



SEPTEMBER 1, 2019

Many minorities avoid seeking credit due to generations of discrimination. Why that keeps them back

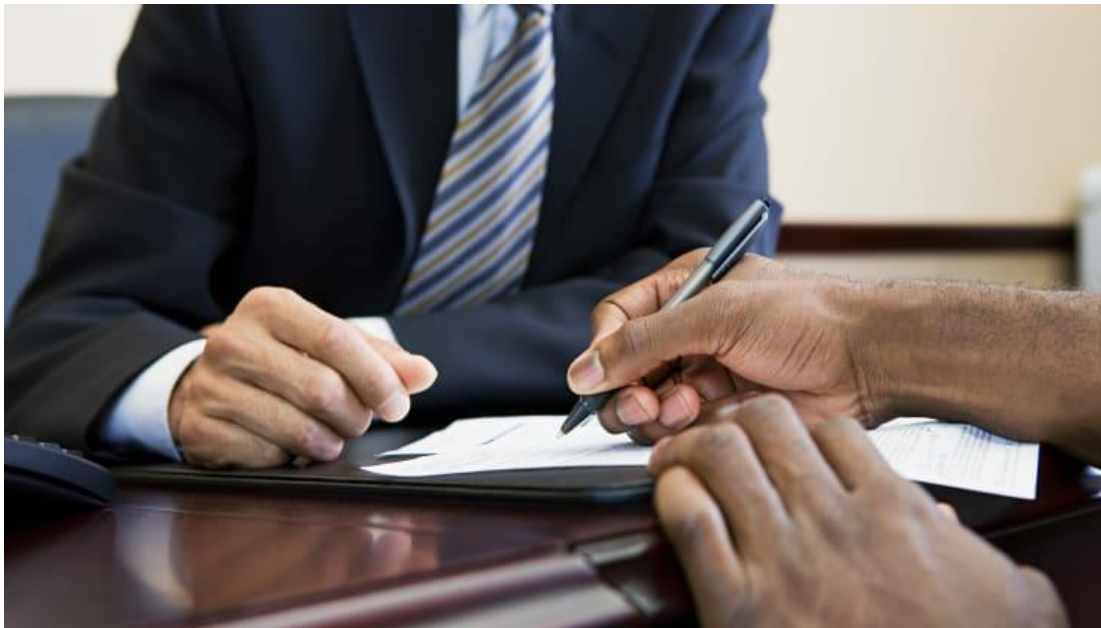


Image Source | DigitalVision | Getty Images

by **Lori Teresa Yearwood**

KEY POINTS

- Decades of discrimination by the federal government and America's financial institutions has induced an almost trauma-like response in many people of color, particularly African Americans, making them less likely to seek credit.
- This defensive behavior often distances people of color from the very credit-granting institutions they need to thrive.
- The ramifications can prove devastating, as good credit impacts everything from mortgage rates to hiring decisions by employers.

For many minorities in America, it's an all too familiar scene.

An applicant who is a person of color and applies for credit is either denied or gets much worse terms than a white borrower.

In fact, [an investigation](#) by the National Fair Housing Alliance, a Washington D.C.-based nonprofit, found that 60% of the time, applicants who were people of color — and way more financially qualified than their white counterparts — nevertheless were offered higher-priced car loans, costing them an extra \$2,662 each over the course of the loan.

Sen. Bernie Sanders (I-Vt.) and Rep. Alexandria Ocasio-Cortez (D-N.Y.) joined forces in May to introduce the [Loan Shark Prevention Act](#) to “combat the predatory lending practices of America’s big banks and protect consumers already burdened with exorbitant credit-card interest rates.”

The legislation would cap interest rates at 15%, likely benefiting many consumers of color.

Whether these actions can repair the financial damage that minorities have long endured in America remains to be seen.

Decades of discrimination by the federal government and America’s financial institutions has induced an almost trauma-like response, causing many people of color, particularly African-Americans, to adopt self-protective behavior not unlike a post-traumatic stress reaction.

The paradox: This defensive behavior, where the cause of injury is avoided, often distances people of color from the very credit-granting institutions they need to thrive.

The ramifications of that can prove devastating, as good credit impacts everything from mortgage rates to hiring decisions by employers.

Scarred at an early age

Consider the plight of Sherry Long, 68, who witnessed racism firsthand when she was just 10, an experience that continues to impact her financial well-being.

On a hot summer day in 1959, Long and her mother walked the 2.5 miles from their log cabin to the Rawlins, Wyoming, municipal building twice in one day, the second time to ask why the city had turned off their water.

On their first visit, they had paid their water bill in cash.

“I just gave you \$300,” Long’s mother, an African-American, told the city worker, a white woman.

“You didn’t give me any money,” Long said the clerk replied.



Sherry Long avoided seeking credit due to racial childhood trauma.

Lori Teresa Yearwood

Long’s mother, a nurse’s aide and house cleaner who lived paycheck to paycheck, pleaded with her employers for emergency loans and then worked overtime to pay off the debts.

On that day, Long made a vow to herself: She would avoid the white, mainstream institutions that reminded her of the one that stole from her mother.

A soft-spoken woman, Long chokes back tears as she recounts how she hoped that by this time in her life, after earning her bachelor's degree in psychology and working for nearly 30 years in the non-profit sector, she would own a house and have good credit.

Instead, after paying annual interest rates of up to 700% on emergency payday loans to cover her rent and basic living costs, she fell behind and got evicted from her two-bedroom apartment in an upscale Salt Lake City neighborhood.

After couch-surfing with friends for more than a year, she now rents a one-bedroom apartment above a busy restaurant, across the street from a massage parlor in a high-crime area.

Long's credit score remains far lower than the average FICO score of 695.

She says she never considered seeking help from a white-owned institution. "They just didn't seem like they were meant for people like us," Long said.

Defensive crouch

[Jacqueline Scott](#), an associate professor of philosophy who specializes in race theory at Chicago's Loyola University, understands that traumatized people go into a "kind of defensive crouch."

In fact, this PTSD-like response is so prevalent that Scott has coined a term to help her students understand it: "meta oppression."

"It's the depression that comes from having already dealt with oppression for an extended period of time," Scott explained.

Ricki Lowitz, chief executive officer at [Working Credit](#), a Chicago-based nonprofit that helps clients in seven states navigate the credit system, believes that the way to assist disenfranchised consumers is to first help them overcome "their deep seated fear of credit."

Nearly 80% of Working Credit's clients are people of color.

There is longstanding debate over whether the algorithms that drive the credit scoring system are racially biased.

Joanne Gaskin, vice president of scores and analytics at credit-scoring company FICO, says the firm doesn't use age, address, employment, income, gender or race in generating their scores.

“The fact that race is not factored into the credit score is perhaps the greatest opportunity we have to help people of color level the playing field,” Lowitz said.

When her clients learn how the credit system works, many are angry that they did not have the information earlier, she says.

“We meet people who have been beaten down by the system,” Lowitz said. “In some cases, we are contradicting their parents and grandparents who have told them to stay away.”

The median credit score for participants in Working Credit’s 18-month program increased by 45 points for Hispanic participants and by 44 points for African Americans.

Cleaning up his credit history

Stanley Fenelon, of Boston, is one graduate of the program.

In 2016, the 26-year-old African-American had spent about a year sleeping in his car while working at a paid internship.



Stanley Fenelon is a business analyst at Harvard University.

Rose Lincoln | Harvard University

After overcoming that struggle and finding a job, Fenelon faced another challenge: cleaning up his credit history. His low scores disqualified him from affordable car loans and safe apartment rentals that he needed to stabilize his life.

“As with just about any African-American or minority I know, my parents didn’t know about credit,” he said. “I was taught to take great caution with it, everyone had so much fear.”

Instead of seeking credit, Fenelon’s family repeatedly urged him to be “independent.”

As a result, Fenelon eventually found himself with little in savings or access to credit, contributing to his plunge into homelessness.

Even when he managed to land a job as a business analyst at Harvard University, Fenelon said he was passed over numerous times for apartment rentals by landlords looking for “more qualified applicants.”

Confounded, he enrolled in a Working Credit workshop, where he learned to negotiate with creditors, strategically pay off his debts and assuage his fear of banks.

His credit score rose from the low 400’s to the high 600’s and Fenelon moved into an apartment in a middle-class neighborhood.

His perspective about credit has changed dramatically.

“Okay, you accept that they made the rules,” he said. “And you say, ‘Alright, whatever, fine.’ But then you turn around and beat them at their own game.”



Lori Teresa Yearwood. Photo: Cass Studios of Salt Lake City

*[Lori Teresa Yearwood](#) is a freelance journalist who specializes in collapse and the recovery from collapse. A Contributing Editor at the [Economic Hardship Reporting Project](#), her work has appeared in *The Washington Post*, *The San Francisco Chronicle* and *The American Prospect*, among other publications.*