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Brandeis Study Finds Racial Wealth Gap Growing

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By Charlene Crowell, NNPA Columnist

Although most Sunday school children are warned against the “love of money,” by adulthood it is the lack of it that becomes the source of many problems. When finances are so fragile that even a small shortfall presents a big problem – a few hundred dollars might as well be a million – you do not have what you need.

Now new research finds that the ability to reach some level of financial security or well-being can be like a chicken and the egg question: Which comes first – the problem or the lack of money?

To determine how family financial assets changed over time, researchers at Brandeis University’s Institute on Assets and Social Policy (IASP) interviewed a group of families in 1998 and again 12 years later. The original sample of participants was evenly split between Blacks and Whites. All were working or middle class, had children ages three to 10 years old, had similar life aspirations and were selected from the same three cities.

At the beginning of the study, the wealth gap between Blacks and Whites was clearly evident. In 1998, the median net financial wealth, excluding home equity, for Blacks in the sample was more than \$16,000 lower than for White families. Additionally, the gap in median net worth, which does include home equity, was \$108,000.

These disparities only grew over time. By 2010, the gap in net financial wealth had grown to more than \$80,000, while the gap in median net worth grew to almost \$280,000. Importantly, the exacerbation of the

racial wealth gap happened despite the fact that Blacks gained ground in income and educational attainment.

For example, in 1998 Black family median income was \$48,106 compared to the median White family income of \$80,400. By 2010, the racial income gap had narrowed to \$28,000, with Black median income at \$56,000 and White median income slightly less at \$84,000. Similarly, although the proportion of Blacks achieving a college education consistently lagged behind that of Whites, the size of that disparity decreased over time. The gap between the proportions of Blacks and Whites receiving at least a college education shrank from 28 percentage points in 1998 to 22 percentage points in 2010.

IASP found that among the Black families followed, few or no financial assets were a result of the frequency of three factors:

1. Financially assisting family members – extending beyond the nuclear family unit to include adult siblings, parents, nieces and nephews;
2. Increased periods of unemployment and work in occupations with fewer benefits; and
3. Falling or stagnated home values.

The tough choices that these families face often lead to decisions to early use retirement assets, particularly to manage periods of unemployment, health care costs or a child's college education. However, their premature usage forces more financial stress in later years.

Conversely, when families are able to secure stable jobs with non-wage benefits for present and future financial security, the ability to build wealth is significantly enhanced. Family inheritance and/or financial assistance to purchase a home were also cited as benefits to growing wealth.

Earlier research by the Center for Responsible Lending found that communities of color, both Black and Latino, experienced disproportionate losses of wealth because of foreclosures. These were also the same communities that were targeted for high-cost, unsustainable subprime mortgages.

The irony of these findings is that owning a home has been the traditional gateway to building family wealth. In many instances a home purchase also represents the single largest investment that many families make in their lifetimes. But for homeowners still living in areas heavily hit by foreclosures, many now owe more than their homes are worth. For these unfortunate families, homeownership has lost, not grown wealth.

At the time of year when family and loved ones gather in thanksgiving, it can be difficult to celebrate the season. Yet if nothing else, let us be thankful for the resilient spirit that enables us to survive – in spite of lingering financial challenges.

Charlene Crowell is a communications manager with the Center for Responsible Lending. She can be reached at Charlene.crowell@responsiblelending.org.

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