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Opinion

Banks Should Face History and Pay Reparations

The financial industry can close the wealth gap and serve as a model for a nation struggling to reckon with racism.

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A Wells Fargo bank in Minneapolis was set on fire during protests against the death of George Floyd. In 2012, Wells Fargo agreed to pay at least $175 million to settle accusations that it discriminated against black and Hispanic borrowers during the housing boom. Lucas Jackson/Reuters

Corporate chief executives have been tripping over themselves to demonstrate their support for racial justice. They've taken a knee, tweeted that black lives matter, donated money to advocacy groups and affirmed their commitment to inclusion.

That's all well and good. And following through on their promises — by hiring and promoting more people of color, diversifying boards and executive suites and paying all workers decent wages and essential benefits — would be even better.

But business leaders who are serious about fighting racism will hold themselves accountable for the bitter inequities they have helped to create and sustain, and from which they have profited. Every industry must now use its power to repair the damage and heal the wounds.

The financial industry is a good place to start. Banks have been underwriters of American racism — no industry has played a bigger or more enduring role in black oppression, exploitation and exclusion. Banks financed the slave trade and in some cases "repossessed" humans in bondage.

White-owned banks refused to serve black people who left the South escaping brutality and seeking opportunity during the Great Migration of the early and mid-20th century. Bank policies and practices contributed to segregating every major city and denying black families the two most important toeholds to the middle class — ownership of homes and of businesses.

Federal legislation beginning in the 1960s prohibited the most blatant discrimination in banking and lending. It banned redlining, the practice named for the color-coded maps that lenders used to deny mortgages in black neighborhoods.

But banks and real estate agents found ways to exploit the desire of black people to own homes, leaving many in foreclosure. Racial disparities in access to the conventional mortgage market endured, leaving black home buyers vulnerable to fraud and risky loans, as the subprime mortgage fiasco exposed so painfully.

An A.T.M. in Los Angeles in May. Eugene Garcia/EPA, via Shutterstock

The collapse of the housing market in 2008 and recession that followed wiped out half of black wealth. Black families have been slower to recover, in no small part because they are still rejected for home mortgages at more than double the rate of white families.

Similarly, banks deny loans to black-owned businesses at twice the rate of white-owned ones. This makes it difficult, if not impossible, for small black companies to grow. But the industry doesn't only suppress black wealth, it aggressively strips it, through excessive interest rates on consumer debt, egregious overdraft penalties and higher fees even for simple A.T.M. transactions.

It's no surprise that the median black family had roughly one-tenth of the wealth of a white family as of 2016. The gap not only limits education and career options, it's also a source of gnawing anxiety about how the bills will get paid in the event of a job loss or costly illness — setbacks facing millions of families, again disproportionately black, during the Covid-19 pandemic.

Moreover, the wealth gap hurts the nation's economy. McKinsey & Company calculates that closing the black-white wealth gap could increase G.D.P. by 4 percent to 6 percent, or more than $1 trillion, by 2028.

A federal reparations policy is unlikely to come anytime soon. But banks and financial institutions don't have to wait. First, they must apologize for their culpability for and complicity in structural racism. Next, they must commit to serving black people as they do whites. Then, with these four bold policies, the industry can start to close the wealth gap, repair the harms and serve as a model for a nation struggling to reckon with racism:

Cancel consumer debt for black customers

Americans carry a lot of consumer debt, but as Christian Weller reports in Forbes, nobody bears a heavier burden than African-American families. They are the only racial group that owes more than their belongings are worth — they could sell all their possessions and they would still be in debt.

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Black families on average had $8,554 in consumer debt in September 2019. And they pay more for debt — about $735 a year in interest on every $10,000 they borrow, compared with $514 for white families. Because they have less access to conventional banks and the mortgage market, many black families are forced to rely on high-interest alternatives such as payday loans.

Additionally, black people are hit with higher bank fines and harsher punishment, including wage garnishment, for loan defaults, making it harder to climb out of debt. Freeing families from the drag of this debt would help them build savings and obtain financial security.

Eliminate banking fees for black customers

Nearly half of black households have limited access to retail banking services or none at all. And black customers who have bank accounts pay more — $190 more for a checking account — compared with white customers, according to one study.

That's because banks in communities of color generally require higher opening balances and minimums to avoid fees, and they charge more for A.T.M. transactions and overdrafts. Seemingly small differences in bank fees pay off handsomely for the industry.

Of the more than $11 billion that big banks collected last year in overdraft-related fees, the bulk came from just 9 percent of account holders — consumers who generally have low bank balances, according to a study by the Center for Responsible Lending.

Ending these egregious practices would make banking more attractive to black consumers.

Provide interest-free mortgages to black home buyers

The long history of blatant racism in mortgage lending is well known. The Fair Housing Act of 1968 was supposed to end it. But today, the rate of black homeownership, 43 percent, is barely higher than when that law took effect — and much lower than white homeownership, at 70 percent.

Given the persistent racism in the mortgage market and the subprime mortgage disaster, which not only resulted in homeownership disparities but also limited the value of homes owned by black people, banks must provide interest-free mortgages to black home buyers.

These loans could be capped at the regional median loan value and should be in place until black homeownership is on par with white homeownership. Expanding secure homeownership for black families and creating opportunities for them to buy in markets where real estate enjoys healthy increases in value will improve economic mobility and begin to create generational wealth.

Provide interest-free loans to black-owned businesses

Black Americans, women especially, start small businesses at higher rates than whites. From 2007 to 2012, the number of black-owned businesses increased nearly 35 percent. But almost all are sole proprietorships or partnerships with no employees, in no small part because they lack access to capital.

More than half of black-owned companies are turned down for bank loans, twice the rate of white business owners. Black businesses need investment to grow, especially during the pandemic, yet baked-in racism in the Paycheck Protection Program meant that only 12 percent of black and Latino business owners received the loans they requested.

Going forward, banks should provide interest-free loans to black-owned businesses at the regional median amount until black businesses are sufficiently capitalized to be competitive in the markets in which they operate. Unleashing the creativity of black entrepreneurship will reap huge benefits for the entire society.

Inevitably, the industry will assert that laws, regulations or shareholders prevent taking these steps. But legal obstacles have not stopped banks from pursuing bold, sometimes risky, strategies in the past. They use their mighty skills, money and influence to make a way when they believe profits and benefits await.

Now the industry must make a down payment on a secure future for black America, which really is a secure future for America.

Ultimately, no single industry can get at the root causes of racial inequality. But collectively, banks and all corporations must use their outsize power to end systemic racism, move the nation toward racial and economic equity and drive significant change in policy.

That requires more than taking a knee. It demands taking a stand.

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