the outset of the pandemic disruptions, as the availability of community banks expedited lending (Figure 21).

Figure 20. Minority-Owned Firms Received COVID-19 Relief Later than White-Owned Firms

First Round: Percentage of small businesses receiving PPP loans in majority white & predominantly minority Congressional districts (April 3-16)

<table>
<thead>
<tr>
<th></th>
<th>White</th>
<th>Minority</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>26.7%</td>
<td>17.1%</td>
</tr>
</tbody>
</table>

Second Round: Percentage of small businesses receiving PPP loans in majority white & predominantly minority Congressional districts (through June 30)

<table>
<thead>
<tr>
<th></th>
<th>White</th>
<th>Minority</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>72.0%</td>
<td>75.1%</td>
</tr>
</tbody>
</table>

Source: Bloomberg News

Figure 21. Minority-Owned Firms Received COVID-19 Relief Later

Percent of SBA Loans Going to Minority-Owned Businesses

<table>
<thead>
<tr>
<th>Week</th>
<th>Round 1</th>
<th>Round 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
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<tr>
<td>3</td>
<td></td>
<td></td>
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<td>4</td>
<td></td>
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<td>5</td>
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<td>6</td>
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<td>7</td>
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<td>8</td>
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<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Bloomberg News
Simmering Tensions

In addition to the disruption from COVID-19, the U.S. has also been gripped by protests fueled by a conflagration of inequality, racism, and police brutality. The civil unrest comes against a backdrop of disproportionately higher numbers of deaths for minorities, especially Black persons from COVID-19, and elevated unemployment figures for Black Americans amid the pandemic-induced U.S. recession. Roughly 1,000 people per year die during altercations with the police (Figure 22). Nearly half of them are racial minorities, and Black persons have a higher share of fatalities per capita (Figure 23). A number of these deaths have come on account of mishandling by police forces, which have been linked at times to long-standing social and racial issues. In general, the U.S. has lost ground relative to other advanced economies, and even the world, in terms of discrimination and violence against minority groups (Figure 24).

Figure 22. Roughly 1,000 People/Yr Die in Altercations with the Police

Figure 23. Police-Related Deaths Per Capita is Highest for Black People

Figure 24. The U.S. Has Lost Ground Relative to Other Advanced Economies and the World Regarding Discrimination and Violence Against Minority Groups
Why Gaps Exist: Racism and Inequality Are Little Improved

The 400 years of enslavement of Black populations in the Americas has residual effects that persist to this day despite tomes of legislation providing equal access to various aspects of American life under the law. Attitudes and policies undermining equal access are at the root of the racial gaps plaguing U.S. society.

Moreover, societal inequities have manifested themselves into economic costs, which have harmed individuals, families, communities, and ultimately the growth and well-being of the U.S. economy. If the racial gaps in wages in the U.S. had been closed two decades ago, there might have been an additional 0.2 percentage point to real GDP growth per year. Adequate access to housing credit might have produced 770,000 new Black homeowners. More Black students with university and advanced degrees might have generated an additional $90 to $113 billion in income that could have contributed to consumption. More than 6 million jobs per year might have been added and $13 trillion in cumulative revenue gained if Black-owned firms had equitable access to credit. The global implications are also apparent given the U.S. contributes a one-third share of growth to the world economy.

Figure 25. What the United States Could Have Gained by Closing Racial Gaps 20 Years Ago

Defining systemic and persistent racism and providing evidence that has led to or exacerbated racial gaps is the first step towards eliminating inequality.

Closing racial gaps in the U.S. 20 years ago could have generated $16 trillion in GDP.
Bias

The persistence of racially-biased attitudes, coupled with the implementation and maintenance of policies enshrining these attitudes, constitute what is often termed as systemic racism. Biases may be conscious or unconscious. Nonetheless, the result of policies creating and perpetuating bias produce inequality. Even when the biases fade, the policies may linger, rendering the inequality multi-generational as it becomes interwoven with the way things are done: in broader society, government, corporations, and/or institutions.

The continuation of racial bias and systemically-entrenched inequality born from past and present biases are evident across multiple facets of U.S. society. The Civil Rights Movement of the 1950s launched 20 years of major legislative achievements for Black persons in America that also spurred other movements for equality. However, 70 years later, improvements appear to be few and far between for many Black Americans. The U.S. is light-years more equal than it was in the 1950s, but systems perpetuating inequalities among different racial groups either still remain or are being reinvented, either consciously or unconsciously.

Bias, whether conscious or unconscious, plays a central role in economic and social outcomes for Black Americans. Building upon the bias seen in businesses financing, there are numerous cases of bias within the hiring spectrum and moreover from a consumption prospective. As discussed by Greenwald and Krieger, 78 percent of those who took the Harvard Implicit Association Test (IAT) displayed implicit bias, with 85 percent of whites showing bias against Blacks. The overarching message in the study was that most people possess bias, and due to its infinitely engrained status, people are generally unaware of their own bias despite its profound impact upon behavior and attitude. One study, which sent out resumes with traditionally white-sounding names like Emily and Greg and also resumes with Black-sounding names like Lakisha and Jamal, found a white applicant was 49 percent more likely than their Black counterpart to receive a call back in Chicago and 50 percent more likely in Boston. This kind of systematic discrimination is inherently exclusionary of Black people from the workforce, demonstrating the significant impact of bias, be it unconscious or not. A 2015 experiment involving baseball card auctions on eBay again highlighted the significant difference racial bias can have on economic outcomes. Baseball cards held by dark-skinned/African American hands sold for approximately 20 percent less than cards held by light-skinned/Caucasian hands, despite the cards held by the African American hand being more valuable on average. Without addressing bias directly, the challenge of equality will remain profound.

The U.S. Civil Rights Movement: A Synopsis

The Civil Rights Movement that began in the late 1950s won African Americans basic rights long denied to them, inspired other discriminated groups to fight for their own rights, and had a deep effect on American society.

After the Civil War, the 13th, 14th, and 15th amendments to the Constitution were supposed to guarantee equal rights for African Americans. But in the South, segregation of the races, the denial of opportunities to African Americans, and their disenfranchisement continued in a system known as "Jim Crow laws." In 1896, in a controversial decision, the United States Supreme Court, in the case Plessy v. Ferguson, upheld the "separate, but equal" facilities for the races.

During World War II, some progress on equality was made as President Roosevelt outlawed discrimination in the defense industry. Moreover, as the country fought for freedom around the world, many African-Americans began to wonder why they did not enjoy those freedoms at home. In 1954, a series of landmark cases testing segregation pressed by the National Association for the Advancement of Colored People (NAACP) culminated in the Supreme Court's ruling in the Brown v. Board of Education case, which unanimously outlawed segregation of public schools.

On December 1, 1955, the modern civil rights movement began when Rosa Parks, an African-American woman, was arrested in Montgomery, Alabama for refusing to move to the back of the bus. A new minister in town, Martin Luther King, Jr., organized a community bus boycott, which eventually led to the desegregation of the bus line and launched protests across the South. In 1960, spontaneous sit-ins by students began at lunch counters throughout the South, and in 1961, "Freedom Riders" boarded inter-state buses to test and break down segregated accommodations. These protests were peaceful, but they were met with violent, and often, brutal force — televised images helped win support from sympathetic whites in the North. In 1963, TV viewers saw hundreds of thousands of African Americans and whites march on Washington, DC to end racial discrimination. It was there that Martin Luther King, Jr. delivered his famous "I Have a Dream" speech.

After the assassination of President Kennedy and the landslide election of Lyndon Johnson, Congress passed the landmark Civil Rights Act of 1964 and the Voting Rights Act of 1965, which outlawed racial discrimination in public accommodations and schools and removed obstacles to voting. As part of the Civil Rights Act, the Federal government would withhold funds from any state that did not desegregate, and as Health, Education & Welfare Secretary, John Gardner was the man holding the purse strings. In 1967, he threatened to cut off $95.8 million in Federal welfare funds to the state of Alabama unless it complied with desegregation guidelines. As Gardner remembers, "Civil rights was real hardball."

The passage of the Voting Rights Act, in particular, prompted a massive effort to register African Americans throughout the South to vote. Again, this was often met with violent resistance. After 1966, the Civil Rights Movement began to fracture between those who favored non-violent means to achieve integration and younger, more radical leaders who wanted to fight for "Black power." This split alienated some white allies, a process that was accelerated by a wave of rioting in Black neighborhoods in Northern cities throughout 1965 and 1967.

After Dr. King was assassinated 1968 and more rioting ensued, the Civil Rights Movement as a cohesive effort disintegrated. Yet the push for civil rights continued, with African Americans making gains economically, politically, and socially. Moreover, other discriminated groups were inspired by the Civil Rights Movement and borrowed its tactics. Over the 1960s and 1970s, gays and lesbians, women, Native Americans, and people with disabilities pushed for their own inclusion in American society. Source: PBS.org.
**Housing & Education**

Intricate linkages between racial bias in housing and education dating back over a century are major factors in economic gaps that persist today.

**Housing Segregation**

Past discriminatory housing practices have contributed to economic inequality for Black Americans in the present. According to the Economic Policy Institute (EPI), systemic and legalized housing discrimination over the 1940 to 1960 period prevented Black families from achieving homeownership, a critical staple for building intergenerational wealth. Moreover, the disparity in homeownership was perpetuated by continued discrimination in housing, through government, private sector, individual, and even technological choices and actions, keeping the racial gap wide (Figure 26). As recently as 2019, a popular Internet platform was cited for discriminatory practices by its search engines according to the Fair Housing Act.

**Figure 26. The Gap Between Black and White Homeownership Rates Remains Wide**

![Graph showing the gap between Black and White home ownership rates from 1900 to 2020.](source)

In an effort to combat a housing shortage in the mid 1930s the Federal Housing Administration (FHA) refused to insure mortgages in and near Black neighborhoods, a practice known as redlining. The most desirable neighborhoods for mortgages were designated green, and the least, typically predominantly Black neighborhoods, were designated red.

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One study revealed that between 1934 and 1968, 98 percent of home loans approved by the Federal government were given to white applicants. The FHA also subsidized builders creating large tracts of housing in suburban areas as long as those projects excluded Black homebuyers. Meanwhile, minorities were directed to urban housing projects. These urban neighborhoods, where Black family housing was permitted, were often cut off from resources and subject to underinvestment.

Individual and private sector choices also perpetuated housing segregation. Prior to the Fair Housing Act of 1968, residents of neighborhoods were allowed to create contracts called restrictive covenants to establish and maintain a particular racial makeup. Minorities, particularly Black persons, were prevented from moving into the suburbs or predominantly white sections of metropolitan areas either legally or through intimidation. Maps of Black neighborhoods were redlined and/or persons wishing to leave these neighborhoods for majority-white neighborhoods were threatened with violence. Realtors were threatened with the loss of their licenses if they showed homes to Black families outside of prescribed areas. These activities not only upheld segregation, but also concentrated poverty and underdevelopment in geographic locations.

Housing discrimination did not end with the Fair Housing Act. Tactics used to reinforce segregated neighborhood boundaries and majority-white suburbs became less overt. Real estate agents would show potential Black home purchasers houses in predominantly Black neighborhoods and decline to show many, if any, in other neighborhoods. Banks would continue to decline to provide financing for mortgages to Black homeowners, and insurance companies would refuse to insure mortgages assumed by Black owners. “Gentrification” in urban areas contributed to the decrease in affordability of housing for Black households. Realtors, renovators, and builders played a role as neighborhoods formerly populated by a certain racial or ethnic group were renamed, homes were upgraded to “luxury” status raising the price point, or upscale homes were built in low-income neighborhoods, inviting other such projects. These developments can lead to the displacement of current residents resulting in a change in demographics.

Governments can frustrate affordable housing availability via zoning laws limiting construction of multi-family units or expansion of neighborhood boundaries. Even positive community revitalization activities by governments, such as investment in transit infrastructure, can have the negative externality of inviting gentrification that affects Black communities.

Fifty years of barriers to Black home ownership means that Black families have missed out on the benefits of home price appreciation — a key ingredient to wealth accumulation. The Federal Reserve’s Survey of Consumer Finances reported that as of 2016, Black homeowners continued to hold the least amount of housing wealth compared to other racial groups (Figure 27). The median amount of housing wealth for a Black family was $124,000, while the median amount for white families was $200,000, Hispanic households $158,000, and other households $240,000.

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11 National Low Income Housing Coalition. “Gentrification and Neighborhood Revitalization: WHAT’S THE DIFFERENCE?”.
A Princeton University study notes that even among Black families owning homes, properties do not appreciate at the same rate as properties held by other ethnic groups.\textsuperscript{12} This is a reflection of the location of Black-owned homes in areas with generally lower home values and/or bias in the way others view Black homeowners. Even though the Great Recession’s housing crisis featured a wave of foreclosures, in the subsequent ten years, white homeowners were more likely to see some home price appreciation (+3 percent on average) versus Black families who didn’t see a recovery (-6 percent on average) (Figure 28).\textsuperscript{13} Indeed, past housing policies have concentrated Black families into higher-poverty neighborhoods with fewer of the amenities that help raise home values. Moreover, even higher-income Black families are still more likely to own homes in impoverished, predominately Black neighborhoods (Figure 29). Black families have also not benefited from tax incentives related to homeownership, including mortgage interest deductions (Figure 30).

Table 5. Median Percentage Change in Home Price Index Among Black and White Borrowers (by Borrower Income Level, 2006 - 2017)

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Black Borrowers</th>
<th>White Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low (up to 80% of area median income)</td>
<td>-8%</td>
<td>1%</td>
</tr>
<tr>
<td>Moderate (81% to 120% of area median income)</td>
<td>-6%</td>
<td>3%</td>
</tr>
<tr>
<td>High (more than 120% of area median income)</td>
<td>-2%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Figure 27. Black Families Hold the Least Amount of Housing Wealth

Figure 28. Black Homeowners Experienced Home Price Depreciation

\textsuperscript{12} “The sordid history of housing discrimination in America,” Vox, December 5, 2019.

Segregated housing has led to segregated schooling by virtue of how schools are generally funded in the U.S.

Separate & Unequal Education

Segregated housing has facilitated and perpetuated unequal access to quality education for Black Americans, which is pivotal to erasing income and wealth gaps. *Brown vs. the Board of Education* was designed to end separate and categorically unequal public schooling. However, housing segregation and the method used to fund schools have helped to perpetuate separate and unequal access to education for many Black students (Figure 31). A significant degree of evidence suggests a strong correlation between high-value housing and the quality of schooling. Seventy-five percent of children attend public schools in the U.S., which means they are assigned to a school nearest to where they live. If neighborhoods are segregated, then so are the schools. Moreover, if schools are largely funded via property taxes, then schools in wealthy neighborhoods will invariably receive greater resources, while schools in poorer areas will receive fewer resources (Figure 32). State governments attempt to make up the differences, but often fall short.\(^\text{14}\) Resources affect both the quality of the school and the education students are given. Hence, racially segregated schools in areas of concentrated poverty have fewer resources, higher teacher turnover, and a lower quality of education.\(^\text{15}\) School choice in the form of vouchers and charter schools have in various instances improved the quality of education, but have been unable to address the underlying problem of segregation.


Figure 31. Greater Racial Housing Segregation Often Means Less Public School Funding

School Funding Per Student ($) vs. Degree of Racial Housing Segregation (0=No Segregation)

Note: Empirical analysis and data collection for the school funding differentials by state are subject to specific constraints and limitations. Because of these limitations, the results presented here should be interpreted as meaningful trends and patterns rather than precise or deterministic relationships.


Figure 32. More Than One-Third of States Rely on Property Taxes as a Major Source of Public School Funding

Revenues for Public Elementary & Secondary Schools (by Source of Funds & State or Jurisdiction, 2016-17)

Policing & Voting

Policies relating to community policing and mass-incarceration have contributed to a deleterious cycle that has led to underrepresentation in government and the labor market.

Community Policing

Extraordinary levels of incarceration as a consequence of bias within the criminal justice system are evident from movements such as the War on Drugs. Following the Rockefeller drug laws of the 1970s and born from the Reagan era, the War on Drugs has become interchangeable with the enhanced prosecution of Blacks. The perceived injustice is only amplified when considering the disparate application of punishment when associated with crimes committed predominantly by Blacks, such as the abuse of crack-cocaine, with 88 percent of Federal crack defendants Black by 2012, in comparison to crimes committed predominantly by whites (powdered cocaine) (Figure 33). Though the original 1986 100-1 ratio (500 grams of powdered cocaine and just 5 grams of crack cocaine incurred the same five-year sentence) has been reduced by the 2010 Fair Sentencing Act, a significant disparity remains with the current ratio standing at 18-1. According to recent Bureau of Justice Statistics, there has been material improvement in incarceration rates in the U.S., with the rate for Black Americans declining the most; down 34 percent since 2006. Nonetheless, the share relative to the entire Black population remains stubbornly high (Figure 34).

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**Figure 33. Drug Offences for Black Prisoners Are Overwhelmingly for Crack Cocaine**

<table>
<thead>
<tr>
<th></th>
<th>Powder Cocaine</th>
<th>Crack Cocaine</th>
<th>Heroin</th>
<th>Marijuana</th>
<th>Meth-amphetamine</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>12.6</td>
<td>4.2</td>
<td>12.5</td>
<td>24</td>
<td>48.3</td>
<td>50.9</td>
</tr>
<tr>
<td>Black/African American</td>
<td>32.3</td>
<td>88.1</td>
<td>38.8</td>
<td>13.9</td>
<td>2.5</td>
<td>28.4</td>
</tr>
<tr>
<td>Hispanic/Latino</td>
<td>34.2</td>
<td>7.1</td>
<td>48</td>
<td>3.9</td>
<td>45</td>
<td>9</td>
</tr>
<tr>
<td>Asian/Pacific Islander</td>
<td>0.5</td>
<td>0.3</td>
<td>0.7</td>
<td>1.7</td>
<td>3</td>
<td>10.8</td>
</tr>
<tr>
<td>American Indian/Alaska Native</td>
<td>0.4</td>
<td>0.3</td>
<td>0.1</td>
<td>1.5</td>
<td>1.2</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: Bureau of Justice Statistics, Citi Research

Reductions in incarceration rates notwithstanding, Black Americans remain far more likely to be imprisoned than their other racial counterparts — almost twice as likely as Hispanic Americans and five times more likely than white Americans. As a result, the United States prison population is disproportionally Black dominated (33 percent) relative to their presence in the U.S. total population (12 percent). A similar trend can be seen with the Hispanic population (23 percent of prison population vs 16 percent of U.S. population), in contrast to white Americans who make up just 30 percent of the prison population despite being 63 percent of total U.S. population. Startlingly, one in every three Black boys born can expect to be sentenced within.

---


their lifetime, versus one in every six Latino boys and one in every seventeen white boys.

This disparity is even more apparent when reviewing individual age ranges, with 1 in 20 Black Americans between the ages of 35 and 39 in either State or Federal Prison. Moreover, several studies have shown the percentage difference in sentence length for Black versus white prisoners can be from 5 to 20 percentage points (Figure 35). Though only accounting for 5 percent of the global population, the U.S. is home to 25 percent of the world’s prison population, recording the highest incarceration rate globally. Aside from the racial inequality, the cost of maintaining this system is outsized, costing $81 billion in 2012 alone (with the rate of spending three times that on Pre K-12 education over the last 30 years).19

Figure 34. Imprisonment Rates Have Fallen, But Still Remain Elevated for Black U.S. Residents

<table>
<thead>
<tr>
<th>Year</th>
<th>Imprisonment Rates of U.S. Residents (Per 100,000 in Each Demographic Group)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>White: 1,800, Black: 1,400, Hispanic: 1,200</td>
</tr>
<tr>
<td>2010</td>
<td>White: 1,600, Black: 1,200, Hispanic: 1,000</td>
</tr>
<tr>
<td>2012</td>
<td>White: 1,400, Black: 1,000, Hispanic: 800</td>
</tr>
<tr>
<td>2014</td>
<td>White: 1,200, Black: 800, Hispanic: 600</td>
</tr>
<tr>
<td>2016</td>
<td>White: 1,000, Black: 600, Hispanic: 400</td>
</tr>
<tr>
<td>2018</td>
<td>White: 800, Black: 400, Hispanic: 200</td>
</tr>
</tbody>
</table>

Source: Bureau of Justice Statistics, Citi Research

Figure 35. Sentences for Black Prisoners Can Exceed Those of White Offenders by 5 to 20 Percentage Points

<table>
<thead>
<tr>
<th>Offenders</th>
<th>Sentence Length Difference %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black Male vs. White Male</td>
<td>20</td>
</tr>
<tr>
<td>Hispanic Male vs. White Male</td>
<td>15</td>
</tr>
<tr>
<td>Other Male vs. White Male</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: US Sentencing Commission, 1999-2016 data files, Citi Research

Incarceration also limits the ability of Black ex-offenders to obtain employment, earn income, and build wealth. The Brookings Institute highlights several key facts linking low job prospects to incarceration and vice-versa. Former prisoners fare poorly in the labor market, with only 55 percent earning any income in the first year of release and median earnings of only $10,090. Prisoners generally had poor labor market prospects before becoming incarcerated. An estimated 51 percent of prime-age men were employed two full years prior to imprisonment, with median earnings of only $6,250. Growing up in poverty dramatically increased the likelihood of incarceration. Boys raised in families in the bottom decile of the income distribution were 20 times more likely to be in prison in their early 30s than those born in the top decile. Notably, boys from the poorest families were 40 times more likely to be imprisoned than boys from the wealthiest families. Brookings finds that an astounding one-third of men age 30 without any annual earnings are either incarcerated or ex-prisoners. Moreover, where one grows up is highly correlated with the likelihood of incarceration. Imprisonment rates can vary by a factor of 30 between zip codes in the same city.20

19 NAACP. “Criminal Justice Fact Sheet.”
Bias against ex-prisoners leads to a poor earnings trajectory post-imprisonment.

A poor earnings trajectory post-imprisonment is linked to bias. Unemployment following incarceration is often a consequence of the “prison penalty,” where employers discriminate against persons with criminal records. Evidence of a criminal record reduces employer call-back rates by 50 percent.

Studies suggest that formerly incarcerated persons do desire to work: among 25-44 year olds, 93.3 percent were active in the labor market compared to 83.8 percent of the general population of the same age. However, unemployment rates for formerly incarcerated persons can be five times that of persons who were never imprisoned. Unemployment rates for Black female former inmates were 44 percent before COVID-19, and the rate for Black males was 35 percent. Black women are also more likely to work part-time jobs after imprisonment than other racial groups.

Voting Power

This cycle of mass incarceration becomes increasingly problematic when considering the impact of felony disenfranchisement and its disproportionate impact on people of color. As of 2016, one in every thirteen Black American adults could not vote due to felony convictions, with more than 20 percent of Black adults in four states (Florida, Kentucky, Tennessee and Virginia) disenfranchised. There is a sense of cyclicality within disenfranchisement as 27 percent of non-voters were rearrested versus only 12 percent of voters. It has been argued that political elections would have seen differing outcomes should disenfranchisement not have been established, including seven Senate races between 1970 and 1998, as well as the infamously tight Gore-Bush Presidential election of 2000. Though there has been significant progress, with 25 States modifying their felony disenfranchisement provisions since 1997 (10 repealing or amending lifetime disenfranchisement laws), it still stands that of the total 3.1 million American adults estimated as banned from voting, 2.2 million are Black Americans.

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The forced reduction in political clout is only compounded by already lower voter turnout rates for Black and minority voters versus their white counterparts. Excluding record turnout in 2008 (69.1 percent) during the Obama election cycle, Black voters have underperformed white voters with regards to turnout; 51.4 percent vs. 54.2 percent on average from 2000-2018.\(^{24}\)

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**Figure 38. Felony Disenfranchisement Restrictions by State, 2019**

- No restriction
- Prison
- Prison & parole
- Prison, parole & probation
- Prison, parole, probation & post-sentence

Source: The Sentencing Project

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The Black and minority vote is set to become increasingly significant as the U.S. is forecast to become minority white by 2045.\(^{25}\) With white voters at less than 50 percent for the first time, the influence of minority voters will be enhanced with the Black vote making up 13.1 percent of the vote, Hispanic 24 percent and Asian 7.9 percent. This trend is compounded by the emergence of Gen Z as part of the electorate. As a group, ‘minority majority’ is set to potentially be reached in Gen Z as early as this year (2020), with the 18-29 age range achieving this by 2027.\(^{26}\)

Perhaps unsurprisingly Gen Z voters are set to be some of the most ‘liberal’ yet, essentially reflecting Millennial positioning on key issues.

What is apparent is that Gen Z voters from both sides of the aisle are more consolidated around core social issues than their older counterparts. Significantly, over 60 percent of both Gen Z and Millennial voters view increasing racial and ethnic diversity as a good thing for society, versus only 48 percent of Boomers.

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*With the U.S. set to become minority white by 2045 based on demographic trends, the Black and minority vote will become increasingly significant*

*Younger voters (Gen Z) are more ethnically diverse and are more consolidated around core social issues than older voters*

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\(^{24}\) United States Elections Project. “Voter Turnout Demographics”.


\(^{26}\) Ibid.
More importantly, even amongst Republican Gen Z voters, a majority still agree with that statement, versus only 30 percent of Republican Boomers.\(^{27}\)

This disparity between younger and older Republicans can be found elsewhere, with a majority of Republican Gen Z also in favor of the government having a larger role in society. Sixty-six percent of American Gen Z and Millennials also hold the opinion that the Black population in the U.S. is treated less fairly than the white population vs. only 50 percent of Gen X. As the younger generations gain prominence amongst the voting population, first as a support to the already established Millennial voting trends and then in their own right, they will demand more political attention. With Gen Z voters composing 9 percent of the 2020 electorate (up from 4 percent in 2016), versus the declining share of Baby Boomers (from 68 percent in 2016 to only 4/10 in 2020), policymakers may need to be more conscientious of this new group of voters.\(^{28}\)

Recent events have rallied and inspired the political activism of many young and Black voters — traditionally two groups with lower-than-average voter turnout. Given the demographic makeup of Gen Z is increasingly diverse (minority majority by 2020 with Blacks (14 percent) and Hispanics (25 percent) the largest minority groups), its unsurprising that movements such as ‘#BlackLivesMatter’ had the support of over 60 percent of Millennials and Gen Z, versus only 37 percent of Boomers.\(^{29}\) Should young minority voters translate this intensified interest in addressing the issues most prominent to themselves into presence at the polls, then there is a real argument to stress the significance and impact this group can have.

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Voter suppression remains a persistent threat to full participation of Black voters in the U.S. democratic process. The connection between voter suppression and race did not end in the 1960s. Tactics that disenfranchise voters of color, and particularly Black voters, are still in existence today, although they are less blatant than those deployed during the Jim Crow Era. The Voting Rights Act of 1965 significantly curtailed voter suppression. In 1966, the Supreme Court invalidated poll taxes. However, a 2013 Supreme Court decision *Shelby County v. Holder* vacated key provisions of the Voting Rights Act opening the door for state and local governments to erect barriers to voting for racial minorities. The main element in the 2013 decision ended the requirement of state and local governments to obtain preclearance from the Federal government before changing voting rules. Over the last 10 years, 25 of 50 states have implemented new voting restrictions. Ten of those states have sizable Black populations: Mississippi, Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia, Illinois, Michigan, and Tennessee according to the Brennan Center.

New restrictive voting rules include requiring voters to present government-issued photo IDs, which disproportionately affects the youngest and oldest voters, as they are less likely to have a driver’s license or permit (Figure 41). There is even disparity among types of IDs. In Texas for example, handgun licenses, which are predominantly held by white persons (82 percent), are permissible (Figure 44). But student IDs are disallowed, despite more than half of the students of the University of Texas system being racial or ethnic minorities (51 percent). While the stated aim of voter rules is to combat voter impersonation fraud research by the Brennan Center for Justice has found scant evidence of such types of behavior. Other barriers to voting include restrictions on early voting, which is largely used by minority voters; third party voter registration drives that often target Black voters; voter list purges, which have eliminated 33 million voters from the rolls over the 2014-2018 period (Figure 43); and exact matches of voter registration form data and IDs. Other tactics include not upgrading technology; moving or closing polling stations without notifying voters; shortening voting hours; restricting early voting on weekends when Black voters are likely to vote; shutting Departments of Motor Vehicles (DMVs) in minority communities where heavy voter registration takes place; and/or not properly training poll workers. Federal courts have ruled that many voting restrictions have been implemented with the aim to racially discriminate.

### Figure 41. Black Voters Are More Likely to Not Have Government Issued Photo IDs

<table>
<thead>
<tr>
<th>Voting-Age Citizens in U.S. Without Current Government-Issued Photo ID</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
</tr>
<tr>
<td>8%</td>
</tr>
</tbody>
</table>

Source: Brennan Center, Citi Research

### Figure 42. In Some States, Like North Carolina, Black Voters Are More Likely to Vote Early

<table>
<thead>
<tr>
<th>Percentage of Early Voters in 2012 North Carolina Elections</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
</tr>
<tr>
<td>49%</td>
</tr>
</tbody>
</table>

Source: Brakebill vs Jaeger, Citi Research

### Figure 43. Several States with Notable Minority Populations Are Engaged in Heavy Voter Registration Purges: Percent of Lists Purged

Source: Brennan Center, Citi Research
Disparities in housing, education, policing, and voting rights plus conscious and unconscious bias have limited access to employment for many Black Americans, and consequently social mobility and wealth accumulation.

**Peak Income**

An extended history of job discrimination, plus unequal access to quality education in the U.S., have capped lifetime income prospects for many Black Americans. Census Bureau data reveal that as of 2018, it was still the case that male Black and Hispanic workers would see peak income earlier in their careers (age 40s), and at a far lower level (~$40,000) than their white male peers (early 50s and ~$65,000) (Figure 46). The gap between peak income between Black and Hispanic workers is even greater relative to Asian male workers (~$80,000), even though Asian males experience peak income around the same age. For women the peak age is about the same as males, and the gaps in income between races is smaller. Moreover, peak earnings for Black women are about $5,000 higher than for Black men. Nonetheless, women in general earn notably less over a lifetime than do men (Figure 47), having significant negative implications for retirement income which must typically be stretched over a longer period for women than for men.
Income is key to accumulating liquid assets, which are important for smoothing consumption. Lower lifetime income prospects not only cap retirement funds, but also limit spending options over the course of a lifetime, and especially during economic downturns. The Bureau of Labor Statistics’ Consumer Expenditure Survey shows that Black families spend slightly more of their incomes than other ethnic and racial groups on budgetary staples, including on housing (20 percent) and utilities (8 percent) (Figure 48). Black families (69 percent) are highly likely to be faced with unaffordable child care options, as are Hispanic families (72 percent), which can often consume as much as 11 percent of a family’s monthly income (Figure 49).\(^\text{30}\) Importantly, the level of family income is important for creating liquid assets (i.e., savings in the form of cash or easily convertible instruments like certificates of deposit (CDs)).

Savings are paramount for helping families to smooth their consumption over a lifetime, particularly during recessions, and shocks including job loss and illness. According to the Federal Reserve Board’s Survey of Consumer Finances, the median amount of liquid assets held by Black families in 2016 (the most recent reading), was $11,400 (Figure 50). This is roughly one-third of what white families held ($29,200), suggesting that Black families are potentially more vulnerable to hardship during tough economic times. Hispanic families were worse off, with just $6,500 in liquid assets.

Figure 48. Black and Hispanic Families Spend Slightly More on Housing than White and Asian Families

Figure 49. Black and Hispanic Families Are More Likely to Experience Challenging Child Care Options

Source: Bureau of Labor Statistics Consumer Expenditure Survey; Citi Research estimates

Figure 50. Black Families Hold Roughly One-Third of the Liquid Assets that Are Key to Smoothing Consumption than White Families Hold

Source: Federal Reserve Survey of Consumer Finances, Citi Research

Wealth and Debt Gaps

The Federal Reserve Board’s Survey of Consumer Finances reveals that the wealth gap between Black families and white families has remained persistently wide. Among Black families, household net worth, which is defined as total assets less all liabilities, has hovered in the $15,000 to $25,000 range over the last thirty years (Figure 51). Net worth for white families has been in the range of $115,000 and $200,000. The gap between white and Black familial income is a multiple of eight. Meanwhile, the leverage ratio — debt divided by assets — for Black families has remained stubbornly elevated above 25 percent over much of the last 30 years, while the leverage ratio for white families has held between 10 and 15 percent (Figure 52). These metrics matter as the body of literature suggests that wealth and debt play meaningful roles in social mobility, especially from one generation to the next.
Building wealth is not just a function of higher income, but the ability to save out of income once basic needs are met. The outsized debt-to-asset ratio for Black families indicates that a number of families have insufficient income to meet needs and are financing expenditures with credit. This indicates a lack of disposable income available for saving and investing. Other factors contributing to wealth accumulation include (1) intergenerational transfers of wealth within families; (2) conditions where one lives, such as poverty rates, home values and housing segregation; (3) geographic and financial barriers to human capital formation (e.g., elevated costs for education; limited job prospects in region); (4) discrimination in labor markets and/or racially motivated segmentation; and (5) racial biases in policies and practices of government, institutions, and the private sector. Without amelioration, each of these factors discussed above will perpetuate racial wealth gaps.

Figure 51. White Families Have 8x More Wealth than Black Families

Figure 52. Leverage Ratios for Black Families Have Remained Elevated

31 (i) (e.g., Meschede et al. 2017; Chiteji and Hamilton 2002; McKernan et al. 2014b); (ii) (e.g., Chetty et al. 2019; Perry et al. 2018); (iii) (e.g., Dobbie and Fryer 2011; Jackson and Reynolds 2013; Addo et al. 2016); (iv) (e.g., Grodsky and Pager 2001; Bertrand & Mullainathan 2004); (v) (e.g., Oliver and Shapiro 2013; Katznelson 2005; Robles et al. 2006; Bayer et al. 2014; Asante-Muhammer).
Closing Gaps Generates Growth

Figure 53. The Economic Case for Closing Racial Gaps in the United States

Amid a once-in-a-century global pandemic that has resulted in staggering economic and job losses, investors should welcome ideas and actions that can add value. Closing racial gaps is one.

The business case for eliminating racial gaps is well established. Some firms believe continuing to focus on Diversity & Inclusion (D&I) as part of their COVID-19 recovery strategy is a luxury. However, evidence shows firms who do not abandon D&I protocols may fare better. Companies in the top quartile for both gender and ethnic diversity are 12 percent more likely to outperform companies in lower quartiles. Top quartile companies outperformed those in the fourth by 36 percent in terms of profitability (up from 33 percent in 2017, 35 percent in 2014).³²

The economic case for closing racial gaps is equally compelling. Present racial gaps in income, housing, education, business ownership and financing, and wealth are derived from centuries of bias and institutionalized segregation, producing not only societal, but also real economic losses. However, future gains from eliminating these gaps are enormous: benefiting not only individuals, but also the broader U.S. economy with positive spillover effects into the global economy. If four key racial gaps had been closed 20 years ago, then the additional GDP that could have been added to the U.S. economy might have summed to as much as $16 trillion. Casting this amount forward into the future, a global economic model suggests roughly $5 trillion could be added to U.S. GDP through 2025 from closing the gaps. The consequent additions to U.S. and global GDP growth averages roughly 0.4 percentage point and 0.1 percentage point per year, respectively. These gains do not reflect the potential narrowing of the wealth gap experienced by Black persons in the U.S., which would inevitably also lead to additional economic gains.

Racial and gender wage gaps remain wide in the U.S., signaling lost opportunity for income, consumption, investment, and real GDP growth. Typically, wage gaps are measured by comparing the median wage of female and/or non-white workers to that of white males. Over the last 20 years, wages for Asian males have broken significantly above those of white males, and in the most recent two years, wages for Asian women exceed those of white males. However, for white women in general and Black and Hispanic workers in particular, the gaps between white male wages persist. The gap for Black male wages compared to white male wages was 80 cents on the dollar, as of 2020. The gap for Black female wages to white male wages was just below 70 cents on the dollar in 2020. The gaps for male and female Hispanic workers relative to white male wages is even starker at about 70 cents and 60 cents, respectively (Figure 54).

Individual wage losses due to gaps over the last 20 years have been substantial. The gap in terms of aggregate income for white female wages (i.e., all white women nationwide) compared to white male wages has been narrowing as a share of U.S. GDP over the last 20 years (Figure 55). Some of this reflects slower GDP growth in general, but also a slight increase in white female wages. However, for Black and Hispanic male and female workers, their gaps as shares of GDP have not improved. The presence of gaps denote significant opportunity loss in terms of wages that could have been used for personal consumption, home buying, or investment in small businesses. As the wage gap with white males was not collapsed for white females 20 years ago, the typical individual white female worker missed out on roughly $175,000 in additional income. For Black males, the loss was approximately $225,000, for Black females and Hispanic males about $300,000, and for Hispanic females roughly $360,000 (Figure 56).
Figure 55. Wage Gap has Narrowed Somewhat for White Women but Not for Black, Hispanic and Other (Non-Asian) Minority Groups

Annual Wage Gap with White Male Salary (% of GDP)

Source: Bureau of Labor Statistics, BEA, Citi Research estimates

Figure 56. Accrual of 20 Years of Lost Income Due to Wage Gap is Acute for the Representative Black and Hispanic Worker

Approximate Individual Loss in Income (2000 to 2020)

Source: Bureau of Labor Statistics, Citi Research estimates

Closing the Gap

The wage gaps between minorities and white males, if closed 20 years ago might have generated $12 trillion in additional income, and indeed for Black workers an additional $2.7 trillion. Since the Great Financial Crisis, income inequality expressed in one fashion by wage gaps has worsened in most years. The aggregate amount of income lost due to wage gaps each year is equivalent to a roughly 0.15 percentage point contribution to U.S. GDP growth per year (Figure 57). While that appears to be a nominal amount in comparison to the losses experienced amid the COVID-19 global recession, in “normal” years a nearly 0.2 percentage point add to annual U.S. GDP growth is actually quite substantial. This is especially true as the pre-pandemic economy was on course to slow to a new equilibrium rate of 1.7 to 1.9 percent a year. The total amount of income that could have been generated since 2000 if all income gaps were closed sums to an astounding $12 trillion, with $5 trillion from closing the white male-white female gap, and another $7 trillion from closing the gaps between white males and Black and Hispanic workers. The contribution of closing the Black worker gaps with white male wages is an outsized $2.7 trillion (Figure 58 and Figure 59).
Figure 57. Closing Wage Gaps for White Women and Minorities Could Have Contributed to GDP Growth in Most Years Post-Great Financial Crisis (GFC)

Wage Gap with White Male Salary
(Contribution to Real GDP Growth)

Note: Red rectangles denote U.S. recessions
Source: Bureau of Labor Statistics, Bureau of Economic Analysis (BEA), Citi Research

Figure 58. Gaps with White Male Salaries Remain Wide in 2020

Annual Wage Gap with White Male Salary
(Real $bn, % of GDP, 1Q 2020)

Figure 59. Lost Wages Add Up to Trillions of Dollars in Foregone GDP

Gains in Real GDP From Closing Gaps 20-Years Ago
(Estimated $bn)

Source: Bureau of Labor Statistics, BEA, Citi Research
Racial Labor Segmentation Gap

Location, Location, Location

Where a person works determines their wage potential. In general, Black workers are underrepresented in management, business, financial, professional and related occupations that pay the highest salaries. The share of Black managers is roughly 10 percent compared to almost 20 percent among white workers (Figure 60). The share of Black professionals is about 20 percent compared to nearly 35 percent among Asian. On balance, Black workers represent 10 percent or less of many of the occupations that pay the top wages, including STEM, finance, legal, medicine, and management jobs (Figure 61). Black workers are, however, overrepresented in sales and services occupations, office and administrative, as well as in transport and material moving occupations (Figure 62).

Black workers are more likely to be situated in jobs requiring lower skills and/or are more susceptible to automation. Skill requirements and the risk of automation appear to be drivers of wage differences between more technical and less technical occupations. A study by Carl Benedikt Frey and Michael Osborne highlighted in the Citi GPS report Technology at Work noted that 47% of U.S. jobs were at risk due to automation. Among Black workers, close to half (46 percent) work in jobs that are subject to potential automation compared to those that are not (54 percent), and only 3 percent of Black workers are in technical jobs, leaving the other 97 percent in non-technical jobs that could be automated to some degree (Figure 63).
Figure 62. Black Workers Are More Concentrated in Jobs that Pay Less than $25/hour and May Also Require Fewer Skills

**Source:** Bureau of Labor Statistics, Citi Research

Figure 63. Black People are More Likely to Work in Jobs That Are Susceptible to Automation

**Source:** U.S. Government Accountability Office, BLS and Citi Research
Closing the Gap

Encouraging Black students and workers to pursue education and training suitable to more technological and skills-based careers can help close the racial labor segmentation gap. The BLS cites literature in labor economics positing that technology has increased the productivity of workers with college educations more than workers with less education. The increase in productivity helps explain the rise of earnings for college-educated workers relative to the earnings of non-college-educated workers, despite the increase in the labor supply of college-educated workers. The BLS notes that since 1980, the relative incomes of college-educated workers have risen compared to high school-educated workers, after adjusting for other observable factors. The phenomenon is called the college earnings premium, which has increased from 34 percent in 1980 to 68 percent by 2018 (Figure 65). One aspect of the widening premium is the share of hours worked by college-educated workers has nearly doubled from 20 percent in 1979 to 39 percent by 2018. In a simple supply-demand framework, this suggests demand for college-educated workers has outpaced the steady increase in supply. Hence, there is plenty of room for more Black college graduates to be absorbed into the U.S. labor market.

Figure 64. Select Occupations Are More Susceptible to Automation

<table>
<thead>
<tr>
<th>Occupations Projected to Experience Declines in Share of Industry Employment Due to Automation (2016-2026E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Farming, Fishing, &amp; Forestry</td>
</tr>
<tr>
<td>Business &amp; Financial</td>
</tr>
<tr>
<td>Transport &amp; Material Moving</td>
</tr>
<tr>
<td>Office &amp; Admin Support</td>
</tr>
<tr>
<td>Production</td>
</tr>
</tbody>
</table>

-10% 10% 30% 50%

Source: US Government Accountability Office, BLS, Citi Research

Figure 65. College Degrees Produce Notable Wage Benefits

College Wage Premium, Experience Premium, & Share of Labor Supplied by College-Educated Workers (1964–2018)

0% 20% 40% 60%

Source: BLS, Citi Research
Higher Education

Encouraging Black students to pursue higher education is a manner in which racial wage and income gaps can be closed, but there are challenges. Plenty of literature and simple calculations affirm that persons with a degree beyond a high school diploma earn more over a lifetime than persons with a high school degree or less. The difference over a 40-year career is upwards of $1.3 million for a person with a bachelor’s (or equivalent) degree and $2.0 million for a person with an advance degree (Figure 66). However, the path towards college and advanced degrees for Black students is challenged by lack of access to a quality pre-school education and underfunding of public schools from grades K-12. For Black students who do attend college, which since 1980 has consistently been 10 percentage points below the national average, the occupation chosen after graduating from college or with an advanced degree also determines lifetime income.

Figure 66. Students Earning Bachelor or Advanced Degrees Earn More Lifetime Income

Estimated Earnings Over 40-Year Career
(2010 to 2050E)

<table>
<thead>
<tr>
<th>Education Attainment</th>
<th>Estimated Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Than High School Diploma</td>
<td>$1.3 mn</td>
</tr>
<tr>
<td>High School Diploma</td>
<td>$2.0 mn</td>
</tr>
<tr>
<td>Some College or Associate's Degree</td>
<td>$1.3 mn</td>
</tr>
<tr>
<td>Bachelor's Degree</td>
<td></td>
</tr>
<tr>
<td>Advanced Degree</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics, Citi Research

Access to Pre-School

Education literature suggests that children who receive a pre-school education perform better once in grades K-12. Pre-school programs also serve as an important form of childcare for working parents. A Brookings Institute report summarizing early education studies found that high-quality programs produced short-term gains in cognitive functioning and longer-term gains in school achievement and social adjustment. Moreover, pre-school education yields higher school achievement, fewer children being ‘left-back’ in a grade, reduced need for special education, and a reduction in neighborhood crime. Early childhood education can also save governments between $13,000 and $19,000 per child over and above the cost of the pre-school program. The National Center for Education Statistics reported that in 2018, 26 percent of Black children aged 3-5 years old attended full-time pre-school, exceeding every other racial group (Figure 67). Slightly more white children overall (43 percent) attended either full- or part-time pre-school, compared to 38 percent of Black children. Nonetheless, a sizable number of Black children overall attend pre-school.
But access to high-quality, adequately-funded pre-school varies by state... and poor funding is directly linked to quality of education.

However, access to high quality, adequately-funded pre-school remains challenged in terms of availability, quality, funding, and training of teachers. State-funded (as opposed to private) pre-school programs serve just 22 percent of 4-year-olds and 3 percent of 5-year-olds. Only three states — Florida, Georgia, and Oklahoma — make pre-school available to all 4-year-olds. Twelve states with state-funded pre-school do not offer programs to 3-year-olds, and 12 states have no state-funded pre-school at all (Figure 68). Overall state spending on pre-school is disparate, ranging from $1,600 per child to $10,000, and the average amount of spending ($3,600 per child) is roughly one-third of the average spend on public school students in K-12. Quality of education also varies. The National Institute for Early Education Research (NIEER) reports only 17 states meet eight or more of their ten quality-checklist criteria. Poor funding is directly linked to quality according to NIEER, and programs serving primarily poor students tend to receive less funding than those who serve more middle-class students. Relatedly, while 76 percent of pre-school teachers have a Bachelor’s degree, only roughly 56 percent have a teaching certificate to teach young children. Moreover, pre-school teachers earn less than half of that earned by elementary school teachers, and 70 percent report earnings below 200 percent of the Federal poverty guidelines.

These figures are important, as state programs comprise 70 percent of all early childhood education centers, and the states with the least funding and poorest quality tend to host large Black populations.

**Funding K-12 Schools**

The racial education gap begins with widespread underfunding of schools with high concentrations of children of color. The average difference in funding of predominately white school districts and predominately minority school districts sums to $23 billion, despite serving roughly the same number of children, according to a study by nonprofit think tank EdBuild. In the U.S., 27 percent of students live in non-white districts, while 26 percent live in white districts. In white districts, 5 percent of students live in high-poverty areas, while in non-white districts 20 percent of student live in high-poverty areas (Figure 69). Even relative to high-poverty white districts, well-off non-white districts receive less money.
The difference between the revenue received for funding low-poverty white districts ($14,121 per student) and all non-white districts ($11,853) is more than $2,200 per student (Figure 70). EdBuild estimates the national average difference in revenue per student between non-white and white districts is $2,226. This difference this difference sums to $22.5 billion ($2,226 times 10,126,150 affected students). States that stand out in terms of the severity of the funding gap between non-white and white school districts include California, Texas, New Jersey, and Arizona (Figure 71).

Reliance on property taxes for school funding means wealthier municipalities will have potentially greater resources to finance their school districts.

Where a student resides can determine whether they will face a funding disadvantage. The Federal government spends roughly $23 billion a year on K-12 education. While a sizable figure, it only constitutes 10 percent of total funding for public schools. The remaining $660 billion is raised at the state and local government level. The gap in school funding reflects a combination of past housing segregation policies and a patchwork of current district financing schemes that value local control.
According to EdBuild, nearly all states rely upon property taxes to fund schools. Hence wealthier municipalities will have potentially greater resources to finance their school districts. Fifteen states also generate funds through locally-raised sales taxes, six permit locally-governed income taxes and many states use revenues from lottery gaming programs. Just over half of all states employ a student-based formula, while the remainder fund schools based upon a variety of formulas.

**STEM and High-Demand Careers**

In addition to funding, school curricula and whether students are directed towards high-wage and/or in-demand occupations matters for closing the education gap that can help solve the income gap. Department of Education data from 2013 indicated that U.S. high school students were on average taking fewer course credits in STEM (Science, Technology, Engineering, and Mathematics) disciplines than in humanities and arts. Even among those taking STEM coursework, Black students took slightly fewer credits than their white and Asian counterparts (Figure 72). More recent data from 2015-16 show that among students receiving university degrees few — 20 percent or less — earn degrees in STEM-related fields, which typically have elevated wages and lifetime earnings potential. Asian students were the exception, with 30 percent of all degrees from STEM programs. Among all other students, Black students produced the least STEM graduates at 12 percent (Figure 73).

STEM jobs generally pay more than many ‘middle-class’ non-STEM jobs. Even within the STEM fields, jobs requiring greater skills pay notably more than the U.S. national median annual salary of $38,640 (Figure 74). It’s logical for young students, to not only pursue more difficult jobs in the STEM, finance, and legal fields, but to also aim for those requiring greater mental and/or technical acuity within these fields given the enhanced potential for increased lifetime earnings. Access to high quality education and opportunities throughout one’s academic career, as well as guidance by mentors and exposure to higher paying occupations early in one’s working career are key to closing the gap.
Closing the Gap

Closing the gap in advanced degrees between Blacks and the national average 20 years ago would have produced an additional 1.7 million Black university graduates.

Figure 75. The Gap Between Black and National Degree Attainment Has Been Fairly Steady at Around 10 Percentage Points

Closing the college/advanced degree racial gap 20 years ago might have generated up to $113 billion in additional income for saving, investing and consumption. Since the early 1980s, the proportion of Black people aged 25+ who obtain a bachelor’s degree has persistently been about 10 percentage points below the U.S. national rate (Figure 75). If this gap was closed back in 2000, then over the last 20 years there might have been an additional 1.7 million Black university graduates. If these graduates earned the median income that bachelor degree holders made, as described above, the equivalent additional income generated might be roughly $90 billion. If all of those graduates obtained advanced degrees, the figure might increase to $113 billion (Figure 76). This is not a recommendation for students to only pursue college or graduate school. It is saying that any degree — college, graduate, associate, technical — in excess of a high school degree typically signals greater lifetime income.

Source: National Center for Educational Statistics, Citi Research

Figure 76. Closing the 10 Percentage Point Gap 20 Years Ago Might Have Generated an Additional $90 to $113 Billion in Black Income
Racial Wealth Gap

Black and Hispanic families continue to trail white and Asian families in accumulating wealth. Issues like lack of inheritances and barriers to entry, including to income and access to credit, appear to be working against the ability of Black and Hispanic families to amass wealth required for acquiring assets for personal financial security and community investment. Data from the Federal Reserve’s 2010 and 2013 Surveys of Consumer Finances, while dated, reveal that inherited wealth significantly bolsters familial wealth, particularly for white families (Figure 77). Black families are less likely to receive (10.6 percent) or expect an inheritance (5.9 percent) relative to white families (22.9 percent and 18.8 percent). Meanwhile, easier avenues toward the accumulation of generational wealth, like home ownership and retirement benefits, are littered with obstacles for minorities, especially Black and Hispanic families.

Figure 77. Inheritance Can Meaningfully Bolster Familial Wealth

<table>
<thead>
<tr>
<th></th>
<th>Including Households With Inheritances</th>
<th>Only Households Without Inheritance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean Wealth</td>
<td>Median Wealth</td>
</tr>
<tr>
<td>White</td>
<td>$1,152,818.00</td>
<td>$287,457.00</td>
</tr>
<tr>
<td>Black</td>
<td>$168,238.00</td>
<td>$38,174.00</td>
</tr>
<tr>
<td>Hispanic</td>
<td>$399,498.00</td>
<td>$65,960.00</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board, Citi Research

Financial Assets

Black families have one-third, and Hispanic families one-fourth the financial assets of white families. Financial assets are dependent on income, job benefits, the ability to accumulate savings, and generational (inherited) wealth. The ability to invest depends on initial conditions including inherited wealth, the ability to work in a high wage job that facilitates savings needed for investment, a higher tolerance for risk, and financial savvy. The sections above explain the challenges for Black and Hispanic families regarding inheritances and high wage employment. Linked to high wage employment are benefits including retirement benefits and pooled investment funds like 401K plans, which are an easy way to accumulate financial wealth. Black and Hispanic workers are almost equally likely to participate in traditional pension plans, but less likely to participate in 401K plans relative to their white counterparts (Figure 78). Jobs that have unions which bargain for pensions may explain some of the similarity in rates of participation among racial groups. Greater labor force participation in jobs that are non-unionized, part-time and/or lacking in benefits among Black and Hispanic workers may explain the disparity for 401K plans (Figure 79).
Nonfinancial Assets

Black families have fewer assets in every category of nonfinancial wealth compared to other races. Nonfinancial assets depend upon income and wealth (Figure 80), but also equal access to credit. The largest contributors of nonfinancial wealth are related to real estate (primary residence, other residential property and nonresidential property). Property is typically acquired through inheritance, or a combination of savings (from earned income and financial assets) and access to credit, which is often dependent upon one’s savings, proof of a perpetual source of income (wages), and credit history. Black families are trailing other races on nearly all of these fronts, rendering the path towards building wealth through nonfinancial assets difficult to attain (Figure 81).

Figure 78. Black and Hispanic Workers Are Less Likely to Participate in 401(k) Plans

Figure 79. Black Men are Slightly More Likely to Work Part-Time than White Men; Black Women More Likely to Work Part-Time than Men

Source: Federal Reserve Survey of Consumer Finances, Citi Research
Source: Bureau of Labor Statistics, Citi Research

Figure 80. Black Families Have One-Third of the Financial Assets of White Families

Figure 81. Black Families Have Fewer Assets in Every Category of Nonfinancial Wealth Relative to Other Races

Source: Federal Reserve Board, Citi Research
Source: Federal Research Board, Citi Research
The primary driver behind the wealth gap is the income gap. Therefore, policies designed to speed the closing of the racial wealth gap should focus on closing the racial income gap.

**Hard and Soft Barriers**

The Federal Reserve found the primary driver behind the wealth gap is the income gap. Moreover, the income gap is large enough to explain the persistent difference in wealth accumulation between different racial groups in the United States. The key policy implication of this finding is that policies designed to speed the closing of the racial wealth gap should focus upon closing the racial income gap. Looking at the Federal Reserve’s Survey of Consumer Finances dating back nearly 40 years reveals that while wealth and incomes have fallen, the ratio of both wealth and income of Black and white families remained persistently wide (Figure 82). Looking ahead, the Federal Reserve estimates the wealth gap can be eliminated if the racial income gap is closed (Figure 83). This effect would eventually negate the influences of unequal bequests, initial conditions, and unequal returns. The downside is that this might take roughly 200 years to achieve.

**Figure 82. Wealth and Income Ratios of Black and White Means in the Survey of Consumer Finances Reveal Persistently Wide Gaps**

![Figure 82](image)


**Figure 83. Contribution to Factors of Wealth Gap Over Time**

![Figure 83](image)


Intangibles also matter significantly for wealth accumulation. Black and Hispanic families are less likely to have exposure to financial markets and peer groups of successful investors, which help provide the financial literacy required to make informed decisions. Black and Hispanic people are few and far between in finance jobs, which would facilitate education and access to peer groups (Figure 84). Moreover, financial literacy coursework is still far from fully included in academic curriculums, which is problematic for all students, not just for students of color. According to the Council for Economic Education, only 21 states require high school students to take a course in personal finances, and only a handful of states require standardized testing around financial literacy (Figure 85). Compounding these barriers are the lower levels of tolerance for risk among Black and Hispanic families which is strongly associated with the level of net worth (i.e., higher net worth allows for a higher risk tolerance) (Figure 86 and Figure 87).
Figure 84. Black People Represent Small Share of Financial Workers

**Persons Employed in Financial Services (2019)**

- Insurance Carriers & Related Activities
- Securities, Commodities, Funds, Trusts, & Other FIs
- Nondepository Credit & Related Activities
- Savings Institutions (incl Credit Unions)
- Banking & Related Activities

Source: Bureau of Labor Statistics, Citi Research

Source: Council for Economic Education

Figure 85. Few States Mandate Financial Literacy Coursework

**STATUS OF PERSONAL FINANCE EDUCATION ACROSS THE NATION—2020**

Source: Federal Reserve Board: Exploring the Racial Wealth Gap Using the Survey of Consumer Finances

Figure 86. Average 2013 Family Wealth by Attitudes Toward Saving and Investing (Family Head Ages 35 to 59)

<table>
<thead>
<tr>
<th>Attitude</th>
<th>White Net Worth</th>
<th>Black Net Worth</th>
<th>Hispanic Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tolerant of risk</td>
<td>$1,079,478.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not tolerant</td>
<td>$375,608.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Horizon</th>
<th>White</th>
<th>Black</th>
<th>Hispanic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long time horizon for saving and investing</td>
<td>23%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Short or medium time horizon</td>
<td>71%</td>
<td>53%</td>
<td>52%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Borrowing behavior</th>
<th>White</th>
<th>Black</th>
<th>Hispanic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approve of borrowing for vacations or luxuries</td>
<td>18%</td>
<td>21%</td>
<td>17%</td>
</tr>
<tr>
<td>Do not approve</td>
<td>67%</td>
<td>53%</td>
<td>52%</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board: Exploring the Racial Wealth Gap Using the Survey of Consumer Finances

Figure 87. Wealth, Race, and Attitudes Toward Saving and Investing: Distribution of Attitudes by Race

**Risk Tolerant | Long Horizon | Luxury Borrower**

- White 23% 71% 18%
- Black 15% 53% 21%
- Hispanic 15% 52% 17%
- Total 21% 67% 18%

Source: Federal Reserve Board: Exploring the Racial Wealth Gap Using the Survey of Consumer Finances
Racial Housing Gap

Housing is the largest stock of wealth most families hold, with Black families facing the greatest obstacles to home ownership. At 47 percent as of the first quarter of 2020, Black families have the lowest rate of home ownership among different racial groups (Figure 88). Income and wealth gaps contribute to lower levels of homeownership, but so do other factors, including access to credit, outstanding debt, and a short supply of affordable housing options.

Figure 88. Black Homeownership Rates Are Below That of All Other Racial Groups

Source: Census Bureau, Citi Research

Access to Credit

The path towards Black family home ownership is limited by reduced access to credit. The Consumer Financial Protection Bureau (CFPB) reported in 2019, Black families continued to be the most likely racial group to be denied a conventional or nonconventional mortgage for home purchase or refinance (Figure 89). The denial rate for Black families remained above 15 percent for home purchase and was roughly 35 percent for refinance, compared to just above 5 percent and 15 percent, respectively, for white families. The higher denial rate for Black families largely reflected elevated debt-to-income ratios, poor credit histories, and incomplete applications (Figure 90).
Figure 89. Black People Continue to Experience the Highest Level of Mortgage Loan Denials

Consists of applications by American Indians or Alaska Natives, Native Hawaiians or other Pacific Islanders, and borrowers reporting two or more minority races.
Source: Consumer Financial Protection Bureau, Citi Research

Figure 90. Elevated Debt-to-Income Ratios, Poor Credit Histories, and Incomplete Applications Are the Main Drivers of Loan Application Denials for Black Homebuyers and Mortgage Loan Refinancers

Consists of applications by American Indians or Alaska Natives, Native Hawaiians or other Pacific Islanders, and borrowers reporting two or more minority races.
Source: Consumer Financial Protection Bureau, Citi Research
Lack of access to traditional financial services in Black neighborhoods, plus higher account requirements drive Black families to alternative financial institutions which are costly.

Access to Financial Services

Lower credit scores among Black families can be partially explained by the forces of structural racism in the financial system. Research shows the legacies of redlining, community segregation, and few traditional financial institutions in predominately Black neighborhoods have limited access to traditional credit for Black borrowers' and exposed them disproportionately to predatory lending sources. A study by think-tank New America reveals that alternative financial institutions predominate in states where more Black people tend to reside. An overlay of the 16 states (IL, MI, AR, LA, MS, AL, TN, GA, FL, SC, NC, VA, MD, DE, NJ, NY) where Black people represent a greater percent of the population than the national average, maps nearly one-to-one with the elevated number of alternative banking institutions (Figure 91). Moreover, traditional banks in predominately Black neighborhoods, tend to require higher initial opening deposits, higher minimum balances. This translates into Black accountholders needing to deposit a higher percentage of their paychecks into accounts to avoid fees or closure (Figure 92). Higher costs contribute to the elevated number of unbanked individuals who are forced to turn to alternative financial institutions like check cashing outfits and payday lenders, which carry higher interest rates and fees (Figure 93). McKinsey estimates the average person could save as much as $40,000 over a career by switching from check cashing places to a traditional bank account. Fines, fees, and subprime borrowing erode credit scores and consequently reduce access to credit for home ownership (Figure 94).

Figure 91. Traditional and Nontraditional Banking Services by Concentration of Minority Populations

Source: New America
Figure 92. Even Traditional Banking Can Cost More for Minority Communities

Figure 93. Black Consumers Are More Likely to be Unbanked or Underbanked

Figure 94. There is a Notable Relationship Between Alternative Financial Services Use and Low Credit Scores

Student Loan Debt

Elevated student loan debt and high debt-to-income levels inhibit Black homeownership.

Elevated debt-to-income levels and poor credit histories linked to student loan debt are also likely inhibiting Black homeownership. The Urban Institute found that African Americans with four-year college degrees have a lower homeownership rate than white Americans without a high school diploma — 56.4 percent vs. 60.5 percent (Figure 95). Of all racial groups, the Federal Reserve Board’s Survey of Household Economics and Decisionmaking reveals Black persons (43 percent) are more likely to have student loan debt than white persons (24 percent), and have more student loan debt on average regardless of housing situation (Figure 96). The income and wealth gaps contribute to the sizable amount of student loans Black persons borrow and ultimately carry as debt. Also according to the Center for Responsible Lending, Black persons with a college degree are five times more likely to default on their student debt than white Americans, which is also associated with the wealth gap. The presence of elevated student loan debt and/or defaults render a person less likely to meet mortgage lending standards.
Affordable Housing

In many metropolitan areas with large Black populations, geographic segregation is compounded by lack of available affordable housing. Even when income and credit conditions are met, lack of affordable housing remains a major constraint to homeownership for many Black families. Data from the Census Bureau and real estate agency Zillow reveal that in many metropolitan areas with large Black populations, geographic segregation is compounded by lack of available affordable housing. The dissimilarity score is a metric that measures the extent to which racial groups are clustered in geographic areas. Again, many of these clusters are a result of past policies including housing discrimination and redlining. Cities with sizable Black populations including New York, Los Angeles, Washington DC, Boston, Miami, Philadelphia, Atlanta, Houston, and Detroit are not only quite segregated (dissimilarity scores closer to 1 than 0.5) but also have wide gaps between the least and most expensive homes (Figure 97). A Trulia real estate agency study also revealed the widening gap between the median home valuation and most homes in large metro areas appeared to be occurring at the lower end of the market. In other words in most markets affordable housing is disappearing.
Closing the Gap

Closing the Black family housing gap 20 years ago might have generated $218 billion in additional U.S. consumption. According to the Urban Institute, the current 30 basis point gap between Black and white family home ownership is greater now than before 1968 when housing discrimination was legal. The ownership spread is directly related to the racial wealth gap and the increase in inequality in general post the Great Financial Crisis. If the Black home ownership rate were returned to the 2000 level, there would be an estimated 770,000 additional Black homeowners.

Multiplying the National Association of Realtor’s median existing home price by this figure equates to $154 billion in additional home sales over the 2000 to 2019 period (Figure 98). A simple calculation of spending on maintenance, cars, and furniture, which often accompany home buying using the Bureau of Labor Statistics’ Consumer Expenditure Survey suggests that there might have been another $65 billion in consumption over the last two decades (Figure 99).

Source: Census Bureau, Zillow, Blackdemographics.com, Citi Research
Figure 98. 770,000 Additional Black Homeowners Might Have Added Another $154 Billion in Spending on Housing Since 2000

Estimate of Additional Home Purchases ($bn)

Source: National Association of Realtors, Citi Research

Figure 99. Black Homeowners Might Have Generated an Additional $65 billion in Consumption on Housing-Related Expenditures

Estimate of Additional Expenses ($bn)

Source: Bureau of Labor Statistics, Citi Research

Figure 100. Seventeen Percent of the Black-White Homeownership Gap Remains Unexplained

Oaxaca Decomposition: Estimated Explanatory Power For Black-White Home Ownership Gap at the MSA Level

<table>
<thead>
<tr>
<th>Category</th>
<th>Explanatory Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own dwelling expenses</td>
<td>3.0%</td>
</tr>
<tr>
<td>Furnishings</td>
<td>2.0%</td>
</tr>
<tr>
<td>Vehicles</td>
<td>21.9%</td>
</tr>
<tr>
<td>Gasoline</td>
<td>17.0%</td>
</tr>
</tbody>
</table>

Source: Urban Institute, Citi Research
**Racial Investment Gap**

**Capital Deficit**

Black entrepreneurs suffer not from a lack of vision, but a lack of funding along every point in the investment cycle. Funding is a challenge over the phases of start-up and as the business matures (Figure 101). Indeed, Black business owners are more likely to cease the operations of their business due to insufficient sales and/or lack of financing than other racial group (Figure 102). During the early stages of funding for a new business, Black founders are more likely to source funds from family, friends, and employees than are white founders. However, funding from friends and family tends to yield $25,000 or less in capital for Black-owned firms, and even less for white-owned firms (Figure 103). Black founders are more likely to bring their own resources to the table than are white founders, with Black founders more apt to use personal and business credit cards that may have higher interest rates and fees (Figure 104). Black founders are also less likely to receive other forms of financing, including business loans from banks, financial institutions, and friends, grants, and professional investors (e.g., angel and venture capital investors). For Black founders who do gain access to these other types of investment, the percentage receiving loans of $100,000 or more is somewhat smaller than the size of loans for white founders (Figure 106).

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**Figure 101. Phases of Private Business Financing**

**Figure 102. Black Businesses More Likely to Die Due to Inadequate Sales and/or Access to Financing**

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Source: Citi Research

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Source: SBA, Census Bureau, Citi Research
Figure 103. Black Entrepreneurs Are More Dependent Upon Sources of Capital from Friends, Family, and Own Resources for Capital

Sources of Start-up Financing: White Entrepreneurs

- Personal/family savings of owners: 65.4%
- Personal/family assets other than savings of owner: 9.9%
- Personal/family home equity loan: 7.3%
- Personal credit cards: 10.3%
- Business credit cards: 5.4%
- Business loan from a government: 0.4%
- Business loan from a bank or financial institution: 18.7%
- Government-guaranteed business loan from bank/financial institution: 5.1%
- Business loan/investment from family/friends: 3.3%
- Investment by venture capitalists: 9.4%
- Grants: 8.9%
- Other sources of capital: 0.2%
- Don't know: 1.9%
- None needed: 18.7%

Sources of Start-up Financing: Black Entrepreneurs

- Personal/family savings of owners: 70.6%
- Personal/family assets other than savings of owner: 11.3%
- Personal/family home equity loan: 7.8%
- Personal credit cards: 17.6%
- Business credit cards: 8.1%
- Business loan from a government: 0.8%
- Business loan from a bank or financial institution: 2.8%
- Government-guaranteed business loan from bank/financial institution: 15.2%
- Business loan/investment from family/friends: 3.5%
- Investment by venture capitalists: 0.5%
- Grants: 0.2%
- Other sources of capital: 6.1%
- Don't know: 7.3%
- None needed: 5.1%

Source: SBA, Census Bureau Annual Survey of Entrepreneurs, Citi Research

Figure 104. Black Founders Are More Likely to Produce their Own Resources for Start-ups

Distribution of Firms (by Owner Financing Amounts)

- $250,000 or more
- $100,000 to $249,999
- $50,000 to $99,999
- $25,000 to $49,999
- $10,000 to 24,999
- $5000 to $9,999
- $1 to $4,999
- None needed

Source: SBA, Census Bureau Annual Survey of Entrepreneurs, Citi Research

Figure 105. Friends and Family Yield Limited Resources for Both Black and White Founders

Distribution of Firms (by Family, Friends & Employees Financing Amts)

- $250,000 or more
- $100,000 to $249,999
- $50,000 to $99,999
- $25,000 to $49,999
- $10,000 to 24,999
- $5000 to $9,999
- $1 to $4,999
- None needed

Source: SBA, Census Bureau Annual Survey of Entrepreneurs, Citi Research

Figure 106. Black Founders Receive Less Funding for Projects Above $100,000

Distribution of Firms (by Banks & Financial Institutions Financing Amts )

- $250,000 or more
- $100,000 to $249,999
- $50,000 to $99,999
- $25,000 to $49,999
- $10,000 to 24,999
- $5000 to $9,999
- $1 to $4,999
- None needed

Source: SBA, Census Bureau Annual Survey of Entrepreneurs, Citi Research
Bank Loans and Denials

Black entrepreneurs appear shut-out of traditional forms of financing. The reliance of Black founders on less lucrative forms of financing may reflect the difficulty in financing along the investment channel. According to the Fed, creditworthy Black-owned firms experience greater challenges raising capital than creditworthy white-owned firms. Even after controlling for firm characteristics and performance, the Fed finds that approval rates for Black-owned firms still remain lower. Fed data indicate all entrepreneurs are more likely to apply to large banks versus other institutions for financing. However, Black-owned businesses are the least likely to receive approval for loans from large banks (Figure 107). Despite Black-owned firms being less likely to apply for financing at small banks, they are similarly less likely to be approved for loans than white-owned firms at these small banks. Black founders are the least likely to apply to online lending sources, like most other racial groups, but are about equally likely to be approved as white founders at these alternative financial institutions. This suggests there may be critical factors differentiating Black founders in traditional bank lending standards than among alternative financial institutions. If Black-owned firms are passing the gauntlet along myriad metrics, but still not receiving funding, then the epsilon may be bias.

The Fed also found that underfunding is affecting financing. While Black-owned firms are roughly equivalent with white-owned firms in the percentage who decline to apply for loans due to discouragement, Black founders are still less likely to say that they had sufficient funding in place (Figure 108). The Fed reports that even for those Black-owned firms who are approved for financing, they typically receive less than half of what was requested. According to the Fed, minority-owned businesses in recent times are still facing potentially large unmet financing needs. Census Bureau data confirm this. When complaints of underfunding are tabulated across different types of financing, Black founders routinely state that they received fewer dollars than requested.

Figure 107. Black Entrepreneurs Are Less Likely to Receive Loans from Traditional Banks Despite High Likelihood of Applying to Traditional Banks

<table>
<thead>
<tr>
<th>Likelihood of Applying at Lending Source (by Race/Ethnicity of Firm Ownership, %, 2018)</th>
<th>Likelihood of Approval for at Least Some Financing at Lending Source (by Race/Ethnicity, %)</th>
<th>Reported Reason for Not Submitting Credit App (by Race/Ethnicity of Firm Ownership, %, 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>Large</td>
<td>Small</td>
</tr>
<tr>
<td>White</td>
<td>Black</td>
<td>Asian</td>
</tr>
<tr>
<td>82</td>
<td>74</td>
<td>67</td>
</tr>
</tbody>
</table>

Note: CDFI stands for Community Development Financial Institutions
Source: Federal Reserve Board, Citi Research
Asymmetric Information and Narrow Pipelines

Black investors are missing out on an important stage in capital raising. Angel and venture capital (VC) investment are important phases in the private business capitalization pathway, but Black investors represent small shares of these types of investors. Just over 1 percent of all angel investors are Black (Figure 109), while 4 percent of the VC workforce is Black, with just 3 percent in the senior ranks of leadership (Figure 110). The number of Black persons in finance provision positions is important because they can play a pivotal role in directing capital to Black-owned businesses. In the VC space, this is extremely important as the majority of products purchased by consumers received VC funding at some point and these financiers decide which businesses receive funding and ultimately what products go to market.

Studies suggest that the sparse amount of investments by Black angel and VC investors reflect a combination of asymmetric information — in that Black entrepreneurs are not aware of these sources of funding — and/or a narrow pipeline of incoming investors. With respect to information, SEC regulation prohibits business founders from publicly advertising fundraising. Communication of these opportunities are limited to a network of accredited investors. Accredited investors must have $1 million in net worth, not including a home, or income exceeding $300,000, which can be prohibitive for many would be angel investors. Hence, a lack of information and wealth-limits create barriers for entrepreneurs and potential investors. Regarding the pipeline, many VCs have backgrounds in investment banking, which have struggled with diversity given in part to recruiting from elite schools that are also lacking in diversity. Indeed, 40 percent of venture capitalists attended either Harvard or Stanford University. Over the last 30 years Harvard Business School had a Black population averaging about 5 percent. The high cost of a business school education is one prohibition for Black students.
Figure 109. Black Investors Represent a Nominal Share of Angel Investors

Figure 110. Black Investors Are Underrepresented in the Venture Capital Space, Both in Leadership and the Overall Workforce

Source: Wharton Entrepreneurship and Angel Capital Association, Citi Research

Source: NVCA, Deloitte, Citi Research

Investor Bias

Venture capital is a relationship-based business, so the leaders decide which other investors are invited into the fold, and which firms receive capital. This proves problematic if the perception of Black founders and their business ventures are tinged by unconscious bias. Anecdotal assertions of bias include investors not trusting that Black entrepreneurs have viable and sustainable businesses, and/or lack an understanding of the product or customer Black founders are serving. Even for professional investors choosing to invest in VC funds, data-based evidence of bias is revealed in a Stanford University study which determined when venture capital funds are managed by a person of color with strong credentials, professional investors judge them more harshly than their white counterparts with identical credentials (Figure 111). The study found investors were able to easily distinguish between stronger and weaker white-led teams, where the stronger team received the higher ratings and the weaker team lower ratings. However, investors were unable to distinguish between stronger and weaker Black-led teams. Strong white-led teams were expected to raise more funds than strong Black-led teams, suggesting lower funding prospects for Black-led fund teams, and consequently financing for Black-owned businesses (Figure 112).
Increased access to funding and information, alternative measures of credit, and financial education can all help close the financing gap for Black-owned businesses. As Black-owned firms appear to invest greater sums of owner-generated financing for start-up projects, this greater level of personal sacrifice should factor more favorably into lending decisions from financial institutions. Experts have also advocated for alternative measures of credit to factor more materially in underwriting decisions, not just FICO scores. Black entrepreneurs are on balance more highly educated than the average small business owner, and are more likely to be Gen X’ers (45 percent) and Baby Boomers (31 percent) than Millennials (22 percent). However, there still appear to be gaps in experience running a firm and/or knowledge about financing options, including angel and venture capital investment. Governments (including the SBA) can make it easier for firms to learn about funding options and/or lowering the barrier for interested investors to become engaged, particularly for angel investors. There is also a market for private firms to educate and counsel Black business owners regarding applying for and obtaining financing via traditional and non-traditional financing channels.

Eliminating bias will be more difficult. However, if lenders and professional investors changed their views towards minority-owned firms, there might be greater access to capital. More capital helps ensure the survival of Black-owned firms, and greater revenue, which currently trails that of white-owned firms in every industry except manufacturing (Figure 113). More revenue leads to greater job creation, and more income which facilitates consumption and real GDP growth. A Fed survey found that 60 percent of Black-owned firms declined to apply for financing, even when needed, due to concern that they would be denied. Increasing applications as well as improving approval rates would be highly favorable for Black-owned firms.

Closing the share of Black-owned firms-gap 20 years ago might have generated $13 trillion of revenues for investment, 6.1 million jobs per year, and a cumulative $182 billion in income for consumption.
If the share of Black-owned firms was raised to 3.6 percent of the U.S. Black population, the number of businesses would rise to more than 720,000, or a 6-fold increase. Per year, revenue might increase to $761 billion, the number of employees to 7.3 million, and payrolls to $10.8 billion. If this gap were closed two decades ago, then the additional amount of consumption from workers’ incomes might have summed to near $182 billion. Some share of the extra $13 trillion in revenues over the last 20 years might have also contributed to GDP-enhancing capital expenditure on equipment, intellectual property, and structures (Figure 114).

Figure 113. With the Exception of Manufacturing, White-Owned Firms Generate More Revenues per Business than Black-Owned Firms

![Revenues Per Type of Business ($)](image)

Source: Census Bureau Survey of Business Owners, Citi Research

Figure 114. Small Firms, Revenues, Employment and Payrolls: 2017 Actual and Gap Closure Estimates

<table>
<thead>
<tr>
<th>Black Small Businesses</th>
<th>Per Year</th>
<th>20 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017 Share of Black population (0.6 percent)</td>
<td>3.6 Percent Share of Black Population</td>
</tr>
<tr>
<td>Firms (Number)</td>
<td>114,400</td>
<td>720,069</td>
</tr>
<tr>
<td>Revenues (Billions of US$)</td>
<td>$121</td>
<td>$761</td>
</tr>
<tr>
<td>Employees (Number)</td>
<td>1,555,344</td>
<td>7,272,095</td>
</tr>
<tr>
<td>Payrolls/Year (Billions of US$)</td>
<td>$1.7</td>
<td>$10.8</td>
</tr>
</tbody>
</table>

Source: Citi Research
How Do We Close the Gaps: Future Policy

Figure 115. Governments, Corporations, and Individuals Can All Work Together to Close Gaps

Significant and permanent behavioral and attitudinal changes are required to mitigate the number of gaps faced by Black Americans.

To emerge from a history of entrenched segregation and active discriminatory policy into an era of genuine equity will require conscientious reform at individualistic, corporate, and governmental levels. Although there is much to celebrate regarding renewed interest in closing gaps, there is still considerable work that must be done.

Moreover, given the exacerbation of inequality amid the COVID-19 pandemic, now is an important time to focus on eliminating racial gaps. In the U.S., the sum total of wealth held by U.S. billionaires is equal to three-quarters of all Black wealth ($3.5 trillion vs $4.6 trillion). Hence, it is crucial to address severe income inequality as part of the overall economic resolution and to avoid the perpetuation of disparity as seen after the Global Financial Crisis (GFC) of 2008. As of 2016, only 20 percent of Americans are said to have recovered to pre-GFC wealth levels, with Black Americans having suffered a 33 percent decline in wealth between 2007 and 2010. The GFC wealth loss further compounded how the median Black family witnessed their wealth almost halve, once adjusted for inflation, from 1983 to 2016; in comparison to an increase of almost one-third for white households.  

What Can Governments Do?

Governments can help reduce racial gaps by eliminating discriminatory barriers and implementing policies that support work, homeownership, entrepreneurship, and well-being. Basic actions, borrowed in part from the literature on gender equity, include (1) adequate race-specific data collection, necessary for identifying, tracking, and ameliorating race-based gaps; (2) prohibiting discrimination in wages, housing, labor, financial services, lending etc. based upon race; (3) facilitating work, including affordable childcare options, quality K-12 education, access to higher education, and paid family leave; and (4) supporting innovation, including enabling access to financing for Black-owned firms and start-ups. Additionally, governments can act to promote access to affordable healthcare and housing, which are paramount for supporting work and innovation. In this paper, we also highlight more unconventional ideas for how governments can contribute to closing racial gaps, from the Fed and Congress, to the state and local level.

Monetary Policy Focus

More voices are calling for the U.S. central bank to enhance its focus upon racial economic gaps. Economic gaps produced as a consequence of decades of racial discrimination have been highlighted by Democratic politicians in the U.S. in their proposal for the Fed to integrate racial considerations in its policymaking. Under ‘The Federal Reserve Racial and Economic Equity Act’, the reduction of racial inequality in the U.S. economy would become an official part of the Fed’s mission. Former Vice President, Joe Biden called on the Fed to ‘aggressively enhance’ its highlighting of ‘persistent racial gaps in jobs, wages and wealth’. It is worth highlighting that before the pandemic, the Black unemployment rate, concurrent will all other jobless rates, was falling and reached an all-time low of 5.4 percent in August 2019. However, it remained higher than overall unemployment, which troughed at 3.5 percent in February 2020 and the white unemployment rate, which fell to 3.1 percent in January 2020 (Figure 117).

Amid the pandemic, jobless rates across every racial group swelled to nearly four times their pre-COVID levels, but the racial gaps persisted.\(^{35}\)

Even in the absence of new legislation, the Fed has signaled a willingness to enhance its focus upon inequality. At the 2020 Jackson Hole Economic Summit, the Fed indicated its policies will focus on “broad-based and inclusive” job gains, language suggesting the central bank’s policies may help disadvantaged Americans in particular, rather than as a consequence of focusing upon maximum employment in general. Practically, the Fed will now allow inflation to exceed the 2-percent target for a period of time before raising interest rates, allowing unemployment rates to fall further. Still Chairman Powell stated that ending racial inequality “is more of an all-government, society project that we need to take on forcefully…It can’t just be the way the Fed manages interest rates.”\(^{36}\) In other words, there is a role for fiscal policies at every level of government. Moreover, a counter argument to the Fed allowing rates to remain lower for longer, is that low rates inflate the prices of asset that do not benefit low income persons on the upswing, but do negatively affect them on the downswing when the owners of capital (employers) respond to financial market crises by cutting labor.

Figure 117. Black Unemployment Rate is Consistently Higher than Other Races

![Figure 117. Black Unemployment Rate is Consistently Higher than Other Races](chart)

Source: Bureau of Labor Statistics. Citi Research

\(^{35}\) Zeitlin, M., “Federal Reserve policy has failed Black Americans for decades. Now is the time to fix that,” Business Insider, July 18, 2020.

Encourage Work

Reforming tax benefits and the application of specialized tax reforms can encourage work among lower income families and help reduce racial gaps. One recent study highlighted that of the nearly $275 billion within the 2018 Tax Cuts and Jobs Act, 80 percent benefited white households; receiving $2,020 on average in cuts, versus $970 received by Latino household and just $840 by Black Households. Moreover, households in the highest 1 percentile received 23.7 percent of the law’s total tax cuts, in comparison to just 13.8 percent received by the bottom 60 percent. Given that white households are three times as likely as Black or Latino households to be in the top 1%, these racial gaps are further exacerbated.

Some effective and racially-inclusive tax provisions linked to work such as the Earned Income Tax Credit (EITC), and Child Tax Credit (CTC), have proven to reduce poverty while serving a larger proportion of minority groups, especially Black and Latina Women. Some policymakers would make CTC fully refundable so the benefit’s reach the poorest children. Indeed, an estimated 17 million Black households would benefit from a fully-refundable CTC. Under current law, the Congressional Budget Office (CBO) estimates the share of Federal government spending on these credits is set to tumble over the next decade without Congressional intervention (Figure 118).

How do the EITC and the Child Tax Credit Encourage Work?

- **EITC**: The Earned Income Tax Credit, EITC or EIC, is a benefit for working people with low to moderate income. To qualify for EITC, tax filers must have earned income from either working for someone or from running or owning a business or farm, in addition to meeting some basic rules. Filers must also either meet additional rules for workers without a qualifying child or have a child that meets all the qualifying child rules. (Source: IRS.gov).

- **CTC**: The Child Tax Credit (CTC) is designed to give an income boost to the parents or guardians of children and other dependents. It only applies to dependents who are younger than 17 as of the last day of the tax year. The credit is worth up to $2,000 per dependent, but income level determines the exactly amount of the credit. Tax filers need to have earned at least $2,500 to qualify for the CTC. Then it phases out for income above $200,000 for single filers and $400,000 for joint filers. If earned income is above the applicable threshold, filers will receive a partial credit. (Source: Smartasset).

Provide Guaranteed Wages, Income, and Jobs

A policy with dramatic implication would be a “living wage.” Currently, the Federal minimum wage for tip earning employees at just $2.13 an hour and $7.25 for others. Although Black workers make up only 11 percent of the workforce, 38 percent of Black workers currently work for minimum wage and would receive a pay increase under such legislation, helping to address the wage gap (Figure 119). Another policy gaining traction in U.S. policy circles, which has also been implemented in other nations (e.g., Canada), is that of guaranteed income supports.

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40 Walker, D., “If Corporations Really Want to Address Racial Inequality, Here are 9 Things That Actually Make a Difference.” Time, August 4, 2020.
Means-tested, direct government transfers to families, with the potential to expand guaranteed income above the poverty line might help assist families with expenses such as childcare, which is a key enabler of work. A successful basic income program in practice is the Alaska Permanent Fund. The Fund has paid residents a dividend of $1,600 on average in recent years, with one study showing the program reduced poverty by 20 percent in the state. In a similar fashion, a Federal Job Guarantee has also been advocated as an effective way to decrease the racial income gap. While potentially an expensive proposition, with estimated ranging from $378 billion to $543 billion per year, there is some potential to mitigate poverty through work.

Implement Tax Reform

Changes to current tax provisions, including a more progressive tax code, might also have a material impact on efforts to close gaps. Some policymakers and experts suggest taxing wealth rather than income, and increasing taxes on inherited wealth — both of which are traditionally areas where Black Americans fall behind their white counterparts. Much of the Federal tax code is designed to offset less progressive state tax codes, which rely heavily on sales and excise taxes; meaning that on average, the lowest-income households pay a higher share of their income than the highest-income households. Indeed, 25 of the 50 states in the U.S. plus Washington DC, have combined state and local sales taxes in excess of the national median of 6.98 percent (Figure 120).

Ten of the 50 states (Illinois, Indiana, Kentucky, Massachusetts, Michigan, New Hampshire, North Carolina, Pennsylvania, Tennessee, and Utah) have one income

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Increasing access to financial services is key to increasing the amount of Blacks in the financial system.

Promote Financial Inclusion

To address racial wealth inequality, the exceptionally high number of unbanked or underbanked Black households (estimated to be 47 percent) also needs to be combatted with Federal banking services. In order to avoid the usual obstacles of traditional for-profit banking of minimum account balances and transaction costs, one study advocates the Congressional strengthening of the U.S. Postal Service (USPS) as an avenue for financial services. At its peak in 1947, the Postal Savings systems held $3.4 billion in reserves. Enabling the USPS to provide financial services would provide an alternative means of banking for many families, and in tandem allow for more money to circulate within the economies of low-income communities. The immediate need for cash availability, which a Postal Service/FedAccounts proposal would mobilize, has been incredibly apparent during the COVID-19 pandemic. These FedAccounts would enable free and digitized payments, withdrawals, and provide the ability to receive payments such as jobless benefits or stimulus checks without minimum balance requirements or fees.

44 Based on reductions in the Gini measure of inequality among 33 countries for which OECD data for 2016 or the latest available year are available (see OECD Income Distribution Database, 2019). The United States ranks above only New Zealand, Israel, Switzerland, Korea, and Chile on this measure. (Data for Mexico, Hungary, and Turkey are unavailable.)
Fintech can also play a critical role in reducing the number of unbanked persons. Ex-JP Morgan Managing Director and founder of Mobility Capital Finance, Wole Coaxum, estimates that “Black and Hispanic people spend 50 to 100 percent more per month for basic banking services, which, over a lifetime, can cost $40,000 in fees.” His company, along with a number of others, seeks to tackle this in providing financial services to those on low to moderate incomes. Similarly FS Card provides credit cards with $500 spending limits as an alternative to payday loan services. In providing these alternative services without the high fees, these fintech firms have the ability to drastically improve access to basic financial services.

Moreover, in August 2020, leaders of the fintech industry, including Credit Karma, Monzo, and Stash, announced the creation of the Fintech Equality Coalition. The Coalition will focus on enhancing access to financial services and committing to providing opportunities in recruitment outreach within the Black community.

Decouple Health Care

Access to affordable healthcare is a key component of enabling work and wealth creation. Indeed, a Gallup poll found that 9 percent of American adults and 14 percent of non-white American adults would avoid treatment for the coronavirus over concerns over medical expense. An idea gained greater traction in the U.S. is to decouple healthcare from employment. Most people who have health insurance in the U.S. receive it via their employers (Figure 122). Expansion of Medicaid — public healthcare for persons under 65 years of age — has increased since being implemented under Obamacare (ACA) in 2012, but the private-direct purchase option under the ACA has fallen during the Trump Administration. Given the three groups who saw their unemployment markers spike to elevated peaks in April 2020 were women (15.5 percent), Black Americans (16.7 percent), and Latinos (18.9 percent), there is a clear connection between race/gender and those most at risk from losing their healthcare coverage. In providing minimum government-supported healthcare, as an additional option to private job-linked health care, those in more economically-challenged industries would have an increased level of health security, with potentially significant benefits to minority groups.

46 FDIC National Survey of Unbanked and Underbanked Households, 2017.
The Majority of U.S. Persons Are Covered by Private-Employed Based Insurance; The Number of Persons in the Private-Direct Purchase Option Has Declined in Recent Years

Note: Some persons may have more than one type of insurance.
Source: Census Bureau, Citi Research

Implement Housing Incentives

Two suggestions proposed for providing affordable housing include: (1) expansion of tax incentives encouraging low-income housing in affluent areas; and (2) low-income community revitalization policies encouraging residential and commercial development in poor and primarily communities of color.\(^{50}\) A third avenue for facilitating the path to homeownership for Black families is to close gaps enabling higher earnings and wealth accumulation necessary for home ownership.

Policy reform of established programs to benefit minority groups, might be instrumental in closing equity gaps. One candidate for reform is the Mortgage Interest Deduction program which currently only benefits 6% of Black families. Enhancing the benefit to Black households requires increased homeownership, but the gap in homeownership rates between white and Black families is significant: the Black homeownership rate is at 44 percent vs. white at 70 percent. Affordable also housing remains a challenge in many local regions with large Black populations (Figure 123). Increasing incentives and access to affordable housing is an avenue towards greater homeownership. With a stark deficiency in affordable housing — in no state can a full time employee on $7.25 afford a two bedroom apartment — progress in this area is of desperate necessity.\(^{51}\) The American Housing and Economic Mobility Act provides an initial framework with provisions for down payment assistance for first time buyers living in formerly redlined or officially segregated areas.\(^{52}\)

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\(^{50}\) Fulwok III, S., “The United States’ History of Segregated Housing Continues to Limit Affordable Housing,” Center for American Progress, December 15, 2016.


The Urban Institute found intangible factors are contributing to the widening racial housing gap, highlighting the need for targeted policy solutions. According to the Urban Institute, even after accounting for individual factors including marital status, income distribution, FICO scores, age, median household income, and city segregation, approximately 17 percent of the Black-white family home ownership gap remains unexplained (Figure 100). These intangible factors suggest a combination of policies are necessary to narrow the gap, built on a foundation of fair housing and lending, plus new technologies.

- **Advance policy solutions at the local level**: Expand small-dollar mortgages; remove discriminatory terms in home- and condo-association deeds on single family units; property tax relief for low- and moderate-income taxpayers; strengthen lender networks.

- **Tackle housing supply constraints and affordability**: Reform local land-use, building codes and zoning laws; Federal investments in affordable housing; Government-sponsored enterprise (GSE) and Housing & Urban Development (HUD) collaboration with organizations working to make housing affordable.

- **Promote an equitable and accessible housing finance system**: Increase visibility, access, and types of down payment assistance programs; alternative data for credit histories and diverse sources of income for down payments.

- **Further outreach and counseling for renters and mortgage-ready millennials**: Improve and expand financial education and homeownership preparation; expand programs that automate saving for down payments.

- **Focus on sustainable homeownership and preservation**: Strengthen post-purchase counseling; early-warning displacement metrics; mitigation strategies and interventions for homeowners at high risk for flood and disaster events.
Invest in Training

Government focus on specific skills training with respect to identified occupational availability through either community college courses or named industry training has proven instrumental in combating economic inequality. With over 12 million students enrolling in community colleges each year, and a majority of those enrolled as undergraduates in 2-year public colleges identifying as non-white, funding for these programs is vital in delivering a more equitable workforce. However, without a permanent funding stream, sustainability can be a challenge. Though community colleges have been the benefactors of a number of grants, including the Community Based Job Training Grant (CBJTG), which provided $600 million in three years from 2005-2010, and two Federal grant programs under President Obama — Health Profession Opportunity Grant and Trade Adjustment Assistance Community College and Career Training (TAACCT) — there have been calls to reform the workforce system to move away from presumptions based upon skills narratives. Skills narratives place an emphasis on skills, which for many workers “fail[s] to recognize the historical and inter-generational way in which multiple systems, including not only workforce, but also education, housing, criminal justice and others, have created an inherent set of disadvantages for people of color.” Without proper recognition of individual circumstance, and an understanding that a multidimensional, rather than a ‘one-size-fits-all’ approach is far more likely to deliver meaningful results, there is a natural restriction to equity progress.

Public-private partnerships can help narrow training gaps. Notably, white high school dropouts have the same chance of obtaining a job as Black workers who have completed some college or earned an associate degree. In order to address such discrepancies, The Center for American Progress has highlighted four policy features that are essential for developing an equitable design and process for training and job access: (1) expand the share of economic risk by requiring employers of a certain size to pay into the WETF (Workforce Equity Trust Fund); (2) make a suite of wrap-around services (e.g., childcare) and employment benefits standard; (3) improve workforce analytics by creating an accountability dashboard for multiple measures of job quality; and (4) govern the WETF by a multi-stakeholder partnership comprising of business, labor and the public. There are a number of programs along such guidelines emerging with community-based organizations designing programs to directly train and connect workers to local opportunities.

54 Kilpatrick, S., “A Quick Rundown of Community College Diversity Statistics,” EVERFI
For example, in Detroit, HOPE has incorporated robotics training into its technical training; and in San Diego, the International Rescue Committee has included solar panel installation into training options; connecting a high-growth local industry currently facing a skilled labor shortage with job-seekers.60

**Invest in Wealth Building**

Government investment in building wealth is a radical approach to closing the racial wealth gap. One approach is “Baby Bonds”.61 Championed by New Jersey Senator Cory Booker, the bonds would provide every child born with $1,000 in an interest-bearing savings account that would be added to annually (maximum of $2,000 based upon family income) up to the age of 18. Upon reaching adulthood, the funds accrued can be accessed for wealth building activities such as down payments on homes, college tuition, or start-up funding.62 A study by Columbia University on the effect of instruments such as ‘Baby Bonds’ estimated that though the racial disparity would persist, it would be substantially narrowed: from a factor of 15.9 to 1.4 at the median, with the median Caucasian adult holding approximately $79,000 versus $58,890 for the median Black adult.63 The program is expected to cost $60 billion per year, and to be funded by modifying the estate tax and closing the tax break for inherited capital gains.64 There have also been some successes at the state and local level. In Oklahoma, the Ford Foundation provided over a thousand babies with $1,000 in state-owned 529 college savings account in 2007. There is evidence to suggest these kinds of programs could have significant impact with young people who, with a college fund, are three times as likely to go to college, and four times as likely to graduate, helping to address future racial earnings gaps.65

**Invest in Protections**

Established in 1965, the U.S. Equal Employment Opportunity Commission (EEOC) is tasked with enforcing Federal laws preventing discrimination against job applicants and employees based upon race, color, religion, sex, national origin, age, disability, or genetic information. However, as the U.S. population has grown by 44 percent in 40 years to roughly 330 million persons, and become even more diverse, Federal funding for the EEOC has not kept pace. Indeed, funding for the EEOC has shrunk by 8 percent over the same period, and the number of employees at the EEOC fielding discrimination complaints has decreased by 42 percent since 1980. Meanwhile, at the state level, funds for employment anti-discrimination programs are modest and in some cases non-existent. A 2015 census of ten states with the largest Black populations revealed that none of them spent more than 70 cents per resident on employment anti-discrimination programs. Indeed, three states — Mississippi, Alabama, and North Carolina — spent zero dollars on such programs.

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61 Zwede, N., “Universal Baby Bonds Reduce Black-White Wealth Inequality, Progressively Raise Net Worth of All Young Adults.”
63 Zwede, N. “Universal Baby Bonds Reduce Black-White Wealth Inequality, Progressively Raise Net Worth of All Young Adults.”
Implement Salary History Bans

Salary history bans are a method to stop the perpetuation of racial wage gaps. With the wage gap between white and Black workers having grown at the median between 2000 and 2019, increasing the discrepancy from 20.8 percent to 24.4 percent, addressing this disparity is particularly important.\(^66\) One approach that has proven particularly effective is banning employers from inquiring about historical salaries. A study by Boston University found that, following bans, pay for job switchers increased by 13 percent for Black workers and 8 percent for women workers, respectively.\(^67\) By removing the knowledge of prior salaries, employers are no longer influenced by potential discrimination of previous employers, and hence are less likely to perpetuate the wage gap between white and Black employees by continuing to maintain the difference. Massachusetts, as the first state to impose a ban preventing employers asking candidates their previous salaries in 2016, has been followed by 18 other states, with individual cities nationwide, including Washington DC, also following suit (Figure 126).\(^68\)\(^69\)

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\(^{68}\) “Salary history bans,” HRDrive, August 7, 2020.

Figure 125. Anti-Discrimination Agency Spending at the State Level is Significantly Underfunded in States with Large Black Populations

Per-Capita Funding of EEOC and Anti-Discrimination Agencies in States with the Largest Black Populations (FY 2018)

<table>
<thead>
<tr>
<th>State</th>
<th>Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>EEOC</td>
<td>$1.19</td>
</tr>
<tr>
<td>South Carolina</td>
<td>$0.69</td>
</tr>
<tr>
<td>Maryland</td>
<td>$0.55</td>
</tr>
<tr>
<td>Tennessee</td>
<td>$0.39</td>
</tr>
<tr>
<td>Delaware</td>
<td>$0.38</td>
</tr>
<tr>
<td>Georgia</td>
<td>$0.06</td>
</tr>
<tr>
<td>Louisiana</td>
<td>$0.02</td>
</tr>
<tr>
<td>North Carolina</td>
<td>$0.00</td>
</tr>
<tr>
<td>Alabama</td>
<td>$0.00</td>
</tr>
<tr>
<td>Mississippi</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

Source: EEOC, Henry J. Kaiser Family Foundation, Citi Research

Figure 126. Only 19 of 50 States Plus Washington, DC, and 20 of Thousands of Municipalities, Have Salary History Bans

Source: AccuSource, HRDrive, Citi Research
What Can Companies Do?

Figure 127. Corporations Play a Tremendous Role in Eliminating Racial Gaps

The business case for diversity is multifaceted

The Business Case

While imperfect, there is a business case for diversity that should help motivate firms to act upon closing racial gaps. The body of literature suggests that when executed well, diversity and inclusion in the workplace may lead to increased revenue, reduced costs, greater innovation, and increased employee engagement, productivity, and commitment.70 The business case is multifaceted:

- **Changing demographics:** Businesses may desire their workforces to reflect current and future population trends. According to the U.S. Census Bureau, by 2060, the percentage of non-Hispanic white persons will decline to 44 percent from roughly 60 percent currently and there will be a major increase in the number of persons of color.71 If this is the case, firms should adjust their employee composition to match their future customer base. Even today, when persons of color are still in the minority, many firms still do not reflect the demographics of the nation at every rung on the jobs ladder.

Figure 128. The Share of Non-White Hispanic Persons Is Poised to Shrink to 44% by 2060

<table>
<thead>
<tr>
<th>Year</th>
<th>Hispanic or Latino</th>
<th>Two or More Races</th>
<th>Native Hawaiian &amp; Other Pacific Islander</th>
<th>Asian</th>
<th>American Indian &amp; Alaska Native</th>
<th>Black or African American</th>
<th>Non-Hispanic White</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>68%</td>
<td>1%</td>
<td>2%</td>
<td>5%</td>
<td>3%</td>
<td>13%</td>
<td>28%</td>
</tr>
<tr>
<td>2020</td>
<td>65%</td>
<td>1%</td>
<td>2%</td>
<td>6%</td>
<td>3%</td>
<td>13%</td>
<td>27%</td>
</tr>
<tr>
<td>2030</td>
<td>59%</td>
<td>1%</td>
<td>2%</td>
<td>7%</td>
<td>3%</td>
<td>13%</td>
<td>24%</td>
</tr>
<tr>
<td>2040</td>
<td>55%</td>
<td>1%</td>
<td>2%</td>
<td>8%</td>
<td>3%</td>
<td>13%</td>
<td>22%</td>
</tr>
<tr>
<td>2050</td>
<td>52%</td>
<td>1%</td>
<td>2%</td>
<td>9%</td>
<td>3%</td>
<td>13%</td>
<td>20%</td>
</tr>
<tr>
<td>2060</td>
<td>44%</td>
<td>1%</td>
<td>2%</td>
<td>10%</td>
<td>3%</td>
<td>13%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: Census Bureau, Citi Research

- **Diversity of Perspectives**: Persons from diverse backgrounds and experiences will have a multiplicity of ideas and perspectives. Diversity of perspectives may produce better outcomes as diversity can help avoid “group-think.”72 A diversity of opinions can create friction. However, if diverse employees are made to feel included, then outcomes can potentially be positive.73 A Boston Consulting Group (BCG) international survey, including the U.S., revealed a strong and statistically significant correlation between the diversity of management teams and overall innovation. “Firms reporting above-average diversity on their management teams also reported innovation revenue that was 19 percentage points higher than that of companies with below-average leadership diversity — 45% of total revenue versus just 26%.”74

- **Bolstering the Bottom Line**: Studies suggest that diverse firms may have stronger financial results more generally. A separate McKinsey & Company international survey found that “companies in the top quartile for racial and ethnic diversity were 35 percent more likely to have financial returns above their respective national industry medians.” In the United States, McKinsey found “there is a linear relationship between racial and ethnic diversity and better financial performance: for every 10 percent increase in racial and ethnic diversity on the senior-executive team, earnings before interest and taxes (EBIT) rise 0.8 percent.”

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Moreover, that "racial and ethnic diversity has a stronger impact on financial performance in the United States than gender diversity, perhaps because earlier efforts to increase women’s representation in the top levels of business have already yielded positive results."\(^{76}\)

**A Matter of Talent - Recruiting and Retaining the Best Talent Is Paramount:**
By hiring a limited group of people based upon a specific mold (i.e. white and/or male), companies are foregoing significant segments of talent. Hence, firms should consider directing resources and energy towards recruiting and retaining diverse employees, and creating inclusive workplace cultures where everyone has an equal opportunity to contribute and succeed.\(^{77}\) McKinsey & Company posits that more diverse companies, “are better able to win top talent and improve their customer orientation, employee satisfaction, and decision making, and all that leads to a virtuous cycle of increasing returns.”\(^{78}\)

**Moral Imperative - It’s the Right Thing to Do:** The Society for Human Resource Management defines inclusion as, "the achievement of a work environment in which all individuals are treated fairly and respectfully, have equal access to opportunities and resources, and can contribute fully to the organization’s success." Employees who are made to feel like they belong are potentially better performers and happier people.\(^{79}\)

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Support Initiatives from the Top

Support of Diversity and Inclusion (D&I) initiatives must come from the top. As of 2020, only four CEOs at Fortune 500 companies are Black. This statistic highlights concerns about equity, as management diversity is often reflected at all levels of a company. Literature suggests that corporations must actively engage in D&I initiatives in order to change the composition and complexion of their firms, but focus must start at the top of the corporate ladder. Indeed, the Edelman Trust Barometer indicates that in the U.S., 63 percent of consumer respondents to their poll believed corporations that make statements in support of racial equality must follow it up with concrete actions in order not to be seen as exploitative or opportunistic (Figure 130).

A number of high profile CEOs support D&I initiatives, including former Xerox CEO Ursula Burns (the first Black female CEO of a Fortune 500 company) who stated “Business leaders have to start to lead, what has happened in the past, they’ve trailed.” Similarly a number of CEOs have pledged hard dollars to address racial gaps. For example, Comcast pledged $100 million over three years to accelerate efforts on diversity and inclusion, and Walmart also pledged $100 million over five years to create a new center on racial equity that would concentrate in four areas: financial, health care, criminal justice and education.

Citi’s Response

In direct response to the messages from the #BLM Protests, Citi itself has committed to $10.7 million in donations: $1 million each to two organizations working to close the Black achievement gap in education in the United States: UNCF and Management Leadership of Tomorrow (MLT). This is in addition to the $8 million Citi committed to four leading Black-led organizations addressing voting rights, income and wealth gaps, and housing discrimination (the NAACP Legal Defense Fund, the Lawyers’ Committee for Civil Rights, the National Urban League and the National Fair Housing Alliance), for a total of $10,684,000 in charitable contributions, inclusive of employee contributions.

Figure 131. Consumers Expect Firms to Follow up Talk with Action

| Country      | Percent Agree
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>65%</td>
</tr>
<tr>
<td>Canada</td>
<td>63%</td>
</tr>
<tr>
<td>U.S.</td>
<td>57%</td>
</tr>
<tr>
<td>U.K.</td>
<td>54%</td>
</tr>
<tr>
<td>France</td>
<td>53%</td>
</tr>
<tr>
<td>Germany</td>
<td>63%</td>
</tr>
</tbody>
</table>

Source: Edelman Brand Trust Barometer 2020, Citi Research

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81 Stankiewicz, K., “CEOs are offering plans and investments to address racial inequality after George Floyd death”. CNBC. June 11, 2020.
Address Racial Gaps in Hiring, Retention, and Firing

Corporations can implement policies that are more conscious of addressing racial gaps in matters of hiring, retention, and firing. There are several recommendations for the corporate setting:

- **Recruitment and Hiring:** Establishing diverse slates and limiting selection bias is paramount at the recruitment and hiring stage. Analysis by NatCen suggests that there is discrimination and `ethnic filtering` in the recruitment process. Indeed, National Academy of Sciences data reveal the rate of callbacks for Black candidates is generally lower than that of white candidates, and this rate has been little changed over since the 1970s. Moreover, businesses may be inadvertently perpetuating wage inequality by asking for salary histories. To enhance motivation for greater minority employment, companies could be subject to mandatory, randomized public diversity monitoring with the intention that in facing potential obligation to publish minority employment statistics this would translate into material change and diversification of the recruitment process. Additionally, a government supported and fiscally incentivized enhancement of online recruitment as a method to further anonymize the hiring process likely would prove instrumental in improving racial equality in hiring practices.

- **Retention:** With research showing that a professional leaving an organization can cost as much as twice the average associate’s salary there is clear economic incentive to improve retention rates, especially among minority employees who are more likely to leave a firm due to mistreatment. Active consideration of minority interests and implementation of specific programs to address minority representation within a firm are proven avenues to greater retention levels. These include mentoring schemes, with defined commitment from employers to provide clear evaluation tools to deliver tangible advancement of their minority employees; active inclusion in high visibility assignments; and proactive endeavors to provide influential sponsors to minority employees within the firm to support the navigation of corporate ascent. Firms should ensure that pay and promotion of Black employees is commensurate with other workers.

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84 Kapor Center. 2017 Tech Leavers Study.


Figure 132. Callbacks of White Applicants Relative to Black Applicants

Source: Meta-analysis of field experiments shows no change in racial discrimination in hiring over time. Lincoln Quilliana, Devah Pager, Ole Hexela, and Arnfinn H. Midtbøen, Proceedings of the National Academy of Sciences (PNAS), 2017

- **Layoffs**: Black and Hispanic workers are more likely to be subject to reductions in force (RIF) actions amid economic downturns due to higher labor market segmentation in lower-level or more discretionary jobs. The Harvard Business Review (HBR) suggests employers can consider performance more than position, and cross-training and upskilling workers to help narrow the numbers of minorities reduced. Companies factoring performance into their decision-making, often are able to retain their best performers, regardless of gender and race. Employers can redeploy workers with transferable skills to other parts of the firm, and/or cross-train employees for other tasks to avoid major labor cuts. Employers can also cut pay and hours, but continue to retain workers.87

- **Lists**: HBR recommends that firms, when releasing employees, maintain lists of persons being let go to note major disparities and to share those lists with other firms that may have job openings. Businesses can draw from these lists of recently unemployed persons to find a diverse set of talent.88

**Engage in Corporate Social Responsibility**

Bolstering external communities and supporting minority-owned firms can help close gaps at the societal level. Businesses can engage in corporate social responsibility (CSR). CSR is considered a strategic differentiator for firms, which can aid in brand reputation externally and support employee morale and sense of purpose internally. Moreover, corporations can provide direct investments in minority-owned small businesses.

Firms can also consider public actions to accelerate policies and legal measures to protect and support vulnerable populations. This can include public condemnation of events or legislation that target groups of people based upon race.89

Studies have shown CSR is not only for attracting and retaining customers, but also for retaining talent. For example, Millennials are willing to forego an average of 14.4 percent of their expected compensation to work at socially responsible companies. Also 88 percent of Millennials believe a business should be proactively participating in the community. A reported 92 percent of employees involved in CSR programs cite higher rates of emotional and physical health. Moreover, 66 percent of employees report a greater sense of loyalty to their employers as a consequence of participating in CSR programs.90

**Dismantle Structural Barriers to Hiring Black Talent**

Other structural barriers inhibiting corporations from hiring Black talent must also be dismantled. In a Time Magazine article written by Darren Walker, the President of the Ford Foundation, Walker advocated enforcement of racially diverse candidate pools while also stressing the material impact of engaging fully with Fair Chance Hiring (FCH). FCH is where companies are encouraged to employ qualified job applicants with criminal histories — a group in which Black Americans are overrepresented, as African American men are 11.8 times more likely to be incarcerated than white men of the same age.91,92 Policies that might help reduce joblessness among ex-inmates include: (1) temporary basic income; (2) occupational licensing reform; (3) bond insurance and tax incentives for employers who hire ex-offenders; (4) automatic record expungement; and (5) banning employment discrimination subject to Title VII of the Civil Rights Act of 1964.93 Moreover, removing blanket bans on occupational licensing, and following a more bespoke approach. For example, in New Jersey and Oklahoma, a conviction must have a ‘direct, rational, or reasonable relationship’ to the duties of the occupation to be defined for licensing.

**Develop Metrics to Analyze, Report, and React**

In order for firms to begin and/or continue the process of facilitating racial gap closures in the workplace, metrics must be used to analyze, report, and react. The steps towards eliminating wage gaps include: (1) collecting data; (2) analyzing and publicizing the data; and then (3) acting on the results of the data if they reveal that inequity in pay exists for jobs requiring the same qualifications. First, firms can assess current workforce demographics: do the present number of Black employees match national and local population ratios? Second, firms may set recruitment targets to address discrepancies for Black employees. In areas where Black employees are underrepresented, firms can establish recruitment targets with accountability mechanisms like tying executive compensation to meeting targets or holding leaders accountable in performance reviews.

89 IBID.
91 Walker, D., “If Corporations Really Want to Address Racial Inequality, Here are 9 Things That Actually Make a Difference.” Time, August 4, 2020.
Targets are useful for opening up opportunity for highly qualified underrepresented persons while potentially limiting space for less qualified persons among overrepresented groups.  

Third, investigate whether Black employees are compensated for equal work and promoted as regularly as other employees. Following the pay equity study (analyze), firms should be transparent about the results (report), and then create a plan to rectify discrepancies (react).  

Business can also hire specialized recruitment and employment firms (e.g., Jopwell) to assist with diversification initiatives.

**Recruit More Black Board Members**

To assist with accountability, companies can add more Black executives to their boards. According to Deloitte LLP “a critical need for inclusive leadership, the shifting U.S. demographics, and investor pressure in the United States have increased the focus on diversity in the C-suite and on public company boards.” A 2018 Deloitte study found that 34 percent of Fortune 500 seats were held by women and minorities, and 38.6 percent of Fortune 100 board seats were held by women and minorities. This share might increase to 40 percent by 2024 if the rate of increase identified over the 2016 to 2018 period of the study were kept. Notably, Black women gained 32 Fortune 500 seats in 2018, and Black men acquired 26 seats, rates of increase of 26.2 percent and 8.5 percent respectively. Nonetheless, the study confirmed that many of the Black board members were “recycled,” meaning they had already been board members elsewhere or are currently serving on another board. Hence, while board diversity is increasing, the absolute number and share of Black men and women on boards (9 percent) is lagging relative to the U.S. population (13 percent).

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97 Ibid.
Challenges to adding more Black board directors must be overcome. According to the Harvard Business Review, challenges to adding Black board members include: (1) few existing minority directors to recruit and attract Black board members; (2) a lack of Black persons in the executive pipeline, who are often persons tapped for board seats; (3) an insufficient number of minorities on recruitment slates; (4) homogenous social networks that may have few or no Black persons who might be tapped for board directorships; (5) inadequate director onboarding required for directors to get to know each other and work more effectively; (6) lack of leadership roles on boards for Black directors, making them less effective; and (7) bias, where Black directors, especially women, feel that their ideas are devalued or ignored. Many of these challenges can be overcome by (1) broadening the search criteria for board members; (2) better leveraging search firms for finding board members; (3) improving on-boarding training; (4) ensuring more leadership roles for Black directors; (5) building up the pipeline of potential directors by addressing problems with retention of Black employees; and (6) valuing the expertise, contributions, and opinions of Black board directors. Diverse boards provide a diversity of perspectives, create a virtuous cycle of greater diversity, and help with recruitment and retention of diverse talent throughout the company.

Source: Deloitte LLP, Citi Research

Figure 133. Black People Still Underrepresented on Boards (9%) Relative to Population (13%)
Figure 134. Social Networking is a Major Factor In Selecting Black Board Members

How Black Directors Were Initially Introduced to the Board (% of Black or White Directors)

- Other: 13% White, 13% Black
- Am a current or former executive of the company: 0% White, 12% Black
- Appointed by a major shareholder: 15% White, 13% Black
- Known to a member of executive management: 13% White, 21% Black
- Known to the CEO: 31% White, 33% Black
- Recruited by an executive search firm: 25% White, 33% Black
- Known to the board or one of the other directors: 35% White, 54% Black

Source: Harvard Business Review, Citi Research

Figure 135. Racially Diverse Boards Tend to Prioritize Racial Diversity Within the Company

Percent of Directors Who Agree or Strongly Agree

- Diversity in this company is a high priority: 56% White, 69% Black
- This board has an ideal mix of members with diverse perspectives and experiences: 66% White, 77% Black

Source: Harvard Business Review, Citi Research
What Can Individuals Do?

Figure 136. Individuals Can Work Towards Eliminating Racial Gaps

While we argue that structural factors have and continue to play significant roles in perpetuating racial gaps, individuals are far from powerless. Black persons in the U.S. can continue to advocate for themselves in the realms of finances, education, business, and politics. Meanwhile, persons of other races can continue to educate themselves about historical disparities and work towards fixing them.

Use Education as a Pathway for Advancement

Parents can advocate for greater accountability from and funding for schools. Although Black parents are less likely to volunteer at school events, often due to work commitments, it does not mean that they are not involved in their children’s education. Parents show their activism in their choices for education for their children including charter schools, private schools, and magnet public schools. On a small scale, one study revealed that 83 percent of Black students had their homework checked by a parent, compared to 57 percent of white students and 59 percent of Asian students. In terms of more dramatic action, parents have reported willingness to move in order to provide their students with access to a better school district. Parents can continue to take action against unequal disciplinary measures against their children that can disrupt learning and future prospects. Black youth comprise roughly 16 percent of public school students and about 9 percent of private school students. Yet, they account for 35 percent of in- and out-of-school suspensions, and 39 percent of expulsions. Parents can ensure that their children are considered for gifted and talented education (GATE) programs and apply to magnet schools, which have become more racially segregated. Finally, parents can use their political power (Decennial Census, voting) to ensure that adequate funding is directed towards their school districts.

100 Ibid.
Students can aim high and utilize resources that promote success. As mentioned above, students can take more courses relevant to STEM fields, and take Advanced Placement courses in high school. Students should seek education beyond a high school degree: college, trade school. Students should also consider advanced and professional degrees even after earning a college degree. Throughout the school career, students can take advantage of organizations that promote academic achievement and stepping stones into business. Notable organizations include Girls Who Code, My Brother’s Keeper Alliance, Jack and Jill of America Incorporated, United Negro College Fund (UNCF), Management Leadership for Tomorrow (MLT), INROADS, Toigo, Sponsors for Educational Opportunity (SEO), A Better Chance, the Jackie Robinson Foundation, and the Urban League. Funding for education can be tackled in part via familial investments in college savings plans and student applications to scholarships. As discussed above, training and higher education are highly correlated with higher incomes over a lifetime.
Non-profit organizations have existed for more than 100 years to help advance the financial and social wellbeing of Black Americans. Two organizations have quantified how their efforts have bolstered the expansion of the Black middle-class.

- **MLT** – Statistics from the MLT website indicate the average starting salary for their Career Prep Fellows is $75,000, with half of these students coming from homes with annual household incomes of less than $50,000. Moreover, of their 1,600 scholars per year, 90 percent of their undergraduates receive an offer for a high trajectory job, 90 percent of its MBA Prep students matriculate at top 10 business schools, and 90 percent of its first-generation college students are on track to graduate within 4-6 years, compared to the national average of 11 percent.

- **INROADS** – INROADS in partnership with Australian-based non-profit Career Trackers surveyed 1000 INROADS alumni to determine how the organization has helped to narrow racial gaps. Among respondents, 57 percent have incomes in the range of $50,000 to $100,000 and 34 percent with incomes exceeding $100,000. Forty seven percent have net worth in the range of $100,000 to $500,000, and 40 percent in the $500,000 to $5 million range. Plus, 76 percent own a home. Regarding real estate 49 percent own at least one property and 56 percent own more than one property (Figure 138).

Figure 138. INROADS Scholar Alumni Have Helped to Expand the Black and Minority US Middle-Class

Source: Adam Davids, Fulbright Scholar hosted by INROADS and Director of Learning and Innovation, CareerTrackers, Australia, Citi Research
What Is Citi Doing to Help Minority Women Advance in Technology?

Citi Foundation Supports NPower and their report Breaking Through, Rising Up; Strategies for Propelling Women of Color in Technology

In May 2018, the Citi Foundation awarded a $1.64 million grant to NPower to increase the enrollment of young women in its program from 25% to 40% by 2022 — now two years into this mission, enrollment rates are at 31%. In September 2020, Citi Foundation announced it was expanding its partnership with NPower, including an additional $4 million investment, to help advance the careers of young Black and Latinx women in the technology field across six U.S. cities.

To date, the intersection of gender, race, and class in technology has received little attention. NPower seeks to address this discrepancy and highlight the core elements crucial to establishing a more equitable industry; with a particular focus on women of color. Undeniably, achieving this goal will require intention, investment and innovation as well as cross-sector awareness and action by practitioners and executives. With women making up just 26% of the technology workforce and with Black and Latinx women making up just 3% and 1% of the computing workforce, respectively, there is significant progress to be made.

NPower seeks to address inequality in providing free training in technology. Its aim is to correct diminished access to early computing as a result of inequitable funding streams in high-poverty areas disproportionally affecting minority groups. There are four key aspects to the program: (1) focusing on recruitment; (2) support services; (3) instruction; and (4) job placement services. In combining the practical with the personable, the program is able to best approach training for women of color. In using community-based organizations to expand applicant pools whilst providing wraparound support services, the impact of the training and economic mobility provided to alumni can be material. Moreover, in endeavoring to target classroom bias by providing female instructors, the program is also able to provide applicable role models; challenging what is often seen as a barrier to motivation to join an industry. With Citi’s support, the instructional staff at NPower has gone from one female instructor in 2018 to recruiting and onboarding six additional female instructors two years later. This trend of inclusion is further emphasized within the job placement aspect of the program, primarily in their drive to create strong partnerships with employers that demonstrate successful and integrated diversity practices.

NPower supports utilization of a number of strategies that practitioners, employers, and funders can apply in order to deliver a successful and minority favorable outcome. Particularly impactful is the suggestion for the provision of flexible training provisions, such as online or at the weekend, whilst considering skill based hiring and embracing non-traditional educational backgrounds. Moreover from a funding prospective, investing in wraparound services such as childcare — with 19% of female and 10% of male students citing managing childcare responsibilities as a significant challenge during the program — and transportation, deliver meaningful differences for participants.

NPower believes a number of policy levers for increasing opportunities for Women of Color in Technology can also be widely applied to the minority population as a whole. Fundamentally, an expansion of funding for apprenticeship programs as well as the expansion of Pell Grants to shorter term training programs would have a positive impact, alongside the increased funding for childcare subsides, especially during non-traditional hours. To provide sustainability, expanding family leave laws and strengthening pay parity laws would prove instrumental in progressing towards a more equitable workplace, not just in technology, but in every industry.

Don’t Ask, Don’t Get: Advocate for One’s Career

Black workers can enhance their wage and income prospects by advocating for their careers. Black workers should seek greater opportunities, including stretch assignments and leadership roles. Ask for and accept constructive feedback during reviews in order to identify areas of strength and weakness. Request clear goals that constitute success and review them with managers on a frequent basis. When it comes to compensation ask for the raise, but also arm oneself with a list of accomplishments warranting an increase. Ask employers where your salary lies within the range for your duties. If outside of that range, ask for it to be rectified. Unfortunately, a study by PayScale indicates that “People of color were significantly less likely than white men to have received a raise when they asked for one.
Women of color were 19 percent less likely to have received a raise than a white man and men of color were 25 percent less likely. Nonetheless, if workers do not ask for a raise, then they lower the likelihood of receiving one. Network and remain visible, highlighting your successes with key stakeholders. Workers should seek mentors, advocates, and sponsors to help navigate their careers within a corporate setting. Join trade unions or professional clubs within your industry. Join or create support groups with colleagues outside of your business to glean knowledge and to build morale. Remain curious and retool one’s skillset in order to be prepared for larger roles, greater responsibilities, and new opportunities.

- **Consider starting a business**: The [U.S. Chamber of Congress](https://www.uschamber.com/) and the [SBA](https://www.sba.gov/) are resources for Black-owned businesses to find sources for grants, financing, and advice on how to run effective firms.

- **Move**: While a difficult decision, relocation may be the answer to improved jobs prospects. Sixty five percent of the Black population resides in 16 states in the U.S. However, according to a survey by McKinsey and Company, on average these states rank below national averages in metrics that can lead to an improved quality of life and wealth generation. Black workers, especially younger workers can opt to move to states that are generating the most jobs in high paying industries.

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**Figure 139. Black Workers Are Concentrated in States with Poor Economic Prospects Relative to National Average**

![McKinsey Leading State Index Scores: 2017](image_url)

Source: McKinsey & Company, Citi Research

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**Figure 140. Black Workers Are Less Likely to Be Located In States With Rapid Growth in High Wage Sectors**

Source: BEA, World Population Review, Citi Research

**Embrace Delayed Gratification and Risk**

Financial literacy and engaging with more traditional forms of financial services are ways that Black families can learn to budget and adjust spending in order to generate savings. Savings are critical for generating wealth via investments in homes, retirement and college savings vehicles, businesses, and financial assets. Indeed, a 2017 Gallup poll revealed that only 36 percent of Black respondents compared to 60 percent of white respondents cited investments in the stock market (Figure 141).\(^{103}\) This is despite one fifth to one quarter of people in the US believing that stocks are a good long-term investment in recent years (Figure 142).\(^{104}\) Actions that generate wealth require delayed gratification and a measure of risk, but can often lead to positive returns over the longer run.

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Operation Hope and Dfree are notable organizations that advocate financial literacy as an avenue for achieving financial independence, often known as “silver rights.” Online brokerage firms that require smaller initial investments and reduced fees, as well as investment clubs are ways that families with modest incomes can begin to invest in their futures. Families with greater means can seek professional advice from brokers and financial advisors. All persons working at jobs with pension funds and/or retirement savings vehicles (IRAs, 401Ks) should take advantage of them, especially early in one’s career.

![Figure 141. Black People Less Likely to Own Stocks than White People](source)

![Figure 142. A Significant Share of Americans Favor Stock Holdings](source)

**Utilize Political Power**

Many people are utilizing the #BlackLivesMatter movement as an opportunity to speak out against and address racial disparities of all stripes in the United States. Even ordinary persons can use their wallets to challenge firms to change practices that perpetuate inequality. Meanwhile, shareholders can use their influence over corporate executives to advance change. Every citizen having the right to vote should exercise it. Those willing to have a more direct hand in effecting change at the institutional level can engage in political activism by running for office or supporting elected officials with finances and time. While the number of Black politicians, particularly at the Federal level, remains few, the numbers have been on the rise, and likely will continue to do so (Figure 144).
Figure 143. Number of Blacks in Congress is Small but Steadily Climbing

Figure 144. Blacks in Federal Positions Have Increased

Source: Pew Research Center, Citi Research
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Key Insights regarding the future of Racial Equality

**EDUCATION**
Closing the college/advanced degree racial gap 20 years ago might have generated up to $113 billion in additional income for saving, investing and consumption. Removing funding gaps from K-12 education funding, focusing on school curricula (including STEM) and directing Black students toward higher wage and in-demand occupations can help close the education gap and solve the income gap.

**LABOR MARKET**
In general Black workers are underrepresented in management, business, financial, professional and related occupations that pay the highest salaries. They are also more likely to be situated in jobs that require lower skills and/or are more susceptible to automation. Encouraging Black students and workers to pursue education and training suitable to more technological and skills-based careers can help close the racial labor segmentation gap.

**POLICY**
The current 30 basis point gap between Black and white family home ownership is greater now than before 1968 when housing discrimination was legal. Public policy should focus upon housing as a pathway to wealth and encourage home ownership as a path to intergenerational wealth.
Citi Launches More Than $1 Billion in Strategic Initiatives to Help Close the Racial Wealth Gap

HIGHLIGHTS

“Action for Racial Equity” represents unprecedented effort to leverage Citi’s core business capabilities and Citi Foundation philanthropy to help address racial equity and justice in the U.S.

Visit Citi’s Action for Racial Equity site.

New York – Citi and the Citi Foundation today announced more than $1 billion in strategic initiatives to help close the racial wealth gap and increase economic mobility in the United States. Citi’s Action for Racial Equity is a comprehensive approach to 1) providing greater access to banking and credit in communities of color, 2) increasing investment in Black-owned businesses, 3) expanding homeownership among Black Americans, and 4) advancing anti-racist practices in the financial services industry.

To support these goals, Citi core businesses as well as the Citi Foundation are committing the following resources over the next three years:

- $550 million to support homeownership for people of color and affordable housing by minority developers
- $350 million in procurement opportunities for Black-owned business suppliers
- $50 million in additional impact investing capital for Black entrepreneurs
- $100 million to support Minority Depository Institutions’ growth and revenue generation
- $100 million in Citi Foundation grants to support community change agents addressing racial equity

“Addressing racism and closing the racial wealth gap is the most critical challenge we face in creating a fair and inclusive society and we know that more of the same won’t
do,” said Citi CEO Michael Corbat. “We are bringing together all the capabilities of our institution—our people, our lines of business, our balance sheet, and our philanthropy—like never before to combat the impact of racism in our economy. This is a moment to stand up and be counted, and Citi is committed to leading the way and investing in communities of color to build wealth and strong financial futures.”

According to the recently published Citi GPS report “Closing the Racial Inequality Gaps,” if the U.S. had closed key racial gaps for Black Americans in wages, housing, education and investment 20 years ago, $16 trillion could have been added to the U.S. economy. If these gaps are closed today, $5 trillion could be added to U.S. GDP over the next five years.

“We are in the midst of a national reckoning on race, and words are not enough. We need awareness, education and action that drive results,” said Mark Mason, Citi’s CFO and one of the industry’s most senior Black executives. “The commitments we are announcing today are just the starting point. By harnessing the central role Citi plays in local economies and the financial lives of Americans, we are determined to help close the racial wealth gap and help build an anti-racist economy and society.”

As part of Action for Racial Equity, Citi’s businesses are focused on four key outcomes:

GOAL #1: EXPAND BANKING AND ACCESS TO CREDIT IN COMMUNITIES OF COLOR

Why it matters:
Many communities of color lack access to traditional banking services that are the foundation of financial stability and thriving communities. Economic security is also hampered by insufficient access to credit, which makes it hard to qualify for affordable mortgages and small business loans.

What Citi will do:

- Provide Minority Depository Institutions (MDIs) with up to $50 million in growth capital to strengthen their ability to serve racially diverse households and entrepreneurs.
- Generate revenue for MDIs by inviting them into up to $50 million in loan participation opportunities between the Citi Community Capital division in the Institutional Clients Group and its clients to finance affordable multi-family rental housing.
- Provide pro-bono technical assistance and training to MDIs—through a collaboration with Deloitte and others—to help MDIs navigate the changing economy, improve operational efficiencies and support talent development.
- Partner with community organizations serving racially diverse households through Citi’s U.S. Consumer Bank to expand access to the Citi® Access Account Package, which includes low-cost checking and savings products and new digital financial education.
- Alleviate one of the biggest barriers to banking by expanding the Citi ATM Community Network program that removes out-of-network fees at Citibank ATMs for customers of participating minority-owned banks and community
development credit unions. Since 2016, Citi’s U.S. Consumer Bank has removed these fees for 440,000 customers of 28 institutions.

- **Put 1 million youth on the path to higher education** by expanding the Citi Start Saving® platform—which initially was developed to power the City and County of San Francisco’s children’s savings program.

**GOAL #2: INVEST IN BLACK ENTREPRENEURSHIP**

*Why it matters:*
Black-owned businesses have long faced obstacles in obtaining loans. They are the most likely to apply for bank financing, but get turned down at twice the rate as white business owners. This financing gap is especially pronounced in the startup world, where studies show that Black entrepreneurs receive only 1% of venture capital funding.

*What Citi will do:*

- Allocate an additional $50 million to the Citi Impact Fund exclusively to support businesses owned by Black entrepreneurs. Citi kicked off the fund in January with $150 million in capital for businesses that are developing solutions to social and environmental challenges.
- Increase Citi business procurement spend with certified diverse suppliers from $700 million to $1 billion annually, including $250 million with Black-owned firms.
- Launch a new program called Citi Start CreditSM, which will work with Community Development Financial Institutions (CDFIs) to help underserved entrepreneurs increase their credit scores and access more affordable credit.

**GOAL #3: INVEST IN AFFORDABLE HOUSING AND PROMOTE THE GROWTH OF BLACK HOMEOWNERSHIP**

*Why it matters:*
Homeownership is a key way to build wealth and equity, and safe, affordable housing is an important platform for financial stability. However, Black homeownership is at its lowest level since the 1960s. In addition, rental housing in many urban areas across the country is scarce and too expensive. Compounding this crisis is the near-absence of minority-owned real estate developers in the affordable housing industry.

*What Citi will do:*

- Expand the U.S. Consumer Bank’s community lending team and its network of correspondent lenders to increase access to Citi’s mortgage products and services among minority borrowers in low- and moderate-income neighborhoods.
- Provide $200 million of equity and preferential financing through Citi Community Capital to affordable and workforce housing projects by minority developers who either are the sole equity owners or are in a joint venture with meaningful equity participation. Some of this funding also will be invested in
minority developers to build their capacity and allow them to compete for larger affordable housing projects.

GOAL #4: STRENGTHEN CITI’S POLICIES AND PRACTICES IN ORDER TO BECOME AN ANTI-RACIST INSTITUTION

Why it matters:
Advancing racial equity requires a more intentional focus on the challenges faced by communities of color and a commitment to becoming an anti-racist institution. Citi is taking a hard look at its own policies and practices to actively identify potential bias to help level the playing field for communities of color.

What Citi will do:

- Strengthen due diligence processes for project-related financing to address environmental justice and social impacts on communities of color.
- Develop standards for inclusive software design that eliminate bias and help deliver equitable outcomes to the communities Citi serves.
- Expand Citi’s capital market activities with minority-owned broker dealers, assisting with their business and franchise development.
- Work with marketing, communications and legal partners to establish guidelines that increase representation of people of color on Citi accounts and within their leadership teams.
- Establish a council of senior leaders from across the company to develop additional product innovations, assess performance gaps and hold businesses accountable for Action for Racial Equity commitments.

In addition to Citi’s business commitments, the Citi Foundation is making a new $5 million grant to Living Cities to provide U.S. mayors with access to technical expertise, training, and seed capital for pilot initiatives that address racial wealth and income gaps. The Citi Foundation also is expanding employability and entrepreneurship efforts serving Black youth as part of a new three-year $100 million investment in its successful Pathways to Progress initiative.

“Citi is going beyond talking about discrimination by implementing concrete strategies to address longstanding inequities in communities of color,” said Kristen Clarke, President & Executive Director of the Lawyers’ Committee for Civil Rights Under Law. “Citi is charting a course that we hope will be replicated throughout the sector. We look forward to continuing our partnership.”

Over the past decade, Citi and the Citi Foundation have invested nearly $100 million in programs and partnerships aimed at closing the racial wealth gap. In 2020, with renewed attention on racial equity in the U.S. and around the globe, Citi donated an additional $10 million to Black-led organizations fighting for racial justice. Citi is also working to increase representation of Black employees in the U.S., especially in senior roles, and encourage a stronger awareness of the legacy of racism and discrimination in the workforce and the industry.
Certain *Action for Racial Equity* commitments, including portions of Citi’s investments in minority developers and in Minority Depository Institutions, will require approval from the Office of the Comptroller of the Currency.

For more information on *Action for Racial Equity*, visit citigroup.com/racialequity.

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AMANDA ABRAM, BLACK DEVELOPERS CALL FOR RECKONING IN REAL ESTATE, WASHINGTON POST APRIL 1, 2021

In aftermath of protests, new doors are opening. But they say more is needed.

Buwa Binitie looks out at the city skyline from the top floor of Capitol Vista in Mount Vernon Triangle in D.C. (Bill O'Leary/The Washington Post)

By Amanda Abrams

April 1, 2021
Despite more than 15 years as a residential real estate developer, Buwa Binitie says he has grown accustomed to regularly fielding queries about his expertise.

“Those questions come when a lender might be underwriting you, or maybe there are brokers who are marketing the deal and don’t know you. Questions like ‘Where’s your capital coming from, who’s behind you, who owns your company?’ ” says Binitie, who is Black and is the managing principal of Dantes Partners, a real estate development firm in D.C. “Me and my peers call them ‘unnecessary questions.’ We feel our White peers don’t get them at all.”

Binitie — whose company built the Hodge in D.C.’s Shaw neighborhood and Delta Towers in the H Street corridor, both affordable senior housing developments — is far from alone in his experiences. In the Washington area and around the country, the development community is almost exclusively White. In an industry characterized by huge sums of money, Black developers say they face major hurdles in accessing capital, connecting with influential networks and expanding their businesses.

But in the wake of George Floyd’s killing in Minneapolis last May and the subsequent Black Lives Matter protests, developers of color say the industry seems to be experiencing a shift: Some lenders, investors, municipalities, development partners and others in the commercial real estate world are recognizing how homogenous the field has been and are taking steps to address it.

“I’m feeling a little bit of a difference,” says Binitie. He is echoed by other Black developers, who say they have been fielding some new business opportunities and offers of collaboration from lenders and White-led development companies over the past nine months. “[Lenders and investors are] making a significant effort to produce capital specifically for Black and Brown real estate developers,” Binitie says.
But whether this is a permanent change remains to be seen, he cautions. “Is this going to be continuous? Or is it a one-time thing so they can say, ‘We provided the capital, and are now going back to our normal course of business?’”
The Southwest Waterfront seen across Washington Channel from Ohio Drive in 2017. (Benjamin C Tankersley for The Washington Post)
Access to capital

Over the past decade, D.C. neighborhoods have experienced astounding growth. Some, like the Wharf, 14th Street and CityCenter, have been dramatically transformed. Developers have played a key role in that growth, determining what the new buildings would look like, how upscale the condos and apartments would be, and whether existing residents and businesses would be accommodated.

But the lack of diversity among developers has often translated into a lack of diversity in the product, observers say, with real estate projects overwhelmingly targeted to middle- and upper-income groups.
Statistics for developers are difficult to come by, but Urban Land Institute (ULI), a national real estate and land use industry association, says 5 percent of its members identify as Black or African American.

The Washington Post spoke with more than 15 Black people working in real estate development about their experiences. The developers, many of whom have been in the industry for years and hold degrees from Ivy League universities, agreed that their opportunities have been limited by racism, institutional bias and a lack of connection to powerful networks.

“It’s a fraternity environment in this niche filled with so much wealth,” says Anthea Martin, a senior vice president at Bellwether Enterprise, a mission-driven mortgage bank that aims to increase the supply of affordable housing. “This limits the money that minorities can tap into.”

“It’s multiples more difficult to get loans,” says Diarra McKinney, a D.C. native who runs Rosewood Strategies, a company that has constructed multifamily buildings in the D.C. neighborhoods of Takoma and Ivy City. Before starting his business, McKinney says he worked for White-led companies. “Banks would say, ‘Oh, we love you guys!’ and they’ll have a term sheet in a day. For [me and other Black developers], we might have significantly more experience than many of those companies, but we still get all kinds of questions.”

As McKinney points out, the loans do usually come through. “It’s not the 1950s,” he says. “I can go through the process and get a loan offer. But the terms are not the same; the interest rate will be much higher. And you don’t know why that is. It’s all behind the scenes.”

Developers also need equity, in the form of investments from friends, family or private firms, to close their deals. And that can be even harder for Black developers to procure than bank credit. The asset management industry, which includes institutional investors and private equity groups, is
overwhelmingly White. And family and friends, even well-off ones, simply may not have the extra funds to invest in a real estate project.

“I think more than anything, it’s a function of the wealth disparities in this country,” says Curtis Doucette, a managing partner of Iris Development, which has renovated several apartment complexes in and near New Orleans, and is building a $19 million mixed-use, multifamily development there. “We have far less net worth in the Black community. We’re less likely to have it ourselves, our families are less likely to have it, our networks are less likely to have it.”

Doucette, who has been in the real estate business for 18 years, has partnered with White developers and says the contrast was like night and day. “It was a different socioeconomic environment. It was amazing to me to see how willing people were to put hundreds of thousands of dollars into a project.”

There is one area where Black developers are better represented: affordable housing. Most affordable housing is built with some amount of government subsidy; although it can be difficult and time-consuming to procure, it lowers the barrier to entry by reducing a developer’s dependence on private financing.

“The African American developers that I know, they’re in that niche,” says Martin at Bellwether Enterprise. “Most multifamily developers don’t want to play in that space where the deals are perceived as more of a hassle to finance and manage” and where the returns tend to be significantly lower.
Bo Menkiti, left, of Menkiti Group, and Buwa Binitie, of Dantes Partners, in front of Capitol Vista in Mount Vernon Triangle. (Bill O'Leary/The Washington Post)
The developers, along with two other Black-led companies, built Capitol Vista, an affordable-housing development. (Bill O'Leary/The Washington Post)

LEFT: Bo Menkiti, left, of Menkiti Group, and Buwa Binitie, of Dantes Partners, in front of Capitol Vista in Mount Vernon Triangle. (Bill O'Leary/The Washington Post) RIGHT: The developers, along with two other Black-led companies, built Capitol Vista, an affordable-housing development. (Bill O'Leary/The Washington Post)

But others say Black developers are not in the sector just out of necessity. “Minority developers are doing affordable housing because they grew up in those communities. They see that the need is there,” says Adeola Adejobi, a New York lawyer who runs the Diversity in Commercial Real Estate Conference. “When you’re looking at a deal from that lens, you’re bringing a different perspective.”

It is a perspective that is arguably a little more people-centered. Many African American developers find ways to benefit Black communities with their projects, for example. Cecily King, who runs Kipling Development in Detroit, is developing a mixed-income condo building in an upscale community; it will
allow low-income residents to own property in an area with good schools and rising home values. And that, King says, could be life-changing for a family.

“It’s still a business at the end of the day,” she says. “But the perspective you bring to the table [as a Black person] opens your eyes to what the opportunities can be.”

Bree Jones, who runs Parity Homes in Baltimore, says she has experienced the microaggressions familiar to African Americans in the development field and has struggled to find financing for her project. She has a plan to redevelop 96 abandoned rowhouses in west Baltimore and sell them at affordable rates to local residents. (Open Society Institute Baltimore)

New initiatives on the horizon

Bree Jones is another developer who is hoping to do good while doing well. Her company, Parity Homes, has a plan to redevelop 96 abandoned rowhouses in west Baltimore and sell them at affordable rates to local residents. “Development without displacement,” she says.
Jones says she has experienced the microaggressions familiar to African Americans in the field and has struggled to find financing for her project. But a year ago, after months of networking and conference-hopping, she met an investor whose company had a social impact wing. The investor, she says, immediately understood the value of her plan.

“They wanted it to work — they believed in me inherently,” Jones says. The subsequent funding, $1.5 million in equity, is one of the last pieces she needed to begin the project.

Black real estate developers have long collaborated to build networks and pull each other up, and that is continuing. But today, a growing number of initiatives are helping to bring in new capital and new connections — and much of that seems to be the result of the country’s intensified focus on racial equity since last summer.

For example, Enterprise Community Partners, a national nonprofit lender, has recently launched a $3.5 billion program to support developers of color who are creating and preserving affordable homes. Capital Impact, another nonprofit financial institution, started a program in D.C. and Detroit to give a select cohort of minority developers access to mentors, training and, in some cases, funding. And a few big banks have recently earmarked funds for minority developers.

D.C.’s Office of the Deputy Mayor for Planning and Economic Development established an initiative that gives minority-run companies priority access to city-led redevelopment projects. “We’ve had a conversation since the beginning of 2019 about how we can make housing in the city more equitable,” says John Falcicchio, who leads the department. “This is a giant leap forward.” New York City recently announced a similar initiative.
But to really address the discrepancy, developers say a multifaceted approach is needed — one that nurtures the talent pipeline at all levels. After all, at this point, “There are not that many [Black-led] development firms that have the capacity to meaningfully participate,” says Bo Menkiti, founder and CEO of the Menkiti Group in D.C. Together with Dantes Partners and two other Black-led companies, Menkiti’s firm also built Capitol Vista, an affordable-housing development in Mount Vernon Triangle.

More coverage about race and housing
One home, a lifetime of impact
The ‘heartbreaking’ decrease in black homeownership
Home buying while black
Bank programs seek to widen the path to Black homeownership

Helping smaller minority companies grow so they can eventually take on major projects themselves might require an uptick in partnerships with established firms, or the creation of mentorship initiatives.

Some new programs are focusing on young people. “A lot of Black kids don’t know what development is,” says Mark Marshall, director of real estate at the Denver-based Urban Land Conservancy. Marshall partners with Urban Land Institute’s Colorado group to mentor and train young adults who might be interested in the field, a program that ULI is replicating in chapters around the country.

ULI’s leaders say they are taking the industry’s racial discrepancies seriously. “Since the murder of George Floyd, [racial equity] has become a top priority for everyone at ULI,” says Gwyneth Jones Cote, the president of ULI Americas.

This year, the organization’s annual Emerging Trends survey showed that 70 percent of members who responded believe the real estate industry can help address systemic racism.

That’s why this shift is so significant, industry insiders say.
“I’ve had conversations that I definitely didn’t have more than six months ago with people in the industry who want to know what they’re missing,” says King, the Detroit developer.

“Outside of the industry, I’ve seen people have interest in investing in communities of color to right the wrongs they’re now aware of,” she adds. But “how long will it last? That’s the challenge right now.”

realestate@washpost.com
Markets

Citi Looks Beyond Checks to Make Good On Promise to Black Banks

By Jennifer Surane and Lananh Nguyen

December 10, 2020, 12:00 AM EST

The largest U.S. lenders have spent years overlooking Black-owned banks. Now, as the smaller firms face extinction, Citigroup Inc. is hoping to bring them into the fold.

This week, the lender offered one such firm, Houston-based Unity National Bank, the chance to put up $1.65 million for a $13.95 million loan for 93 affordable housing units. Citigroup is following up on a September promise to help these minority depository institutions, or MDIs, finance as much as $50 million in affordable multifamily rental housing.

“We never would have been considered because our lending limit would have never been large enough to come to the table,” Unity National Bank Chief Executive Officer Laurie Vignaud said in an interview. “But Citi made sure there was a piece that we could participate in.”

Read more: Activist Rapper Wants to Save America's Disappearing Black Banks

The number of Black-owned banks in the U.S. has dwindled from 48 to 18 over the last two decades, and their combined assets have declined since the 2008 crisis. While one loan deal can’t solve a crisis decades in the making, it’s another sign that the biggest lenders have begun taking steps to help.

The approach compares to the direct equity investments Bank of America Corp. made in 10 MDIs in recent months, and the $24.6 million that Morgan Stanley pledged to three lenders. Even corporate clients are throwing their weight behind MDIs. Netflix Inc. will shift $100 million of its cash to banks that serve the African-American community.

While Citigroup has pledged as much as $50 million in growth capital to MDIs, its work with Unity National Bank shows the firm is also seeking to take a different path. Citigroup has recruited more than a half dozen lenders to be part of a mentoring program to help them learn the ropes of underwriting bigger loans.

“This is how we change the narrative: long-term sustainable opportunities,” Harold Butler, a managing director in Citigroup's public-sector group inside its investment bank, said in an interview. “We're not viewing these relationships as something we can get from them.”

Read more: Citi Pledges to Become Antiracist, Review Internal Policies

“I appreciate the equity investments, and it's very, very important,” Vignaud said. “But there's multiple tools in this toolbox, and in this particular instance Citi provided other banks with a model they can also include in addition to the equity investments.”

Citigroup is committed to expanding the mentorship program after its latest construction-loan partnership with Unity National Bank, said Gina Nisbeth, a director of structured lending and investments at Citi Community Capital, the firm's community-development arm. And the lender hopes other major banks will join it.

“The leadership has clearly said this isn't a coin-operated endeavor,” Butler said. “If your expectation is that there's a wallet opportunity here, I'm just going to say 'Next.'”

UP NEXT

Microsoft (MSFT) Is in Talks to Buy Nuance (NUAN)
Real estate diversity program, Project REAP, has named the first fellows to take part in a new initiative to drive money and know-how into building new communities.

The pilot Open Access Fellowship Program in Community Development Finance will provide a pathway for black, Indigenous and people of color (BIPOC) to work in a sector of real estate finance that can help build new communities and improve the health, education and access to wealth of economically disadvantaged populations.

“REAP is proud to help launch the rollout of Open Access, a program that will increase the representation of persons of color in community development finance,” said REAP chief program officer Osayamen Asemota-Bartholomew.

“The current disproportionately low number of BIPOC professionals in the field both deprives neighborhoods of the cultural affinities offered by persons who reflect the ethnicity of the communities served and leaves large groups of talent unaware of and lacking access to career opportunities. We are glad to welcome the first round of Open Access fellows, a stellar and dedicated group.”

The community development finance industry, bolstered by the recent reauthorization of the New Markets Tax Credit Program, offers economic support to low-income areas in the form of lower than market rate interest loans and other economic incentives to help support small businesses, housing organizations and other areas requiring assistance.

The industry is urgently needed as the nation strains to recover from a pandemic that disproportionately affected communities of color in terms of health crises and the ensuing economic devastation that has witnessed unparalleled unemployment rates, evictions realized and threatened, food deprivation, and small businesses forced to close or struggle to stay viable.
Yet, while community development often serves communities of color, it is currently grossly under-represented by Black and Latinx individuals.

Open Access is a newly organized group of executive-level individuals led by co-founders Gina Nisbeth, a director at Citi, and Jeff Monge, managing partner of Monge Capital.

Open Access provides paid virtual fellowships as well as online experience, training, mentorships, and networking sessions to talented professionals of color seeking careers in community development finance.

The program is presented in collaboration with Project REAP (Real Estate Associate Program), the nation’s most successful diversity initiative connecting professionals to commercial real estate (CRE) for over two decades.

The group chose MLK Day, January 18, 2021, to announce the selection of 23 professionals for the pilot Open Access Fellowship Program in community development finance that will run through Friday, April 16, 2021.

The fellows were chosen from a wide pool of candidates spanning the nation from LA and Denver to Chicago, New Orleans, Newark, New York City and many other major cities.

The Inaugural Open Access Fellows are:

<table>
<thead>
<tr>
<th>Fellow</th>
<th>Fellowship</th>
<th>Headquarters</th>
</tr>
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<tbody>
<tr>
<td>Trevor Nelson</td>
<td>Advantage Capital</td>
<td>New Orleans, LA</td>
</tr>
<tr>
<td>Anika Wright</td>
<td>Advantage Capital</td>
<td>New Orleans, LA</td>
</tr>
<tr>
<td>Jaquis McCullough</td>
<td>Baker Tilly US, LLP</td>
<td>Chicago, IL</td>
</tr>
<tr>
<td>Melanie McNeely</td>
<td>Chicago Community Loan Fund</td>
<td>Chicago, IL</td>
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<tr>
<td>Ja’Shar Hartley</td>
<td>Cinnaire</td>
<td>Lansing, MI</td>
</tr>
<tr>
<td>Name</td>
<td>Organization</td>
<td>Location</td>
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<td>-----------------------</td>
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<tr>
<td>John Moore</td>
<td>Classic Lake Consulting</td>
<td>Los Angeles, CA</td>
</tr>
<tr>
<td>Ed Chatmon</td>
<td>Cleveland Development Advisors</td>
<td>Cleveland, OH</td>
</tr>
<tr>
<td>Christen Richardson</td>
<td>Greenline Ventures</td>
<td>Denver, CO</td>
</tr>
<tr>
<td>Isaiah Williams</td>
<td>Greenline Ventures</td>
<td>Denver, CO</td>
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<tr>
<td>Chabelli Caceres</td>
<td>Monge Capital</td>
<td>Newark, NJ</td>
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<tr>
<td>Chima Joseph</td>
<td>Monge Capital</td>
<td>Newark, NJ</td>
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<tr>
<td>Brianne Andrea Lund</td>
<td>Monge Capital</td>
<td>Newark, NJ</td>
</tr>
<tr>
<td>Giovanni Araujo</td>
<td>National Trust Community Investment Corporation</td>
<td>Washington, DC</td>
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<tr>
<td>Danielle Salters</td>
<td>New Jersey Community Capital</td>
<td>New Brunswick, NJ</td>
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<tr>
<td>Jocelyn Moore</td>
<td>New Markets Support Company</td>
<td>Chicago, IL</td>
</tr>
<tr>
<td>Rob Ebanks</td>
<td>New Markets Support Company</td>
<td>Chicago, IL</td>
</tr>
<tr>
<td>Allison Bernstein</td>
<td>Novogradac &amp; Company LLP</td>
<td>San Francisco, CA</td>
</tr>
<tr>
<td>Name</td>
<td>Organization</td>
<td>Location</td>
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<tr>
<td>Ashley McMichael</td>
<td>Novogradac &amp; Company LLP</td>
<td>San Francisco, CA</td>
</tr>
<tr>
<td>Jessica Washington</td>
<td>Novogradac &amp; Company LLP</td>
<td>San Francisco, CA</td>
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<tr>
<td>Nicole Dillard</td>
<td>Stonehenge Capital</td>
<td>Columbus, OH</td>
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<tr>
<td>Marcus Jones</td>
<td>TELACU</td>
<td>Los Angeles, CA</td>
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<tr>
<td>Steven McClendon</td>
<td>Reinvestment Fund</td>
<td>Philadelphia, PA</td>
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<tr>
<td>Desiree Thomas</td>
<td>TruFund Financial Services</td>
<td>New York, NY</td>
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In addition to paid fellowship sponsorships, other programmatic financial sponsors include JPM Chase, U.S. Bank, Citi, PNC Bank, Novogradac, Dudley Ventures, Advantage Capital, NTCIC, and Monge Capital. For more information see www.projectreap.org
Surprise! 7 Businesses You Know That Grew With an SBA Loan

July 26, 2017/in Financing /by Wil Rivera

Is your business ready to expand to the next level? If so, when considering options for financing your organization’s growth, don’t overlook the Small Business Administration (SBA) — they aren’t just for starting new businesses.

When more established businesses are ready to expand to the next level, the Small Business Administration (SBA) offers programs to help qualified businesses. Some of those businesses grew so much they became household names, like these seven big brands that may surprise you.

#1. Under Armour®

If you or your family members participate in any sports or physical activity, you know the name Under Armour. This $3.96 billion workout-wear company used SBA assistance to expand in it’s early years.

#2. Chobani® Yogurt

When Hamdi Ulukaya wanted to switch his business from making feta cheese to making yogurt, he needed larger premises. He used an SBA 504 loan to purchase an
80,000 square foot Kraft factory in New Berlin, NY, and today this $3 billion company employs 2000 workers.

#3. Chipotle®

Love Mexican food? The next time you visit a Chipotle Restaurant, keep in mind that when founder Steve Ells was ready to open his third restaurant, he did so with SBA assistance.

#4. Apple®

The SBA’s Small Business Investment Company (SBIC) Program has a long history of directing capital to innovative technological organizations. One of the most iconic tech companies to benefit? You guessed it - Apple. And the SBA’s Small Business Innovative Research (SBIR) Program funded the research for that handy fingerprint scanning technology on your iPhone.

#5. Nike®

Iconic brand Nike also has the SBIC Program to thank. The well-known footwear and apparel company used the program, which helps small businesses access private debt and equity financing, to grow beyond its small business beginnings.

#6. Ben & Jerry’s®

If you love ice cream (even if you just like it a little), chances are you’ve tasted at least one of Ben & Jerry’s wonderful flavors. It was SBA assistance that helped the Vermont-based ice cream company get going in it’s early days.

#7. Federal Express®

It may seem hard to believe that this behemoth of a delivery company (currently serving 220 countries, with 400,000 employees and projected 2017 revenues of $60.3 billion) was once a small business. Yet back in the early 70’s it was just getting started, and a SBIC program provided the extra capital boost required to expand it to the next level.
If you don’t qualify for an SBA loan right now, don’t despair — you do have other small business expansion financing options. Alternative funding companies offer solutions, usually through online applications and interactions, that you may not have known about. Another possibility is peer-to-peer funding, where private funders offer unsecured financing to qualified small business borrowers.

When you’re considering growing your business, research your financing options. And get inspired by this list of other small businesses that borrowed to expand, and never looked back.
Small Business Administration
SBA

Cassandra Havard, Esq.
Ethan Smith, Esq.
Britani Peterson
Cassandra Jones Havard, Esq.

Education:
B. A., with highest honors, Bennett College
J.D., University of Pennsylvania

Expert in:
- Corporate Governance and Compliance
- Financial Institutions’ Regulation
- Financial Access and Inclusion
- Subprime and Predatory Lending
- Venture Capital Financing
Education:
B. A., The Johns Hopkins University
J.D., College of William and Mary

Specialties:
- Commercial Lending
- Government Guaranteed Lending
- Mergers and Acquisitions
- Real Estate
- Corporate Governance
- Regulatory Compliance
THE SBA: HISTORY & BACKGROUND

Great Depression
President Herbert Hoover, 1932
Reconstruction Finance Corporation (RFC)

World War II
Franklin D. Roosevelt, 1942
Smaller War Plants Corporation (SWPC)

Post-WWII
Office of Small Business (OSB) in the Department of Commerce

Small Business Act of July 30, 1953
Created the Small Business Administration
Function: to aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns
THE SBA: AUTHORITY
Laws, policy, and regulations

- Small Business Act (1953)
- Small Business Investment Act (1958)
- Code of Federal Regulations
- Standard Operating Procedures: SOPs

Mission: The U.S. Small Business Administration helps Americans start, build, and grow businesses.
The SBA provides an array of financing for small businesses from the smallest needs in microlending to substantial debt and equity investment capital.

The SBA provides free counseling and low-cost training to new entrepreneurs and established small businesses in over 1,800 locations.

The SBA sets goals with other federal departments and agencies to award 23 percent in prime contract dollars to small businesses.

The SBA reviews Congressional legislation, testifies on behalf of small businesses, and assesses the impact of regulatory burden on small businesses.
Three primary loan programs:

**7(a) loans**
A group of SBA loans which guarantee portions of the total amount, cap interest rates, and limit fees

**504 loans**
Long-term, fixed-rate financing to purchase or repair real estate, equipment, machinery, or other assets

**Microloans**
The SBA’s smallest loan program, providing $50,000 or less to help businesses start up and expand
## Standard 7(a) Loan

<p>| | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Maximum Loan Amount</strong></td>
<td>$5 million</td>
</tr>
<tr>
<td><strong>Maximum SBA guarantee %</strong></td>
<td>85% for loans up to $150,000 and 75% for loans greater than $150,000</td>
</tr>
<tr>
<td><strong>Interest Rate</strong></td>
<td>Lenders and borrowers can negotiate the interest rate, but it may not exceed the SBA maximum</td>
</tr>
<tr>
<td><strong>Collateral</strong></td>
<td>Lenders are not required to take collateral for loans up to $25,000. For loans in excess of $350,000, the SBA requires that the lender collateralize the loan to the maximum extent possible up to the loan amount.</td>
</tr>
</tbody>
</table>
Operate for profit

Be considered a small business, as defined by the SBA

Be engaged in, or propose to do business in, the United States or its possessions

Have reasonable invested equity

Use alternative financial resources, including personal assets, before seeking financial assistance

Be able to demonstrate a need for a loan

Use the funds for a sound business purpose

Not be delinquent on any existing debt obligations to the U.S. government
7(a) LOAN
Basic Uses

- Long- and short-term working capital
- Revolving funds based on the value of existing inventory and receivables
- The purchase of equipment, machinery, furniture, fixtures, supplies, or materials
- The purchase of real estate, including land and buildings
- The construction a new building or renovation an existing building
- Establishing a new business or assisting in the acquisition, operation or expansion of an existing business
- Refinancing existing business debt, under certain conditions
## CDC/504 Loans

| **Maximum Loan Amount** | Generally capped at $5 million  
Certain energy-efficient projects may be up to $5.5 M |
<table>
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<tbody>
<tr>
<td><strong>Interest Rate</strong></td>
<td>Fixed rates</td>
</tr>
<tr>
<td><strong>Collateral</strong></td>
<td>Typically a 10% down payment required</td>
</tr>
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</table>
The purchase or construction of:

- Existing buildings or land
- New facilities
- Long-term machinery and equipment

Or the improvement or modernization of:

- Land, streets, utilities, parking lots and landscaping
- Existing facilities
Microloans

- Maximum amount: $50,000
- Eligibility Requirements: depends on intermediary lender

Microloans can be used for:

- Working capital
- Inventory or supplies
- Furniture or fixtures
- Machinery or equipment
An SBIC is a privately owned company that’s licensed and regulated by the SBA.

SBICs invest in small businesses in the form of debt and equity. The SBA doesn’t invest directly into small businesses, but it does provide funding to qualified SBICs with expertise in certain sectors or industries. Those SBICs then use their private funds, along with SBA-guaranteed funding, to invest in small businesses.
Contracting Assistance Programs

Women-Owned Small Business Federal Contracting Program
- Goal: at least five percent to women-owned small businesses

Service-Disabled Veteran-Owned Small Businesses program
- Goal: at least three percent to service-disabled veteran-owned small businesses

8(a) Business Development program
- Goal: at least 5 percent to small disadvantaged businesses
Questions?
The following slides were received from Professor Cassandra Jones Havard, Esq.
Businesses who have had SBA assistance:
Kay Gordon, partner at Nelson Mullins, New York City

Kay Gordon counsels clients on hedge fund, funds-of-fund, private equity fund, real estate fund, venture funds, and compliance-related matters involving registered advisers and broker-dealers. She also advises clients on a broad range of securities and regulatory matters as well as a variety of financial instruments and transactions, including managed accounts, credit facilities, joint ventures, and derivative instruments. She works closely with strategic, institutional, and seed investors and also represents clients in investigations by the SEC and other regulators. Ms. Gordon is a frequent speaker and author. She is a chartered financial analyst (CFA) and currently serves on an advisory board of a large hedge fund.

Gina D. Nisbeth, Director of Structured Lending and Investments, Citi Community Capital

Gina D. Nisbeth is a Director in the Structured Lending and Investments Group. She began her career with Citi 16 years ago on the Short Term sales and trading desk. Gina traded the municipal Tender Option Bond portfolio to money market funds for 10 years, growing that program to the largest in the industry. She transitioned into Citi Community Capital, Citi’s community development lending and investing group, in 2009 and she is now responsible for the management of Citi’s New Markets Tax Credit program including transaction origination and structuring as well as portfolio management. Ms. Nisbeth also serves as the President of the firm’s Community Development Entity, named the Citi NMTC Corporation. Gina graduated from Rutgers College with a B.A. in Political Science and as an Eagleton Institute of Politics Undergraduate Fellow. She later received an MBA from The Fox School of Business at Temple University with a concentration in Finance. Gina holds a Series 7 and 63 licenses from FINRA.
Dana Peterson, Chief Economist at The Conference Board

Dana Peterson is the Chief Economist & Center Leader of Economy, Strategy & Finance at The Conference Board. Peterson joins The Conference Board from Citi, where for many years she served as a North America Economist and later as a Global Economist. Her wealth of experience extends to the public sector, having also worked at the Federal Reserve Board in Washington, D.C. Dana’s wide-ranging economics portfolio includes analyzing global economic themes having direct financial market implications, including monetary policy; fiscal and trade policy; debt; taxation; ESG; and demographics. Her work also examined myriad US themes leveraging granular data. In addition, Dana conducted multi-asset research and wrote publications with other Citi research teams – both US and global – including strategists covering rates, equities, credit, foreign exchange, commodities, political analysis, and asset allocation. Peterson’s research has been featured by US and international news outlets, both in print and broadcast. Publications and networks include CNBC, FOX Business, Bloomberg, Thomson-Reuters, the Financial Times, and the Wall Street Journal. She is the 1st Vice Chair of the New York Association for Business Economics (NYABE), and a member of NABE, and NBEIC. She received an undergraduate degree in Economics from Wesleyan University and a Master of Science degree in Economics from the University of Wisconsin-Madison.

Ethan Smith, Co-founder and Managing Partner of Starfield & Smith

Ethan Smith is a co-founder and Managing Partner of Starfield & Smith. He focuses his practice in commercial law, with an emphasis on government guaranteed lending, conventional commercial lending and real estate law. Designated closing counsel for several Certified Development Companies Represents lenders in SBA licensing, compliance, regulatory enforcement, and guaranty purchase matters. Represents lenders before the US Small Business Administration. Active writer and speaker on government guaranteed lending issues nationwide. Ethan has prepared loan documents and performs compliance reviews for loan files for hundreds of SBA 7(a), 504, conventional, and USDA B&I commercial loans. He has also closed numerous other conventional commercial financing transactions and complex commercial transactions.