RACE and RECESSION

How Inequity Rigged the Economy and How to Change the Rules.

MAY 2009
APPLIED RESEARCH CENTER
arc.org/recession
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News headlines report this recession’s grim statistics.

“Four months into the year, the unemployment rate has already soared to 8.9 percent.”

“Foreclosure filings surged.”

“Stock market down 50% from Oct. 2007 peak.”

While all Americans worry about economic insecurity during this crisis, its most damaging effects have been unevenly distributed. People of color are unemployed, hungry, homeless and without healthcare at alarming rates. Many have already fallen through the widening cracks in the social safety net, and countless more are about to go under. This dire and worsening situation amounts to a state of emergency. Examining the disparities reveals patterns that are not simply coincidental. Indeed, people of color face barriers to opportunity at every turn, and the impact is devastating, not just to them, but also to struggling white people. Ultimately, to ensure a stable and growing economy for all will require solutions that directly address these disparities.

**THIS REPORT TAKES US BEYOND** the numbers to explore the root causes of racial inequity. As the recession ravages the country, the Applied Research Center has been following its path. From Rhode Island’s welfare offices to job placement centers in Detroit, from Washington State’s hospitals to construction sites of Austin, Texas, we gathered real stories about what this recession means in a country in which race is a significant predictor of one’s economic situation. These stories and supporting data reveal the policies behind the patterns of racial inequity that have created an economy that is precarious for everyone. The report calls for an inclusive recovery, recognizing that a healthy economy requires explicit attention to our deepest racial divides.
The distribution of the recession’s worst results is not random. Rather, the conditions that create this disparity are structural, deeply embedded into the rules, the histories and the cultural currents of this country. As the nation unites to recover and rebuild, the time has come for new rules so that everyone can engage on fair and even terms. To avoid repeating this crisis we must recognize and combat the compounding effects of racial inequity.

**KEY FINDINGS**

- People of color have been relegated to precarious, low-wage work—or no work—at disproportionate rates. Black, Latino, Asian and American Indian communities face barriers to employment, including discrimination in hires and promotions, unfair criminal background checks and the lack of protections for immigrant workers. As a result, communities of color on the whole, relative to whites, face higher rates of poverty, are less likely to have healthcare and consistently face recessionary levels of unemployment and underemployment.

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**Unemployment by Race, 1973-2009**

![Unemployment by Race, 1973-2009](image)


*Note: Unemployment rates are taken from seasonally-adjusted monthly data for March of each year. Unfortunately, the Census doesn’t collect or provide data disaggregated by nationality and/or ethnicity for Asians and American Indian, at this time.*

- **VINCENT L. W.**, a Black man in his mid 40s, cannot land a job. In addition to the contracting job market and his minimal education, Vincent is marked by a criminal record from two decades ago that follows him everywhere. When he does get an interview, he is often turned away, told that his criminal record makes him ineligible. Homeless, Vincent spends his nights on other people’s couches. Facing compounding obstacles at every turn, from a lack of education, employment and housing to few opportunities for advancement, he faces the prospect of being permanently poor.
• **MARIA CECILIA OSORIO** lives in Nogales, Arizona with her two children. The border town has been hit hard by the recession, and she has been unable to find work for weeks. But even before the economic downturn, Osorio struggled with abuse and exploitation as a worker. She worked in a produce factory where she and her fellow employees were paid just $6 an hour, less than the minimum wage. “They discriminate a lot when you don’t have papers,” she said. “They did everything but crack the whip to make us work.” Osorio recalled that the boss would threaten to call the border patrol if they did not do exactly as they were told.

• Because people of color have less income and less wealth, they have less to fall back on in hard times, and yet the safety net for poor families has been eroded over the past dozen years. The compounding effects of lower wages, diminishing wealth and a decayed social safety net leave families of color with little hope and a growing possibility of falling into desperate times.

• **FARRAH HASSAN**, an Iraqi American mother of four in her early 30s, was laid off from her job as a teacher’s assistant. After her unemployment benefits ran out, she applied for cash assistance. Two months later, however, she was sanctioned for not complying with the state’s work requirement, and her benefits were cut off. At the same time, Hassan’s mortgage bill doubled, and she fell behind on her payments. The house was soon put into foreclosure. The prospect of being simultaneously jobless, homeless and penniless leaves Hassan and her family with an accumulated debt that could take a generation to recover from.

• The cumulative effects of historic and current housing discrimination—including restrictive racial covenants, redlining and neighborhood segregation—have left people of color with less equity and access to credit, making them vulnerable to disproportionate rates of predatory lending and foreclosure. Communities of color were saddled with predatory subprime loans at very high rates. Many were sold subprime loans when they could have qualified for prime loans. The foreclosure epidemic has plagued communities of color and caused a loss of wealth that will have lasting generational effects. Disproportional rates of foreclosure compound the deep and growing racial wealth divide.

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**Racial Wealth Divide, 1992-2007**

![Graph showing the racial wealth divide from 1992 to 2007.](source: Survey of Consumer Finance, Federal Reserve, 2007)
**SANDRA HINES**, a middle-aged Black woman, lost her family home to foreclosure. Like the great majority of American families, the primary source of wealth in communities of color is in housing. The family moved into a rental house, but it, too, was hit by foreclosure. Her story, combined with the stories of millions of other people of color who have recently lost their homes and most of their assets—wealth that was allowed by government policies (or lack thereof) to transfer to corporate interests—represents the latest chapter in a long-standing and intensifying racial wealth divide.

**KEY RECOMMENDATIONS**

These problems are profound but need not be permanent. Many viable policy solutions exist to address root causes, systemic barriers and structural racial inequities. Policies must immediately help those most adversely affected by the recession and proactively tackle existing racial disparities through conscious attention to racial impacts. Ultimately, the building of a healthy economy must fundamentally rest upon both emergency actions and new policies that are racially inclusive and equitable for everyone.

1. **Overarching Policy Framework**
   - Expand the use of Racial Equity Impact Assessments for public planning and policy so that we can anticipate and prevent racial inequities before adoption of new policies and practices. This would provide a mechanism to consciously and systematically address racial inequities proactively during the policymaking process.

2. **Immediate Actions: Alleviate State of Emergency**
   - Moratorium on foreclosures
   - Suspension of Temporary Aid for Needy Families lifetime time limits
   - Moratorium on workplace immigration raids
   - Expunging of criminal records for most past offenders and elimination of questions about past convictions on public employment applications ("Ban the Box" initiatives)
   - Enforcement of anti-discrimination laws

3. **Policies Needed within the Next Year**
   - Employee Free Choice Act
   - Community Reinvestment Act Modernization
   - Immigrant Legalization
   - Green Jobs-Good Jobs
   - Raise the Minimum Wage
   - Pass Comprehensive Universal Healthcare
Chapter 1

Introduction: Some Are More Unequal

Until last spring, Farrah Hassan thought she was living the American Dream. She came to Detroit, Michigan as a refugee from Iraq 15 years ago, went to college, started a job as a teacher’s assistant and bought a house for herself and her four children. “I was finally able to work and support my kids. We bought a house to get settled,” she said.

But last year, Hassan lost her job because of state budget cuts. Unable to find work, Hassan’s unemployment benefits ran out. With no savings to fall back on, she applied for Temporary Assistance for Needy Families. The $600 dollars she received in income assistance helped her pay her mortgage—also $600. But two months later, she and her family were cut off the welfare rolls for falling out of compliance with the state’s welfare work requirements. “They told me, ‘we can’t give you cash unless you find a job.’ I went to look, but there aren’t any jobs,” she said.

Around the same time, Hassan’s mortgage bill doubled. She realized she had been sold a predatory loan with a “teaser” rate. “When I got my house,” she said, “I talked to the mortgage lady, and I told her that if the payment was going to be more than $600 I didn’t want to buy the house. She told me that the highest amount would be $600.” Hassan received a foreclosure letter, and when we met her, eviction was three months away. “I have no idea what I’ll do. Where am I going to go with four kids?” she wondered.

THE COUNTRY IS FACING AN ECONOMIC CRISIS and many are experiencing unprecedented instability. Individual Americans of all races are facing dire situations—losing their jobs, homes and security. For communities of color, the crisis is intensified, and people like Farrah Hassan are affected disproportionately. This report tells the story of what the recession—now the deepest and most devastating since the Great Depression—means in the lives of ordinary people of color in this country.

The report argues that the emergency now upon communities of color is the result of historic and current inequities, policies and practices that block Black, Latino, Asian and American Indian people from opportunity and stability, and now plunges more families into despair. Further, these disparities pose a threat to the health of our national economy.

In contrast to our collective ideals of fairness and opportunity, in the real world, the terms are rigged against people of color. The outcomes are not random and reflect neither merit nor skill; rather, they are warped by a set of rules, practices, assumptions and histories that position some at a disadvantage from the onset and continue to restrict opportunity at every turn.

In his inaugural address, President Obama affirmed: “A nation cannot prosper long when it favors only the prosperous. The success of our economy has always depended not just on the size of our gross domestic product, but also on the reach of our prosperity, on our ability to extend opportunity.” Indeed, comparative research shows that countries with equitable incomes see faster rates of overall growth.3

Cumulative and Compounding Effects of Structural Racism

People of color face a disproportionate impact of the economic downturn because of preexisting structural and institutional racial inequities. These inequities are both cumulative and compounding.

Cumulative effects refer to the ongoing impact of policies and practices, created over time. Compounding effects occur when multiple institutions or policies intersect simultaneously.

Follow this icon through the report to see how multiple institutions, policies and practices compound to create unfair terms for communities of color.
But the United States has failed to extend prosperity. While productivity and employment were on the rise between 1990 and 2008, the growth was not mirrored in the lives of most U.S. residents. Though productivity was up almost 50% from 1990, real median hourly wages had only risen 6% for all workers, with none of the growth occurring after 2001 (see Figure 1). While a few people on the very top of this increasingly stratified economy have reaped the benefits of high levels of growth, most workers have not gained.

Yet this inequality itself has not been evenly distributed. Income inequality between whites and people of color has increased as general stratification grew over the past decade. While it is widely noted that growing inequality is a sign of an unhealthy economy, less often acknowledged is the color of inequality. As wages of all workers grew only marginally and then remained static, Latino and Black real median family incomes actually fell 2.2% and 1%, respectively, between 2000 and 2007. The decline was the first in a business cycle of this length since World War II.
Indeed, growing stratification cannot be fully understood without accounting for persistent racial inequality. The Applied Research Center compared levels of overall income inequality in the 50 states and the District of Columbia to racial demographic data and found a significant relationship between income inequality and percentage of people of color per state: states with the largest income disparities between the top and bottom earners were also the ones with the highest proportion of people of color. Among the states with the highest levels of income inequality, 11 had high percentages of people of color. This included three states with a majority population of color—New Mexico, California and Texas. Only two of the 17 states with high income inequality, Kentucky and Ohio, had low concentrations of people of color. Just four states buck the trend with low income inequality yet high concentrations of people of color.7

The state analysis reveals that overall rates of income inequality in the United States are inextricably linked to growing and persistent rates of racial inequality. To address the growing divide—the same stratification that we now know pushed the economy into decline by diminishing real incomes and increasing family debt—requires eradicating racial inequities that pull people of color to the bottom.

**Fig. 2. Income Inequality and Race in U.S., 2007**

Source: ARC’s calculations of U.S. Census data.

Income and wealth inequality is racialized in the United States because the cumulative and compounding effects of past and present policies generate deep racial disparities. The Servicemen’s Readjustment Act of 1944—the G.I. Bill—provides a clear example of the way that racial inequity accumulates over time. Signed by President Franklin D. Roosevelt, the bill aimed to give every returning World War II veteran the opportunity to further his education, borrow money for a house or business, or receive a well-paying job. Yet veterans of color were blocked from buying homes during these post-war years by restrictive racial covenants that denied them access to mortgages. As home ownership grew exponentially, the economic gap between white and nonwhite households widened, and the ripple effects are still felt today.

Through extensive interviews with dozens of individuals around the country and data analysis, this report shows that people of color continue to face housing discrimination that builds upon that of the past, are relegated to precarious and low-wage jobs and regularly confront persistent barriers to opportunity. People of color have less accumulated wealth than whites and therefore less to fall back on in hard economic times. Yet the safety net for all poor people has been diminished, leaving many families without the support they need to survive.

These failures of public policy need to be addressed immediately as federal, state and local governments implement job creation and economic recovery programs with funds from the Stimulus Bill. The persistent reality of these disparities means that without explicit attention to inequity, racial divisions will remain, or even grow. Discussing efforts to revitalize the job market, former U.S. Secretary of Labor Robert Reich stated: "If construction jobs go mainly to white males who already dominate the construction trades, many people who need jobs the most—women, minorities, and the poor and long-term unemployed—will be shut out."10

Racial inequity stands in the way of opportunity for communities of color and a healthy economy for all Americans. We need only the political will to adopt the many solutions available. These policies will have to tackle both the institutional and historical roots of racial inequity that created an unequal playing field for people of color and the compounding effect of the multiple institutions that affect these communities. As in the case of Farrah Hassan, the crisis facing communities of color comes from every angle. She has been struck by unemployment, predatory lending and the eroded safety net. Hassan and the hundreds of other people from around the country who we met in compiling this report need both immediate relief and long-term, structural repairs that create fertile ground for our most precious American Dream: liberty and justice for all.
CHAPTER 2
Race and Work in the Crisis Economy

In San Antonio, Texas, Martin Jaquez, a 40-year-old Latino construction worker with five children, has been seeking work for weeks and worries about feeding his family. He stands on a corner with other day laborers, arriving early in the morning and leaving empty-handed at day's end. When he does work, he sometimes does not get paid. When we met him, the police arrived to hand out tickets for loitering, and the men ran under a highway overpass.

In a Department of Human Services office in Providence, Rhode Island, Belinda Reyes, a 20-year-old Latina who recently lost her minimum-wage job at an eyeglass store, is missing the first two days of her GED class. She desperately needs a job to support herself, her 1-year-old daughter and her disabled mother, whom she cares for, but there is little out there for someone without a high school degree. She fills out forms, waits in lines and tries to navigate the bureaucracy to get childcare assistance and some government income support for her child.

Marcus Shepherd, 19, can find no work at all in Detroit, where he lives with his uncle. Shepherd is on probation, and he says that when he fills out applications, he dreads having to check the box that asks about his criminal history. He believes he could get a job if only he did not have to tell potential employers that he's been incarcerated. Every morning, Shepherd wonders if his uncle will say he has to move out. If that happens, he expects to be homeless.

THIS CHAPTER EXPLORES RACIAL INEQUITY in jobs and employment in the context of the current economic recession. The United for a Fair Economy State of the Dream 2009 report found that while white people are facing a recession, people of color endure a severe and durable enough recession that it amounts to an economic depression. The chapter describes the stark reality of insufficient access to work that can support a family and the policies and practices that make an economy that is precarious for everyone and perilous for too many communities of color. While the recession is commonly treated as temporary, communities of color have faced stagnating and declining conditions for much longer, circumstances that whites experience only periodically in the worst economic downturns.

• The concentration of people of color in specific occupations has made them more vulnerable to the effects of the economic downturn. People of color are more likely than whites to get laid off and more likely to be unemployed and underemployed. Further, people of color regularly face levels of unemployment and underemployment as high or higher than levels faced by whites only in economic downturns.

• Equal pay for equal work has never been a reality. Wages have always been lower for people of color than whites, making it much more difficult for people of color to gather a financial cushion.

• Workers of color are still subject to hiring discrimination and abuse ranging from wage theft to forced part-time work that renders them ineligible for benefits.
• There are formidable legal barriers to many workers of color entering the workforce and maintaining stable, living-wage employment. Workers who are undocumented or have a criminal record have difficulties getting hired and/or are vulnerable to exploitation.

• The federal safety net is too weak to support those who are most harmed by the recession.

**UNEMPLOYMENT AND UNDEREMPLOYMENT**

_Leo Shipman, a 24-year-old Black man with a goatee and short hair, dressed in a new, white t-shirt, recently lost his job in Detroit. The unemployment rate in the city hit 22.2% in January. “My biggest worry is my son,” he said about his 3-year-old. “You don’t know how you’re going to feed them. He doesn’t know the bills are running up, but I do.”_

When Shipman is not taking buses and taxis to drop off resumes or running from one job interview to another, he waits at the Tried Stone Baptist Church in Detroit, where his mother works as a receptionist. The church sits on a block among shuttered houses in a part of Detroit that has struggled for decades. Porches are overgrown with bushes, and windows are covered by plywood planks. The streets were largely empty of cars and pedestrians when we arrived to meet Shipman.

“How many houses you see burnt down, how many people you see walking up and down the streets with no good shoes on their feet?” asked Shipman about his neighborhood. When we arrived to interview him, a pipe had just burst in the church’s basement.

At 3:00, Shipman left to pick up his son. The boy spends his time between his parents, and Shipman puts a lot of pressure on himself to “make it on my own,” to live independently and help support his son. His son’s mother still has a job. Even when Shipman was working, he was barely able to scrape by, earning about $380 a week ($9.50/hour) as a thermal press operator at a small company that makes plastic truck-bed liners for Dodge and other auto companies.

At the end of November 2008, the company told all but three of its 30 workers that they were being let go because demand had evaporated with auto sales at their lowest since World War II.13 With only a high school education—he’s been trying to enroll in a technical college—securing a living-wage job proves elusive if not impossible. Because he had been underemployed, Shipman had no unemployment check coming in at the time. He’s not sure what he’ll do.

The chaos in the auto industry, which provides 8.9% of Michigan jobs, pushed the state’s March unemployment rate up to 12.6%, the highest in the country.14 Black workers have been hit especially hard because their 14.2% concentration in the industry is higher than their overall 11.2% share of the state’s labor market.15 In the auto industry alone from December 2007 to November 2008, 20,000 Black workers lost their jobs, and the possibility of hundreds of thousands more losses still looms.16

Leo Shipman recently sold his car to pay his rent and other bills and buy food. He is not alone in being forced to make major sacrifices after becoming unemployed.17 According to a late 2008 survey conducted by the National Employment Law Center (NELP), 20% percent of people who become unemployed sell their cars to pay for other essentials.18 Detroit is not a walkable city. The home of the Big Three automakers is a grid of interconnecting freeways. Without a car, Shipman relies on underfunded and unreliable public transportation. The NELP survey also found that 35% percent of unemployed renters had
to move in with family, and 46% fall behind on rent payments. Over one-third sold property, and almost half borrowed money to stay afloat. For Shipman, who doesn’t want his son to know that things are so bad, having to buy less food will make it hard to hide. Many people have tapped into savings or taken money out of retirement accounts, but Shipman does not have these options.

“I’m out here looking for something, but there’s nothing to find,” said Shipman. Despite determination to making it on his own, Shipman, like so many in this country, finds himself teetering on the edge. “The bailout helped certain people,” he said of the $13.4 billion dollars the federal government pumped into Chrysler and General Motors last December, “but it didn’t help me.”

Rates of employment are a central measure of economic wellbeing, and an extended increase in unemployment is one signifier of recession (see Figure 4). In March of this year, unemployment reached 8.5% nationally, up from 5.1% in March 2008. And, the structural disparity remains: 7.9% of whites were unemployed in March, while 13.3% of Black workers had no job, and 11.4% of Latinos were out of work. In part, this is due to the fact that Black and Latino workers are overrepresented in occupations with high unemployment rates, according to data the Applied Research Center compiled from the Current Population Survey. These include service sector jobs, as well as construction jobs and production, transportation and material moving jobs.

Permanent Recession

While recessions increase unemployment for everyone, disparate unemployment rates for whites and people of color are a longstanding feature of the U.S. economy. In fact, unemployment among people of color is consistently higher than recession-level unemployment rates for whites. Algernon Austin of the Economic Policy Institute has thus termed this “Black America’s permanent recession.”

![Fig. 3. Unemployment by Race, 1973-2009](image)

**Fig. 3. Unemployment by Race, 1973-2009**

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<th>Latino</th>
<th>Black</th>
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*Note: Unemployment rates are taken from seasonally-adjusted monthly data for March of each year. Unfortunately, the Census doesn't collect or provide data disaggregated by nationality and/or ethnicity for Asians and American Indian, at this time.*
The Applied Research Center analyzed statistics from the Current Population Survey over a 37-year period and found that unemployment for people of color rarely fell below even the highest, recession-level rates of white unemployment. **Black unemployment was at least double that of whites for all but five of those years.** Latinos were **1.5 times more likely to be unemployed than whites for 28 out of 37 years.** In this 37-year period, white unemployment hit its peak in 1983 at 9.3%. By comparison, the lowest rate of Black unemployment was 7.7% in 2001, with a 37-year median rate of 12.05%. The median for Latinos, 8.95%, was only slightly lower than the high for whites. The finding reveals that **people of color are consistently facing the crisis of recessionary levels of unemployment.** Unemployed people cannot contribute to the economy in essential ways like taxes and consumption.

**Unemployment for Young Workers of Color**

Workers like Leo Shipman between the ages of 20 and 24 who are new to the labor force feel the sting of the recession sharply. “Right now, if you don’t have any trade skills, and you don’t know anything but the automotive industry, there’s not much you can do,” said Shipman. “It’s hard already for the people who’ve been there for years, and they look at me and say there’s nothing they can do for me right now.”

**Fig. 4. Unemployment for Young Workers by Race, 1977-2009.**

Unemployment rates for young adults are higher across races than the general population (see Figure 4). But as is the case with unemployment in general, young people of color face significantly higher rates of unemployment, and that disparity is consistent over time. From 1977 to 2009, the highest rate of unemployment for white young adults, 13.9% in 1983, does not reach the lowest rate for Black young adults, 14.3% in 2001. While educational attainment helps to decrease unemployment levels, in 2005 Blacks with a high school education or some college education were actually unemployed at higher rates than whites without a high school diploma.20
Underemployment

While many have lost their jobs altogether, others are underemployed. Underemployment more accurately accounts for labor market decline because it also includes part-time workers who want full-time jobs (“involuntary” part-time workers) and jobless workers who want a job but have stopped actively seeking employment (“marginal” workers). In a recession, the number of underemployed people increases, yet they remain ineligible for unemployment insurance. In December 2008, over 21 million workers were underemployed, up more than 55% from December 2007. And just as people of color are unemployed at higher rates, they are also underemployed at higher rates. In 2008, as the recession was just beginning to be acknowledged, 8.7% of whites were underemployed, compared with 16.3% of Blacks and 15.2% of Latinos. In March 2009, overall underemployment rates were just beginning to edge up to levels that people of color experienced last year. Indeed, people of color have been underemployed at rates higher than whites for years.

- In the past 15 years, Blacks have faced underemployment rates at least twice those of whites in all but four years.
- Latinos have faced underemployment rates 1.5 times white underemployment in all but five years.
- Asians and Pacific Islanders were underemployed at a rate higher than whites in all but the last four years.

Racial Job Segregation

Austin, Texas resident Dominga Hurtado paints houses for a living. Hurtado, who recently became documented, immigrated to Austin from Mexico in 2001 with two of her five children. The others stay with family in Mexico, and she sends what she can to support them. Putting food on the table for her family in the U.S. is hard enough, and sending remittances is proving almost impossible.

“They pay you a salary per house,” said Hurtado. “But they aren’t selling a lot of houses, and the prices are falling. When they sell the house for less they pay us less.” For a job that might have paid $400 a few years ago, Hurtado now makes $300; instead of earning $2000 a month, she makes about $900. With $400 due in rent for her trailer plus the cost of food, bills, transportation and the money she tries to send to her family in Mexico, $900 is far short of what she needs. It amounts to $10,800 a year, less than one-third of a living wage for a family of three in Austin and 59% percent of the poverty threshold for a family of three. Unless there is more work, Hurtado is facing economic disaster. Because she is underemployed she cannot collect unemployment insurance.

The economy has pummeled the construction industry, and people like Hurtado and others in the building trades are finding themselves unemployed and underemployed. Unemployment in construction hit 21.4% in February, and underemployment is much higher. A reported 11% of Latinos make their living in the construction industry (see Figure 5). The double punch of the burst housing bubble and the tightening of credit that has reduced new construction has made building jobs scarce.

The construction sector started declining as early as 2007, and Latinos bear the brunt of the fall because they rely so heavily on the construction sector for jobs. Overall, construction jobs have fallen by more than one million since January 2007; in January 2009, another 111,000 jobs were lost.
Job segregation persists in the United States, and people of color are relegated to more precarious, low-wage jobs. Workers of color are heavily concentrated in the service sector, according to ARC’s analysis of the Current Population Survey. Meanwhile, whites are disproportionately represented in the most stable constellation of occupations, including management and professional jobs. More than 38% of whites work in management, professional and related occupations. This is flexible and creative work that pays well and is reserved for a small fraction of workers in the new global economy.

**Job Segregation and Low-Wage Work**

Kasia, a 33-year-old immigrant living in New York City, works at the Duane Reade pharmacy part-time as a cashier. She worked as a housekeeper for years before getting the pharmacy job and hopes to move into a higher pay grade. “I have a goal to be a bank teller,” she said. “This is a minimum-wage job, and I cannot stay there, but I get some customer service skills and cashier experience.”

Kasia receives food stamps and Medicaid and lives in public housing. “I am still looking for work because I don’t make enough. I am looking all over, but it can’t be more than one hour away, it’s too far, and I have to pick up my children from school. I don’t have enough time with my kids.”
In addition to lost work opportunities and wages in construction, manufacturing jobs are declining in the U.S., having moved to the Global South where labor costs less, in part because worker protections are rare. The economy is increasingly reliant on service-related jobs, where almost a quarter of workers of color make their living (see Figure 6). These jobs are largely not unionized or otherwise protected. Before the recession, people in low-wage work, disproportionately people of color, struggled to make ends meet. This is especially true for women of color, who experience both gender and racial discrimination, immigrants of color, who face inequity and precarious legal status, and many young people of color, particularly young Black men, who often are thwarted by the racial stereotypes of employers.

**Fig. 6. Median Weekly Earnings by Occupation and Race, April 2009**

People of color are concentrated in jobs with below-average median weekly earnings. The median weekly earnings for all workers over age 16 is $738. But service sector work, where people of color are heavily concentrated, provides median weekly earnings of $457–$516 for men and $411 for women.

In 2007, before mainstream media outlets and public officials acknowledged the recession, Black families earned 59 cents, Latino families earned 62 cents, and American Indian/Alaska Native families made 59 cents for every dollar in
income earned by a white family. Many Asian groups, particularly Southeast Asian and Pacific Islander Americans, as well as foreign-born Asians, have an annual family income that is close to that of Blacks, Latinos and American Indians.30

Low-wage jobs are likely to pay below the poverty line. Poverty in Black and Latino families in 2007 was 22.1% and 19.7%, respectively. This compared to 5.9% among whites. Among female-headed households, poverty is much higher, and the racial disparities are even more stark. Almost 44% of single-mother-headed Black families with children under 18 and 46.6% of single-mother-headed Latino families with children under 18 were living in poverty, compared to 29.2 % of similar white families. The disparity results from relegating people of color, especially women, to low-paying jobs. As we will see below, it also reflects the inadequacy of income support programs for very poor families.

![Fig. 7. Median Weekly Earnings by Race and Gender, 2009](image)

<table>
<thead>
<tr>
<th>Gender</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latino Women</td>
<td>$510</td>
</tr>
<tr>
<td>Latino Total</td>
<td>$545</td>
</tr>
<tr>
<td>Latino Men</td>
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</tr>
<tr>
<td>Black Women</td>
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<tr>
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<td>Black Men</td>
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<td>White Women</td>
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<tr>
<td>Total White</td>
<td>$758</td>
</tr>
<tr>
<td>White Men</td>
<td>$855</td>
</tr>
</tbody>
</table>

*Note: Data not seasonally adjusted.*

Even when employed in the same sector, people of color earn less than whites. A recent report released by the Restaurant Opportunity Center of New York (ROC-NY) found that people of color are disproportionately relegated to low-paying, “back of the house” and lower-level “front of the house” jobs within fine dining restaurants in New York City. This is a direct result of institutionalized forms of racial discrimination that maintain a “racial division of labor,” dramatically reducing earnings of people of color.31 In fact, workers of color in the restaurant industry earn 11.6% less than they would if they had the same qualifications but were white. Immigrant workers with similar qualifications as non-immigrants face 9.6% lower earnings than native-born restaurant workers, and immigrant workers of color are even further deprived of equal pay. Woman in the industry earn 21.8% less than men, and the impact of being a woman of color diminishes earnings even more.32 In effect, workers of color pay a de facto “race tax.”

Income differences are partially attributed to racial disparities in educational attainment. Those without high school or college degrees make less than those who have them. But even when controlling for educational attainment, people of color make less than equally educated whites (see Figure 8). U.S. Census data released in April 2009 reveals that people of color, on average, make less than whites, regardless of educational level.33 In other words, highly educated employees of color still take home smaller paychecks than comparably educated white people.
Blacks with a bachelor’s degree earn an average $46,502 annually, $13,225 less than whites with the same education.

Latinos with a bachelor’s degree earn an average $44,696 annually, $15,031 less than whites with the same education.

Asians with a bachelor’s degree earn an average $54,451 annually, $5,276 less than whites with the same education.

**Fig. 8. Mean Earnings of Workers by Race and Educational Attainment, 2007**

The racial pay gap was more severe for those with high or low levels of education. Blacks without a high school diploma earn 76 cents to every dollar earned by similarly educated whites. Blacks with advanced degrees fare about the same, taking home 77 cents for every white dollar. The pay gap between people of color and whites narrows for those with some college or an associate’s degree. Even so, Blacks and Latinos with some college education or an associate’s degree actually earn less than whites with only a high school degree.

Inequitable Benefits: Discriminatory Healthcare Access

**Edgardo Caban**, a 41-year-old man from Puerto Rico, came to the Department of Human Services office in Providence, Rhode Island with his girlfriend and their daughter. Caban’s face was creased with lines, and his voice shook as he described the pain in his back, leg, neck and arms from an on-the-job injury.

“Last time I went to the emergency room, they were telling me that I have bone deterioration and arthritis in my spine, and I’m in constant pain. I need medical treatment.” But Caban, who has numerous jobs washing cars and doing construction, does not receive employer-based medical care and does not qualify for Medicaid because his income just surpasses the eligibility limit. Caban receives a deal on housing because he helps his elderly landlord with housework, but because of the pain he’s not always able to do what she needs. “I owe her rent,” said Caban. “This month we’re almost on our way out, almost homeless out in the street. Basically, it’s cold out there.”
Nine-year-old Marcellus and his grandmother, Gina Owens, packed into a van with eight other members of the Washington Community Action Network, a statewide grassroots policy organization, and left Seattle, Washington for Olympia, the state’s capitol. They were on their way to advocate for expanded healthcare that includes immigrants and to protest proposed cuts to the state’s income assistance program. On a rainy January day, the group of several hundred people marched from a church to the state house.

Healthcare is an urgent personal issue for this Alaska Native and Filipino family. In 2006, Marcellus’s mother was diagnosed with a pulmonary disease. She had been working as a manager at a fast food restaurant and had healthcare benefits for the first time. But when she began missing more and more work for medical treatment, she was fired and lost her coverage.

Her health soon declined. “We went to the ER,” said Owens. “But the treatment there was a lot less than it would have been had she had health insurance.” She went into the hospital a second time but did not recover. She passed away soon after.

“Marcellus is supposed to be thinking about having fun in school and playing, but he just wants to talk about the issues that took his mother away,” said his grandmother.

“My mom inspired me to talk to people,” said Marcellus. “I think it’s important for people to have equal healthcare. If she had healthcare she’d be walking today.”

Low-wage jobs offer few benefits to employees. Nationally, 18% of people of color have retirement accounts, compared to 43.4% of whites.34 They are also less likely to be insured but more likely to be employed in highly physical work like construction, where injuries are more likely.35 In 2007, while 10.4% of white adults were uninsured, 19.4% of Blacks, 18.7% of Asians and 32.1% of Latinos had no insurance—either private, employer-based or government-sponsored. This compounds preexisting levels of health disparities among communities of color caused by residential segregation, lacking access to healthcare, institutional barriers to healthful lifestyles and the prevalence of health hazards like manufacturing pollutants and other toxins found more commonly in communities of color. Going without insurance can be devastating for families.
Tanya Alina, a 19-year-old Latina, reported that she faces discrimination all the time in New York City when she is looking for a job. Alina is working toward her GED and recently became independent after aging out of foster care. “My biggest barriers seem to be my age and the color of my skin,” she said. A GED could help her get a higher-paying job, and a college education would do a lot toward that end. Indeed, completing a college degree generates an average $1 million more in lifetime earnings. But discrimination blocks her path.

Alina recalled a recent experience: “I went to an interview at a movie theater, and a kid that worked there told me the guy wasn’t going to hire because he only wants to hire young, white, eye-candy girls.” Her experience illuminates the compounding nature of gender and racial discrimination. “I feel angry, anxious and upset a lot. I have no one to talk to, so I keep it to myself.”

Harvard University researchers have found that racially biased decisions often occur subconsciously. While many employers do not intend to discriminate, implicit racial bias, racial assumptions and stereotypes become routine, and discrimination becomes institutionalized. Yet anti-discrimination laws require that conscious intent be demonstrated before one can seek recourse.

Discrimination is cumulative—that is, it is not simply an event that occurs and then ends. When discrimination occurs repeatedly, in multiple parts of a person’s life, the effects snowball. In employment specifically, job discrimination that keeps people of color out of the best jobs affects workers’ ability to gain experience and credentials necessary for advancement. Discrimination is cumulative in an historical sense, as well. Discrimination that explicitly excluded people of color from certain occupations and access to homeownership—discussed elsewhere in this report—has meant that current generations of people of color are dealt an uneven hand from the onset, inheriting less wealth and social capital.

The Restaurant Opportunity Center of New York found that people of color are less likely than white people with equal qualifications and credentials to be hired for high-paying restaurant jobs or to be promoted or even called back after an interview. People of color, the report finds, are 58.6% as likely as equally qualified white applicants to be offered a job, and white applicants were much less likely to have their credentials and past experience questioned and probed by an interviewer.

Employers often cited workers’ accents as a reason that they could not be hired for waiter positions. However, these same employers were eager to hire waiters with European accents. The decisions are therefore not explicitly racist but based on implicit, subjective and informal decisions about applicants’ suitability. White workers, the report finds, hold over two-thirds of the high-paying, front-of-the-house jobs.
Vincent L. W., a slim, 46-year-old Black man with a smooth face and a pressed plaid shirt, can't find work in Detroit. Adding to the impact of the abysmal labor market, Vincent is marked by a 25-year-old breaking and entering felony conviction that follows him everywhere. His record blocks stable employment and makes him constantly vulnerable to discrimination.

At a diner a block away from the temporary job center where we met him, Vincent explained: “On the applications, it always states EOE, equal opportunity employer, no one will be discriminated against.” But, despite work experience and a persistence that keeps him waiting from 8 a.m. to 6 p.m. in a Detroit winter in an unheated temporary job center, he has not been able to get a stable job for a long time, and the reason is pretty clear. When he does find work, it most often pays a minimum wage—$7.40 in Michigan—and his criminal record provides a pretext for firing him quickly.

At the end of 2007, as the country was just reckoning with the coming recession, Vincent had a job as a janitor in Detroit. He had been with the company for almost three months, but five days before he would have become eligible for full-time hire and benefits, his employer ran a criminal background check through a private company and told Vincent to pack up.

Vincent, who is homeless, didn't know where he would find the money to pay the bus fare back to his brother’s house, where he sleeps on the couch. “You are never stabilized, and behind these actions you find yourself homeless or living with a relative.” Vincent’s partner is pregnant, and they hope to move into a home together, but he says he'll keep sleeping on his brother’s couch until he can help support the family.

Employers say that they can’t hire people with criminal records because of liability and safety issues, but in fact the decision not to hire people with records is in large part a race-based practice. Indeed, Black men who have never been incarcerated make less on average and are less likely to be called back for a job than white men with criminal records. The compounding effect of criminal background checks, racially disproportionate rates of incarceration and discrimination shackles communities of color economically.42 For millions of formerly incarcerated men and women their record could mark them for the rest of their lives, although almost two-thirds were convicted of non-violent (property and drug) crimes. Vincent is among the 20% of all adults who have been incarcerated and face legal and social barriers to employment as a result.43

When people with records do find work, it is often unstable and low-wage work. According to testimony delivered to Congress by Harvard University sociologist Bruce Western, “Incarceration channels men into informal, secondary labor market jobs that offer little economic stability or upward mobility.”44 In Illinois for example, the median hourly wage of someone released from prison a year ago was $9.60 compared to $15.55 for the average worker in the state.45 The compounding effect of racial discrimination, mass incarceration and barriers to employment helps to create a population of workers who may be fired at will, denied equal opportunity and pushed to the lowest rungs of the labor force.

In 2004, 80% of large employers conducted background checks.46 Studies show that up to 60% of employers would not consider hiring someone released from prison or jail.47 According to Devah Pager, Professor of Sociology at Princeton University, employers use information about people’s criminal
Being black in America today is just about the same as having a felony conviction in terms of one’s chances of finding a job.

You don’t even get called back after an interview. An equally qualified white person who was interviewed right before you gets the job.

record as “a screening mechanism” before even considering an applicant’s credentials.48 “As a result, ex-prisoners are one-half to one-third as likely to receive initial consideration from employers as equivalent applicants without criminal records.”49

The practice overwhelmingly impacts people of color for a number of reasons. The first and simplest explanation is that people of color are more likely to be incarcerated, largely as a result of the targeting and profiling of communities of color in the “war on drugs.”50 While one in 30 men between the ages of 20 and 36 is behind bars, the rate is one in nine among Black men in that age range.51 Forty-eight percent of those released from jails and prisons are Black, and 25% are Latino.52 While 1% of the total population is American Indian, they make up 3% of the prison population. The Equal Employment Opportunity Commission has recognized that because people of color are incarcerated at such disproportionate rates, “an employer’s policy or practice of excluding individuals from employment on the basis of their conviction records has an adverse impact on [African American and Latino workers].”53

A second major reason that criminal histories serve disproportionately as a barrier to employment for people of color is the compound effect of preexisting racial discrimination and background checks. According to Pager, who conducted an extensive paired-match test to measure the impact of criminal records on employment, “When people think of Black men they think of a criminal. It affects the way Black men are treated in the labor market. In fact, Black testers in our study were likely to be asked up front if they have a criminal record, while whites were rarely asked, so you can see that there are expectations about Black applicants that shape the decisions.”

According to Pager’s research, the cumulative impact of discrimination and background checks is that Blacks with criminal records are less than half as likely to be called back by potential employers as compared to equally qualified white applicants (see Figure 9). Even more striking is that 14% of Blacks in her controlled study without a criminal record received a callback—less than the 17% of whites with a criminal record. The conclusion: “Being black in America today is just about the same as having a felony conviction in terms of one’s chances of finding a job.”54

![Fig. 9. Racial Impact of a Criminal Record on Interview Callbacks, 2003](image-url)

The impact on communities of color is enormous. According to studies, joblessness in some cities among formerly incarcerated people a year after being released is approximately 75-80%—three times the level among the same population before incarceration (see Figure 10).55 Barriers to employment for people with criminal histories compound preexisting roadblocks to stable employment among the same population, including low educational attainment, lack of hard skills, little employment history and thin social networks. These policies and practices make reentry an uphill battle, negating the criminal justice system’s putative aim of rehabilitating prisoners. In fact, people with jobs after incarceration are much less likely to return to jail or prison after release.

Fig. 10. Jobless Rate for Prisoners and Non-Prisoners by Race, 1980 and 2000

Source: Bruce Western. 2006. Punishment and Inequality in America. New York: Russell Sage Foundation. Figure 4.1, p. 90.

One 28-year-old Black man from Little Rock, Arkansas explained that his drug felony conviction means that there is “a revolving door back to prison. People are going back to jail because they get out here and suffer without a job. I could go sell drugs; there are no other options. It’s a systematic thing, it’s profiling, it’s discrimination.”

Some states have imposed restrictions on allowing employers to discriminate on the basis of criminal background, and federal EEOC guidelines also require employers to ensure that criminal background checks are, in fact, “job related.” Illinois recently passed a law allowing judges to seal or expunge criminal records for people with misdemeanor and non-violent felony records. But the new law
has gone largely unenforced, and many who should have had their records expunged are still finding that upon application, their criminal record resurfaces.56

One major impediment to the sealing of records is the flourishing and unregulated private background check industry that sells information about criminal history to whoever will pay. Criminal background information is made available as public information by states and the federal government and also by private, multi-billion-dollar, fee-based background check companies.

Walking out of the diner and back to the temporary work center where we met him, Vincent said, “I look at myself every day that I get up, and I actually wonder if it’s going to be the day that things totally fall apart. It’s real hurtful to know that your chances are so broke down to zero.”

Inadequate protections for immigrant workers allow exploitative practices to flourish. In this recession, some employers have violated employment laws to take advantage of the surplus of unemployed workers seeking jobs. Rather than regulating work, raising the minimum wage and enforcing labor standards, the federal government has funneled money into immigration enforcement.

Immigrants and Exploitative Low-Wage Work

Four years ago, Maria Cecilia Osorio immigrated to Nogales, Arizona from Mexico with her husband and two children, now 8 and 12. Her husband came to the U.S. to work, and Osorio followed. But, she said, “We separated because of domestic violence.” Osorio left her husband and took her children to a family shelter.

Nogales, a border town of just over 20,000, relies on cross-border commerce and produce factories to drive its economy. Many businesses in Arizona’s border region have closed. One clothing store manager reported she had lost most of her business and had cut back employee hours by up to 75%. The city has been hit hard by the recession and just as hard by the increasing militarization of the border.

Even before the recession, Osorio struggled with abuse and exploitation as a worker. She worked in a produce factory where she said employees were paid just $6 an hour, less than the minimum wage. “They discriminate a lot when you don’t have papers,” she said. “They did everything but crack the whip to make us work.” Osorio recalled that the boss would threaten to call the border patrol if workers did not do exactly as they were told.

She lost that job when the produce factory closed. Like other undocumented workers, she was ineligible for unemployment insurance or federal income assistance. She soon got a job at a restaurant earning $3.50 an hour. But they would not give her the hours she requested, and when business was slow she only got paid $20 a day, sometimes earning less than $200 a month. When the restaurant closed, she had no job at all. “I am in crisis right now,” she said. Osorio is struggling to stay housed but fears having to return to the homeless shelter or worse, to her abusive ex-husband.
Expanding spending continues to rise. The annual budget of the U.S. Border Patrol was $1.6 billion in FY 2006, an increase of 332% since 1993.57 U.S. Customs and Border Protection (CBP), the parent agency of the Border Patrol within the Department of Homeland Security, had their budget increased from $6 billion to $9.3 billion between FY 2004 and FY 2008.

Immigration enforcement policies that purport to keep immigrants out can have an unanticipated consequence of hurting local economies. Immigrants comprise a significant portion of the labor pool in many states. The Fiscal Policy Institute found that foreign-born residents were responsible for a quarter of New York state’s economy, or $229 billion, in 2006.58 Deporting workers who contribute to our economy or deterring them from making homes here will drain the country of both workers and consumers.

By contrast, legalizing undocumented immigrants would be a boon to the economy. The William C. Velasquez Institute at UCLA makes the case that legalizing undocumented people is the most effective and immediate economic stimulus option. Legalization would create $4.5 to $5.4 billion in net tax revenue, almost one million new jobs and would generate $30-36 billion in personal wealth.59 When the country invests in immigration enforcement while neglecting to protect immigrants, we create a population of easily exploitable workers.

**Inadequate Enforcement of Workplace Protections**

Standards for minimum wage and safe work environments have been inadequately enforced, which, in turn, encourages “low-road” employers to flourish. In fact, the Government Accountability Office (GAO) recently found that the Department of Labor’s Wage and Hour Division “frequently responded inadequately to complaints, leaving low-wage workers vulnerable to wage theft.”60

Weak and underenforced federal regulations leave many of the country’s most marginalized workers at the mercy of abusive employers. With the economy in crisis, workers may be particularly fearful about asserting their rights without some assurance that the law is on their side—and immigrants are especially at risk. Immigrant workers are burdened by threats of deportation, fear of immigration workplace raids and increasing collaboration between local law enforcement agencies and Immigration and Customs Enforcement (ICE).

Although immigration status does not preclude basic rights to a minimum wage, overtime pay and safe working conditions, the Center for American Progress reported in September 2008: “Latino workers are frequent victims of employer wage theft, and often work in industries [like construction and other manual labor jobs] where wage theft is rampant. Wage theft causes an estimated $19 billion in losses every year.”

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**Dominga Hurtado** arrived at the **January meeting of the Workers Defense Project**, a workers’ rights organization in Austin, Texas, along with her sister and a friend. The room was filled with 50 Latino construction workers, many of whom had faced wage theft and other abuses. Hurtado became a member of the Workers Defense Project last year when an employer refused to pay her and her sister for a job they had been hired to do on contract.

A year ago, Hurtado and her sister were hired by an Austin contractor to paint houses, but after working for several weeks the women suddenly stopped getting paid. When they tried to get their money, the contractor responded that it had received no payment from the developer, so Hurtado and her sister would not either. The company told them to keep working anyway. Because she and the others were undocumented, her employer thought they would be cowed by the fear of deportation. Instead, the sisters approached the Workers Defense Project and negotiated with the company for payment, but many others continue to work without pay.
Wage theft is often facilitated by the practice of misclassifying workers. A significant number of construction firms and their low-cost contractors wrongfully classify workers as self-employed, independent contractors when they should be waged or salaried employees. The use of subcontractors and the practice of misclassifying of employees make it possible for employers to avoid paying obligatory benefits and payroll taxes.

More than half of the Latino construction workers surveyed by the Workers Defense Project were paid in cash or by personal check, as opposed to 94% of white construction workers who received their payment in a company check. Paying Latino workers “under the table” or as informal subcontractors, combined with discrepancies in pay practices, indicate a tendency in the industry to assume all Latino workers are both undocumented and exploitable.

The public cost of misclassification is enormous. A report on the economic impact of this practice in New York State found that between 2002 and 2005 the annual average unreported taxable wages and underreported unemployment insurance taxes was just under $4.5 billion. In the midst of a recession, the practice denies states needed revenue and denies workers access to unemployment insurance, workers compensation and employer-based benefits.

**Misplacing Blame**

As fears about the job market grow, the impulse to blame the problem of joblessness on immigrants will grow, as well. Immediately after the passage of the American Recovery and Reinvestment Act of 2009, the restrictionist group Center for Immigration Studies—an organization that according to Republican Congressman Chris Cannon was “set up...to take an analytical approach to immigration from a Republican point of view so that they can give cover to Republicans who oppose immigration for other reasons”—attacked the bill because potential funds might help to employ undocumented immigrants in construction jobs. These groups argue that the biggest threat to citizens’ jobs is posed by undocumented immigrants.

But research indicates that in the construction industry, among others, the deterioration of wages and standards over the last 20 to 30 years followed widespread de-unionization. As these jobs became less desirable and less protected by unions after the construction industry moved to actively dismantle union density, white workers left for other occupations with higher union density, and the positions were filled with a population of new immigrants. “[I]mmigrant employment” in these sectors, according to Ruth Milkman, professor of sociology at UCLA, “was more a consequence than a cause of the change.” Now, the increasing precariousness of construction work affects not only immigrant workers but all workers.

Using immigration enforcement to deal with economic stressors will only push immigrant workers further into the shadows, make them more exploitable and thereby diminish wages and standards for everyone. Protection of all workers’ rights, regardless of race and national origin, and legalization of immigrant workers are a significant part of the way out of the nation’s economic woes.
As more people are relegated to low-wage work, the system of social support once in place is not strong enough. Welfare reform under the Clinton administration in 1996 significantly restricted access to income support programs. The effect has been to leave many poor families with no support at all. In a recession like this, the erosion of the safety net threatens to push more families into deep poverty.

AFDC (Aid to Families with Dependent Children), the a 60-year-old federal entitlement to income assistance, was replaced with TANF (Temporary Assistance for Needy Families), a time-limited, state-run program that cuts people off after 60 months total of lifetime assistance and ties cash assistance to work requirements. States have imposed varying welfare policies, some adopting
stricter requirements and, like Rhode Island, shorter time limits than the federal mandate. Advocates of welfare reform in both major political parties claimed that welfare was a failed policy reliant on an inefficient bureaucracy that entrenched families in poverty. Welfare reform, they said, would make families independent. Parents would work and lift their families out of poverty. Ironically AFDC succeeded better than TANF at achieving these stated goals.

According to the Center for Budget and Policy Priorities, in 2005, 690,000 single mothers and 1.3 million children lived in families where the parents neither worked nor received cash income support from the government. This is a stark increase from the period before welfare reform, when the number of mothers falling into this “disconnected” category was 303,000. Just before welfare reform, AFDC pulled 64% of children out of deep poverty (defined as under 50% of the poverty level). In 2005, TANF lifted far fewer, just 23%, a drop of more than 40%. Overall, between 2000 and 2004, 774,000 more children fell into poverty. In addition, under TANF only about 4 out of 10 people who are eligible receive assistance.

With few available jobs for most people and even fewer for people who, like 95% of adult TANF recipients, have only a high school education or less, the shortage of income assistance means that people have nothing to catch them. As one woman in Arizona said, “There’s no jobs at all, and I have no income coming in. We’re the single parents out here, and we have no income coming in.” In fact, as unemployment is on the rise, TANF caseloads are actually declining in many states. Limitations on receipt of cash assistance are likely to result in a significant increase in deep poverty, homelessness and families who cannot stay together.

Race and Welfare Reform

Similarly to blaming poor immigrants for the drastic decline in good jobs in the U.S., welfare reform blamed poverty on the poor. The dismantling of the safety net relied on the use of racialized rhetoric and stereotypes about people of color. Social welfare programs, especially cash assistance, were cast as only benefitting families of color, and welfare recipients were portrayed as lazy, dishonest and pathologically dependent on the government. Policy makers attributed destitution to poor people’s lack of initiative and ambition—a “pathology of dependency”—and argued that welfare itself sustained the problem of poverty. In order for this framing to succeed, the general public had to imagine recipients as women of color, even though the majority of welfare recipients had always been white children. Far from lacking initiative, most families receiving welfare at present remain poor because women of color are relegated to work that does not pay enough to house, feed and clothe their children, and because the work of caregiving, of raising children, is not legitimized in this public assistance model.

The pejorative portrayal of poor people of color, coupled with the growing movement for deregulation and shrinking government responsibility for the social good, toppled the welfare entitlement and opened space for a set of policies that were meant to regulate welfare recipients rather than alleviate poverty. Applied Research Center policy analysis revealed that laws were crafted based on deeply held stereotypes about women of color. Work requirements were meant to correct supposed “laziness,” sanctions, the idea that people of color are undisciplined and dishonest. Time limits were a response to what was labeled “pathological dependence.” Access to higher education was restricted as a result of stereotypes about women of color being more suited to service than academics.

The Applied Research Center found that states with more people of color were more likely to impose stricter sanctions. And even if states do not impose stricter formal sanctions, many people of color are met with scrutiny and disbelief despite their need. Many talk about being pushed off welfare even when they were eligible by biased caseworkers.
Samantha Claveria, 30, a Filipina American from central California who served for a year in the U.S. Army in Afghanistan, went through several spells of homelessness along with her 5-year-old daughter. She recently arrived at the end of her 60-month lifetime limit, but because her daughter has a debilitating condition, Claveria was supposed to be eligible for an extension for people caring for disabled family members. But, she says, when they went to her daughter’s doctor to get a letter confirming the disability, he told her: “You’re already sucking money out of the state, and I’m not going to help you get the exemption.” Claveria reported, “The doctors acted like I was trying to make her sick to get an exemption.”

Stories like this are common among welfare recipients of color who are confronted by case workers, or in this case a doctor, who can make life-altering decisions based on racially loaded notions of who deserves assistance.

Work Requirements, Low-wage Work and the Recession

Even before the economic downturn, most families receiving cash income assistance were unable to support themselves completely with that income and were relegated to low-wage and unstable jobs. While welfare reform was supposed to lead to self-sufficiency, for most who have reached their lifetime limit the available work does not pay enough to support a family. According to Diana Spatz, Director of Lifetime (Low Income Families’ Empowerment through Education), many people who have timed out of cash assistance were working when they timed out, which means that they were making little enough to be eligible. The implication of this, said Spatz, is that “low-wage work does not get people off welfare.” Nonetheless, welfare recipients are forced into low-wage jobs to meet eligibility requirements. Work that does not pay a living wage dooms people to perpetual poverty, and failing to help welfare recipients get an education dooms them to poverty wages. As time limits and sanctions push families off the welfare caseloads, many are left with nothing at all.

Even as states see their unemployment rates rise and therefore have welfare recipients who can’t find jobs, some poor people have been deemed out of compliance with rigid work requirements. According to recipients we interviewed in various states, some are being sanctioned off the welfare rolls for failure to find employment. Although officially people should not be purged from the rolls if they are engaged in job search activities, some have been because of the rigidity of the rules or the whim of caseload workers.

Cathy Paquette, president of Local 2882 public employees’ union in Providence Rhode Island, said that losing a job can trigger losing cash assistance. “If someone gets laid off for no fault of their own, and they are supposed to be working 20 hours a week to be eligible for assistance, then down the road they would get sanctioned.” Paquette added: “They have to participate in the program at the Department of Labor and Training, and they could be sanctioned if they do not participate.” With all the pressures that come with losing a job and trying to hold a family together, as well as expensive and unreliable public transportation, cars that need money for gas, insurance and maintenance that must be spent on food instead, making it to a training program every day is harder than the rules allow for.
Farrah Hassan, an Arab American woman in Dearborn, Michigan, is in her early 30s and has four children between the ages of 12 and 17. Last school year, Hassan was laid off with a number of other school employees due to budget cuts. Unable to find any work, her unemployment benefits ran out, and she applied for cash assistance. Hassan started receiving about $600 a month. But, after just two months, a letter arrived telling her she was being sanctioned. “They told me, ‘you have to find a job.’ But I went to look, and there aren’t any jobs.” Nonetheless, she was sanctioned for being out of compliance with the state’s work requirement and is now living with no income at all. Along with her welfare check, she lost her childcare assistance and now, with four children who need to be brought to four different places, prioritizing a job search, even if there were jobs available, is proving impossible.

A caseworker at a non-profit social service organization where we met Hassan said that the work requirements are unreasonable in times like these, because people like Hassan are set up to fail. “You can’t expect someone to spend 20 hours a week looking for a job,” said the caseworker, who preferred her name not be used, “when she has so much else happening—four kids and a house in foreclosure.”

When Hassan went to the state’s welfare office to try to figure out what had happened to her cash assistance, an employee there told her that he had no idea why she was removed from the rolls. When she explained that she could not feed and house her family without help, the caseworker told her to stop complaining and that he did not believe that Hassan really needed help.

CONCLUSION

The declining quality of work opportunities, barriers to employment, exploitation and the failure of income support programs to protect families from debilitating poverty impact everyone. While the country’s increasing rates of incarceration impact communities of color disproportionately, our willingness to punish formerly imprisoned people indefinitely affects all of our lives negatively, as we make it impossible for them to contribute to our common wellbeing. The marginalization of poor immigrants of color helps to pull down labor standards for everyone, making work increasingly precarious for all workers. In the larger economic picture, the creation of populations who are unemployed and underemployed at far higher rates than the societal norm, and who remain locked out of stable employment, contributes to the country’s overall levels of inequality. As discussed above, high levels of inequality are predictive of the overall lack of a robust national economy. Removing barriers to equal employment for whole populations of people is one very obvious way to begin dismantling inequality in employment and help rebuild the national economy.

In this recession, poverty could grow massively. As the economic crisis continues, deep recession could push 25% of middle-class families into more serious financial distress. The danger is higher for families of color, with 33% of Blacks and 41% of Latinos at risk of falling out of the middle class and into poverty. According to the Bureau of Labor Statistics, eight of the 10 occupations projected to generate the most jobs by 2016 are low-wage jobs in the service sector. These are precarious jobs that will make more and more workers extremely vulnerable to even small economic fluctuations. Creating jobs that do not allow a family to sustain itself is an illusory solution, not progress. Our economic recovery must be built on equitable policies that place the needs of communities at the core.
Chapter 3  
Housing Discrimination, Race and Wealth

Sandra Hines, a 55-year-old Black woman with a deep, commanding voice, remembers when last year the neighbors called to say that the sheriff’s deputies had arrived at her family’s Detroit home—the one she moved in to at 18 with her parents and two younger sisters. “Our foreclosure was very brutal,” she said. “They busted up my mother’s antique furniture, our belongings that we had accumulated for 40 years.” The sheriff padlocked the door, and the Hines family was evicted. “We lost the home our parents bought,” she said. “Now we’ve lost all of it.”

When Hines’s middle sister lost her job at General Motors last year, “the family fell on hard times, and we refinanced the house,” said Hines. “But we had one of those ARM’s [adjustable rate mortgage], and the payment almost doubled. My sister wasn’t able to keep it up.” They received a notice informing them of their pending foreclosure.

After their eviction, Hines’s two sisters and her teenage niece moved into a rental. But shortly after, their landlord defaulted on his mortgage, and that house went into foreclosure, too. “We are facing double foreclosure,” she said.

For many Families, Home Ownership is the source of equity and wealth to pass on to future generations. As foreclosures displace families and destabilize neighborhoods, this foundation is broken. In March 2009 alone, over 340,000 homes went into foreclosure, a 46% increase from March 2008. This chapter shows that communities of color were targeted disproportionately by predatory subprime lending and bear the brunt of the subprime foreclosure epidemic. Eventually, the crisis spread out from communities to affect not only homeowners of all colors, but the entire housing and banking industries.

As a result of broad deregulation of the financial services industry in the late 1990s, notably the passage of the Gramm-Leach-Bliley Financial Services Modernization Act, new relationships between banks, insurance companies, lenders and Wall Street investors were made legal. Within a context of unregulated lending, subprime loans appeared endlessly profitable, and banks took increasingly larger risks. This deregulation is now understood to have allowed massive proliferation of securitized subprime assets. However, these assets were not secure and, in fact, the irresponsible and aggressive nature of their sale indicated that they were bound for failure. As borrowers began to default en masse and foreclosure rates rose in 2006, the on-paper assets turned into real-dollar liabilities. Wall Street, Fannie Mae and Freddie Mac were flush with valueless securities. Housing sales peaked while mortgages continued to balloon. Bank lending of all kinds came to a standstill and the housing market decline accelerated. Businesses were denied credit and found it increasingly difficult to sell products. Layoffs ensued, and consumption decreased, pushing the economy into recession.

As early as 2000, aggressive and unregulated mortgage companies began to originate record numbers of high-cost loans. Between 1994 and 2005 the volume of subprime loans grew from $35 billion to more than $600 billion. However, the sale of these loans was not evenly distributed. Long histories of discriminatory lending practices that denied people of color access to traditional lending services...
left these communities vulnerable become the first hit by financial predation. “Communities of color were the initial people targeted [with predatory lending], the lab rats,” according to Mark Winston-Griffith, executive director of the Drum Major Institute, a New York City-based public policy think tank. “Now the effect has gone far beyond them to other middle- and low-income communities.”

The impact of these irresponsible financial practices is now clear as all Americans are threatened by the effects if the recession. While communities of color have been struck with the hardest blow, it is clear that had the practice of predatory lending been regulated and prevented before communities of color were attacked, the whole country might see very different circumstances today. As we engage in an economic recovery plan, Americans are faced with a fundamental choice about the shape they want their economy to take. Clearly, economic growth is possible with great inequality at its base – that is essentially what we have had. A new economy that is both stable and growing will require our increased commitment to racial and economic equity.

Losing a home means being traumatically uprooted. The impact of foreclosures on neighborhoods is deep. The crisis has caused a reversal in what was a significant gain in home ownership in communities of color over the past decade and has now caused an increase in vacancies, as well as many concomitant destabilizers like increased crime and continued community disinvestment, unpaid property taxes and declining neighborhood home values.83

But the most damaging and lasting consequence of foreclosure is that families are stripped of their carefully and laboriously accumulated wealth. Indeed, homeownership is the central vehicle of wealth accumulation for almost all families in the United States. Little could do more to upend the deeply held American attachment to the idea of upward mobility. “We lost our foundation as a family,” said Hines. “I want to know what happened to the American dream? It’s an American nightmare, and it’s two or three nightmares if you are African American.” Indeed, “We are a society that has a discourse of mobility and everyone moving forward that for the most part in the past 30 years has been an illusion,” said Jose Garcia, Associate Director for Research at Demos, a New York-based public policy organization.

Troublingly, the divide has grown over time. Between 1992 and 2007, the dollar difference between median family wealth for whites and people of color has increased (see Figure 11).

**Fig. 11. Racial Wealth Divide, 1992-2007**

<table>
<thead>
<tr>
<th>Year</th>
<th>White</th>
<th>People of Color</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>101</td>
<td>17</td>
</tr>
<tr>
<td>1995</td>
<td>150</td>
<td>28</td>
</tr>
<tr>
<td>1998</td>
<td>170</td>
<td>40</td>
</tr>
<tr>
<td>2001</td>
<td>190</td>
<td>50</td>
</tr>
<tr>
<td>2004</td>
<td>200</td>
<td>55</td>
</tr>
<tr>
<td>2007</td>
<td>220</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Survey of Consumer Finance, Federal Reserve, 2007
Most Americans who have accumulated wealth are watching their savings, stocks and other assets dwindle. In 2008, total household net worth fell 18%. People of color, who have lower net family worth than whites in general, are more likely to have a high percentage of their wealth concentrated in their homes. Home equity comprises the biggest asset for all families, but for families of color, this is especially true. For this reason, the foreclosure crisis and the declining value of homes is devastating to these communities.

For those who have long owned their homes, foreclosure means lost stability because for many, a home was their only form of wealth. While many subprime loans are sold to new homebuyers, in 2006, 56% of subprime loans were refinancing loans. They were sold to families, like the Hines family, who already had equity in their homes.

United for a Fair Economy, a Boston-based advocacy organization, estimates that the loss of wealth in communities of color resulting from foreclosures will be greater than any since Reconstruction. Indeed, the foreclosure crisis has brought Black and Latino homeownership rates back to levels before the homeownership boom of the past decade.

Families of color already hold fewer assets than white families, from the value of their cars and homes to their retirement accounts. In 2004, for every dollar in median wealth that white families held, Blacks had a dime and Latinos a nickel (see Figure 12). The disparities are even more glaring when families lose their homes. Subtracting home equity from Latino and Black household net worth, Blacks have a penny and Latino families even less than a penny for every dollar of white non-home wealth (see Figure 12). Because the foreclosures have hit people of color disproportionately hard, the racial wealth divide is growing.

In 2004, for every dollar in median wealth that white families held, Blacks had a dime and Latinos a nickel.

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*Fig. 12. Median Wealth by Race, 2004*

<table>
<thead>
<tr>
<th>Median Wealth</th>
<th>Median Nonhome Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$1.00</strong> White</td>
<td><strong>$1.00</strong> White</td>
</tr>
<tr>
<td><strong>$0.10</strong> Black</td>
<td><strong>$0.01</strong> Black</td>
</tr>
<tr>
<td><strong>$0.05</strong> Latino</td>
<td><strong>$0.00</strong> Latino</td>
</tr>
</tbody>
</table>

*Note: Wealth defined as total net worth for a household, deflated by the Consumer Price Index. *Note: Nonhome wealth defined as the difference between net worth and home equity, deflated by the Consumer Price Index.

Mrs. Mallory, a 63-year-old Black woman who lives near Sandra Hines in Detroit, lost her home to foreclosure as well. “Our home is what we have,” said Mallory. She corrected herself: “It’s what we had.”

Mallory, who is on a fixed income of $960 a month, had tried to take out a $4,000 home equity loan to pay for a new furnace for her house, which she had lived in for more than 19 years and had almost finished paying for. But a broker at a loan company in her neighborhood pushed her to take out a $40,000 loan instead, insisting that she could use the money for other things and that she would have no problem paying it back. The loan payments started at $500 a month, and for the first six payments it stayed there. All of a sudden, said Mallory, “it jumped up to $1600 a month. We can’t pay that.” Soon her house was put into foreclosure.

Mallory moved into her daughter’s house. Now that house—the down payment of which was a gift from Mallory’s husband before he died—is also in trouble as well since her daughter was laid off and missed some payments. “My husband bought our daughter that house,” said Mallory. The family is facing the loss of all of their wealth, and Mrs. Mallory has nothing to pass to her grandson.

For households of color who aspire to homeownership the impact could reverberate far beyond the immediate crisis. Wilhelmina Leigh of the Joint Center for Political and Economic Studies said: “It does spell a period of lessened wealth, a period perhaps of lessened creativity [for Black families].”

“For people who are just starting out, a home is a visible sign of moving forward...It’s those visible signs and visible statements that can make a difference to a group of people who have not historically had opportunities to move forward,” said Leigh. Foreclosures drain communities of not only equity but also self-confidence, she said. “Here there were people trying to do well and move forward, and they get kicked in the teeth.”

The long-term effect will be debilitating as families of color will have less to pass on to their children and will therefore have less stability and opportunity for upward mobility. Many families who would have used their home equity to help pay for retirement or college tuition, for example, will no longer have that option. According to Philip Day, president of the National Association of Student Financial Aid Administrators, “With so many people up against the wall with declining home values, the issue of using home equity loans for tuition is almost rendered moot.”

For families who have long owned their homes, foreclosure can mean the total annihilation of accumulated wealth; for those new to homeownership, the loss means a massive setback in the trajectory of economic stability. The impact goes beyond economic loss. As families are forced out of their homes, they are displaced from the support networks on which they rely for things like childcare, transportation and food. One scholar has named the effect of this loss of home and stability “root shock” or “the traumatic stress reaction to the destruction of all or part of one’s emotional ecosystem.”

In a recession, wealth serves as a safety net to catch people when their income is interrupted. Because people of color have less wealth and have lost much of what they had as a result of the foreclosure epidemic, many are left without recourse and with increasing debt as the recession deepens. Further, people of color typically are less established within wealthy families and networks.
At a food kitchen in a Detroit church, Daniel Duane Spyker, a balding white man in his mid 50s with a college education, is among the many people we met across the country who never imagined they’d be in such a situation. Spyker lost his job as a non-faculty staff member at a local college almost three years ago and has been unable to find a job since. “I used to be able to vacation, go to the opera. It is overwhelming,” he said.

“But,” Spyker acknowledged, “the reason I have survived is because I have a wealthy brother-in-law who works as a certified public accountant. Without him, I’m not sure I’d be alive now.” Because of his access to networks of wealth, he has been able to survive for several years without a job. His brother-in-law has been the difference between having housing and being on the street.

By contrast, Aline and her husband, Dion, a young couple of color in Providence, Rhode Island, recently bought a house, enjoying the American Dream. One winter afternoon, they found themselves in the Human Services office applying for state healthcare for their three children after Dion lost his job as a public school teacher. “It’s never been this bad,” said Dion. “I’ve never been out of work before.” Dion’s unemployment benefits ran out, and Aline was forced to stop sending money to her family in Senegal and recently withdrew from training to become a nurse. They did not expect to qualify for state healthcare because Aline’s hourly wage as a nurses’ assistant put them just above the eligibility limit, though the cost of Aline’s employer-sponsored plan is too much for them. With all their savings gone, almost no equity in their home and no other assets or wealth, they are living day-to-day on the edge of disaster. They worry about the prospect of delinquency on their mortgage, paying back Dion’s graduate school loans and affording the basics like clothing. Unless Dion finds a job immediately, the family is facing a descent from the middle class into poverty.
Rhetoric about “borrower irresponsibility” suggests falsely that the foreclosure crisis resulted from a wave of bad decisions on the part of unwise borrowers. A true understanding of what has happened in communities of color requires examining histories that made these communities vulnerable to irresponsible and, some believe, illegal lending practices. Market predation made those most vulnerable into casualties of unregulated greed, and because of preexisting inequities, histories of segregation and redlining, people of color are suffering most.

According to a 2001 Housing and Urban Development (HUD) report, the boom in subprime lending allowed “the dream of home ownership [to] become a nightmare because of predatory or abusive lending practices.” Major banks and financial institutions placed high demand on lenders to sell as many of these products as possible so that the loans could be repackaged and sold to investors. This process, called securitization, allowed capital markets to finance and profit from subprime mortgage lending. According to Andrew Cuomo, then the Secretary of Housing and Urban Development, “Someone is financing these companies to begin with. Someone is buying these mortgages, and it is Wall Street.”

High-cost loans were marketed in aggressive, sometimes predatory ways to poor communities of color. They were frequently sold through direct broker solicitation and were characterized by higher interest rates. Low barriers to acceptance also characterize these financial products, regardless of the applicants’ credit history or ability to make monthly payments. Some loans were sold to people who should not have qualified. The CEO of bankrupt mortgage lender Ownit, in an interview with the New York Times, admitted to “loosening lending standards but says he did so reluctantly and under pressure from his investors, particularly Merrill Lynch, which wanted more loans to package into lucrative securities.” He explained that he was instructed to offer more “low-documentation” loans for which the borrower’s income is not verified. If he refused to make these loans, the lending company would forgo profits. As everyone up and down the chain focused on making a profit, from Wall Street investors’ returns to mortgage brokers’ yield spread premiums, there was little focus on the actual performance of loans being made.

Perhaps even more pernicious, many who could have qualified for prime loans were sold high-cost loans instead. Indeed, over one-third (35%) of subprime loans were sold to people who could have qualified for a traditional, fixed-rate, prime loan. Wall Street profiteers amassed fortunes while ordinary people risked poverty without even knowing it.

The common denominator in stories from all over the country from first-time homebuyers and people looking to refinance is that they were sold a financial product that pushed them into debilitating debt and made payment impossible for some borrowers. As Louise Alston, one elderly woman from Port St. Lucie, Florida wrote:

I was pushed into a subprime loan with little knowledge. I trusted my broker, and he was stabbing my husband and me in the back… We asked for a FHA (Fair Housing Administration fixed rate mortgage loan), [but] he said ‘I’ll take care of it—you are going to get your home.’ He said it would be a no income verification loan. [He] didn’t explain what prepaid penalty was, [and he] said we could [re]finance in a year. Indymac was the mortgage company. The realty company moved right after settlement.

Total subprime, or high–cost, lending increased from $20 billion nationwide in 1993 to $150 billion in 1998. By 2006, total subprime originations had increased to as much as $634 billion a year. The profit boom based on subprime lending relied on borrowers of color. In 2006, 53.3% of home purchase loans issued
to Black borrowers were high-cost, as were 46.2% of home purchase loans to Latino borrowers. By contrast, only 17.7% of home purchase loans made to white borrowers were high-cost. The number of people receiving high-cost loans in 2006 was up significantly from 2004, when high-cost loans sold to Blacks, Latinos and whites made up 32.4%, 20.3% and 8.7% of all loans respectively.

Fig. 14. Detroit Foreclosures by Race, 2008

Source: Compiled by the Foreclosure Response project, from data supplied by McDash Analytics, October 2008; and population data from the U.S. Census 2007.

*Note: Loan counts from McDash Analytics are weighted to reflect estimated mortgaged unit counts from the U.S. Census and the share of prime and subprime mortgages from the Mortgage Bankers Association’s March 2008 National Delinquency Survey.
Detroit, where both Hines and Mallory live, is in a state with one of the highest foreclosure rates in the country (see Figure 14).102 Like in most cities across the country, Detroit neighborhoods with high proportions of people of color have the highest foreclosure rates. The highest number of foreclosures in the city and state are concentrated in the areas to the north and west of the downtown area, neighborhoods historically settled by Blacks. Downtown Detroit is mostly industrial, filled with warehouses and a few rental apartments, and as a result, foreclosures rates are lower there. The wave of foreclosure filings expanded to engulf surrounding suburbs like Grosse Pointe that are traditionally wealthier and white.103 But foreclosures in these communities, which local media attributed to layoffs among suburban families and surging mortgage payments, occurred later, after communities of color had been silently ravaged by massive losses.

Lenders claim that people of color pay higher rates because these communities are poorer or have lower credit scores and therefore pose a greater risk. But research shows that Blacks, Latinos, American Indians and in some places Asians are more likely to get a high-cost loan than whites even when controlling for income and credit scores. Indeed, race-based differences in lending often grow as income increases.104 Middle- and upper-income Blacks, for example, were at least twice as likely as middle- and upper-income whites to receive high-cost loans in most metropolitan areas.105 Strikingly, a 2006 study of 130 cities finds that middle- and upper-income Black and Latino borrowers were actually more likely than low-income white borrowers to get a high-cost loan.107

That middle- and upper-income people of color were hit harder by subprime loans than lower-income whites means that the disproportionate rate of subprime lending cannot be explained solely in geographic or class terms. Race was a powerful determining factor in the targeting of subprime loans.

Redlining

The history of housing discrimination is deep. The current crisis is an extension of past policies like redlining that kept people of color from achieving home ownership and increased segregation, creating pockets of severe and racialized poverty.

Before the New Deal, home loans required large down payments of up to 40% and had very short terms, which meant that only the wealthiest could buy
THE CUMULATIVE EFFECT OF HOUSING DISCRIMINATION

**NEW DEAL ERA LAWS, 1933**

**MILESTONE**
The Federal Housing Administration was established to regulate lending and expand access to home loans during the Great Depression. Residential security maps created by the FHA administered Home Owner Loan Corp. color-coded neighborhoods of color in red, signifying that they posed a high risk and should be excluded from mortgage lending.

**RACIAL IMPACT**
Family of color living in these red-coded, urban areas still could not get a mortgage to buy a house.

**PRE-NEW DEAL, EARLY 1920s**

**MILESTONE**
People of color segregated in urban areas through racial restrictions (known as restrictive covenants). Home loans required large down payments of up to 40% and had short terms.

**RACIAL IMPACT**
Family of color denied access to loans and could not afford to buy a house.

**1968-1977**

**MILESTONE**
Due to demands by the civil rights and social justice movements, government enacted Fair Housing Act (1968), Equal Credit Opportunity Act (1974), Home Mortgage Disclosure Act (1975) and Community Reinvestment Act (CRA) (1977) which banned racial discrimination in lending.

**RACIAL IMPACT**
Family finally able to secure a mortgage to buy their home. They pay off the mortgage 30 years later.

**1999**

**MILESTONE**
Financial Modernization Act allowed for new arrangements between banks, securities firms, and insurance companies and facilitated the creation and promotion of subprime loans, exempt from CRA.

**RACIAL IMPACT**
Family’s neighborhood is flooded with non-traditional unregulated lenders that originate millions of high cost loans in communities of color across the country.

**2007**

**MILESTONE**
Subprime crisis.

**RACIAL IMPACT**
The family refines their home in order to repair the roof. The broker sells them a high cost loan, with no explanation even though they could have qualified for a prime loan. Family cannot afford to pay their monthly mortgage payments. They are evicted and their home foreclosed.
Redlining

Redlining refers to the place-based practice of denying financial services, such as lending, to entire neighborhoods or areas based on their racial or ethnic compositions.

property. In response to the Depression era’s increasing foreclosures and diminishing credit, the government acted.

In 1934, Congress passed the National Housing Act and established the Federal Housing Administration (FHA). The agency insured private mortgage loans, in effect removing risk for the lender. FHA paradigmatically changed lending by making down payments affordable and extending payment terms to 30-year periods. The effect was to widely broaden the availability of loans in the United States. Along with the Home Owners Loan Corporation (HOLC), tasked with saving homeowners in urban areas from forced sale and foreclosure during the Depression by providing refinancing options and low-interest loans, many families avoided foreclosure and were able to buy homes, creating an opportunity to accumulate intergenerational wealth.

But this opportunity was not available to everyone. When deciding who would be eligible, HOLC administrators made broad judgments about neighborhoods rather than employing objective economic criteria. The agency created its own rating system and coded all neighborhoods with a high population of Blacks as “hazardous,” or high-risk, and therefore ineligible for their services. Loans were restricted by these explicit criteria that created and maintained all-white neighborhoods in new suburbs and denied loans to neighborhoods of color and integrated neighborhoods. The government helped white families buy homes while explicitly denying access to potential homeowners of color.

Prior to New Deal financing programs, realtors were responsible for the bulk of mortgage lending, and their guidelines prohibited any transactions by realtors that would result in integration. These realtors became the driving force for suburban development mortgage lending and contributed a great deal to FHA underwriting guidelines. Government programs then adopted preexisting practices of a racist real estate industry. An FHA manual from 1936 read: “A change in social or racial occupancy generally leads to instability and a reduction in values.” The explicit criteria for lending to neighborhoods where people of color live—redlining—and restrictive racial covenants—local agreements in white neighborhoods excluding people of color—cemented neighborhood segregation by institutionalizing racial categories and preexisting race-based lending practices into New Deal programs. A long history of redlining has led to the continuation of neighborhood racial segregation, diminishing housing values and resulting in an absence of financial institutions in communities of color.

Federal guidelines became ubiquitous and were circulated back to the private lending market, where they became standard practice. By the time the G.I. Bill, for example, made it possible for thousands of returning veterans to access low-cost loans and achieve homeownership, banks and private financial institutions restricted access to loans along racial lines. Taking their lead from the federal government, lenders denied people of color access to this massive wealth-building opportunity. In the mid 1980s, by the time most of the G.I. Bill mortgages had matured, the median net worth of white families was $39,135. In stark contrast, the median net worth of Black households was $3,397, just 9% of white holdings.

After widespread urban uprisings in the 1960s and ‘70s, the federal government was forced to address the practices and the effects of redlining. In 1968, Congress passed the Fair Housing Act, followed in the ‘70s by the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act and the Community Reinvestment Act (CRA), which collectively banned racial discrimination in lending, required the equal distribution of lending services and mandated reporting on loan-making practices.

Reverse Redlining

The passage of the CRA in 1977 was meant to address problems of racially discriminatory lending practices by requiring traditional financial institutions to offer equal access to lending and other services regardless of class and race. It was meant to ban redlining, facilitate equal distribution of lending services and generate a community development banking system that would serve
low-income communities. Indeed, CRA facilitated trillions of dollars worth of good loans over the past three decades.

It quickly became clear, however, that while explicit redlining, restrictive covenants and the overt denial of loans to people of color were no longer widespread, lending had in no way become equitable. In fact, it was quite the opposite. Lending in the post-civil rights era housing market has been marked by a calcified dual housing market in which white people have access to traditional, 30–year, prime-rate mortgages, while neighborhoods that had once been deprived of lending services were swarmed with nontraditional, high-cost mortgage lenders.

A set of laws passed in the 1980s and ‘90s entrenched the dual market and largely deregulated the housing market, stripping those regulatory mechanisms that existed to prevent discriminatory lending of their teeth.\(^{115}\) As financial institutions were increasingly unchecked, regulatory and consumer protection mechanisms were largely disregarded and made irrelevant. The deregulation of the last two decades effectively eliminated interest rate ceilings for many home loans and preempted state-level restrictions on loan features like balloon payments, variable rates and teaser rates. Ultimately, the Financial Services Modernization Act of 1999 allowed for new formations and affiliations among banks, securities firms and insurance companies, which facilitated the mass securitization of subprime loans and increased the profitability of their sale.

The vast majority of loans that have now led to foreclosure were not regulated by the CRA.

Because CRA applies only to banks and federally chartered depositories and not to credit unions, independent mortgage bankers, insurers or an array of other loanmakers that account for over half of the mortgage loans, CRA lost much of its power as new kinds of lending practices emerged.\(^{116}\) According to the National Training and Information Center, Citigroup, for example, was able to channel subprime and predatory products through affiliated loan-making companies without disclosing that many of the subprime loans were channeled into communities of color.\(^{117}\) The mass emergence of subprime lenders that fell outside of CRA regulatory boundaries helped to facilitate the growth of predatory lending and allowed for subprime predatory lenders to set up shop in low-income communities of color, where there was little competition from traditional FHA lending institutions. FHA failed to develop safe products to allow at-risk or marginal borrowers to participate in the changing market—thus vulnerable populations turned to subprime lending, which on the surface appeared more responsive to their needs. As investment banks saw continued profit potential, the reservoir of funds for home loans appeared unlimited, and their numbers increased at unprecedented rates.

In summary, policies instituted in the 1930s fomented a racially divided system that prevails today, though in different form. While explicit redlining is no longer legal, decades of these practices laid the foundation for what is now called reverse redlining—the targeting of vulnerable communities with high-cost loans. Practices and policies that once kept mainstream banking out of communities of color also helped to create a climate ready for high-cost, unregulated financial institutions to flood these neighborhoods.\(^{118}\) High-interest loans became the de facto means of acquisition for people of color, even those who could have qualified for prime loans. Those populations that had been long abandoned were most vulnerable to financial predation and exploitation and as a result have been stripped of much of their wealth and stability.

Without competition from banks and traditional lending institutions, payday lenders, rent-to-own businesses and subprime lenders have filled these cities. According to a nationwide study, in Los Angeles in 2006, the market share controlled by high-cost lenders in neighborhoods with predominantly populations of color was 9.5 times higher than the market shares in neighborhoods with few residents of color. This disproportionality was also seen in lending markets in Chicago, Boston and New York City, among other cities.\(^{119}\)
Sabrina Otis, 35, was swept up in the foreclosure crisis as a renter. Otis, who moved to Cleveland in 2001 to escape an abusive ex-spouse, was skirting the edge of crisis well before foreclosures consumed her city. Unable to find adequate housing, she lost her children temporarily to foster care. Two winters ago, though, the family finally settled into a Section 8-subsidized house in Lakewood, a Cleveland suburb. When the landlord fell behind on the maintenance of the property and it began sliding into foreclosure, the family was uprooted again.

After living with friends and relatives for some months, Otis and her children found another house in the same neighborhood, only to be put out again when the owner, amid the housing market collapse, suddenly sought to sell the property and evicted the tenants.

Though Otis received a new housing voucher, the family spent another nine months bouncing between friends and relatives while searching for an affordable home. Otis said renters like her have been blindsided by the foreclosure crisis. “We are in a drive-by shooting. We got shot. We had nothing to do with this,” she said. “And we have no recourse to get anyone to be responsible.”

One-fifth of foreclosures nationally have been in non-owner-occupied buildings. Because these buildings house multiple families, 40% of all those evicted by foreclosure were living in rental units. Reported trends from some parts of the country are higher. In New York City, 60% of foreclosure filings in 2007 were in buildings with more than one unit. Section 8 recipients like Sabrina Otis are supposedly protected from such summary evictions, but many have been pushed out anyway. Renters who are not Section 8 recipients have few, if any, protections. In most cases, leases do not have to be respected, and renters can be evicted without prior notice. Some states have “just cause” provisions, which help to protect renters from eviction, but most allow renters to be evicted with little process. According to a recent report by the National Law Center on Homelessness & Poverty and the National Low Income Housing Coalition: “Many tenants, even those who may be current in their rent payments and in full compliance with their lease terms, face an increased risk of housing loss as a direct consequence of foreclosure proceedings.”

Rent Affordability and Public Housing

Before and during the foreclosure crisis, many low-income people, especially people of color, struggled to find affordable housing. The rush over the past decade to invest capital in homes and residential development also led to encroachment on low-income communities of color in the form of new apartments and condominiums built on the former sites of rent-stabilized or publicly subsidized homes. Without adequate affordable housing, public housing and housing subsidies, many families have nowhere to go.

For people working for low wages and those on fixed incomes, rent can be unaffordable. Nowhere in the United States can someone making a minimum wage afford a decent apartment. According to the National Low Income Housing Coalition, it takes a wage of about $17.84 an hour, as a national average, to afford a modest, two-bedroom apartment at 30 percent of income (see Figure 15). According to the American Community Survey, the median gross rent rose...
2.7 percent in real terms from 2001 to 2006, while the median renter income fell by 8.4 percent (from over $31,600 to $29,000). **As a result, nearly half of all renters paid more than 30 percent of their incomes for housing in 2006, and about a quarter—nearly nine million households—spent more than 50 percent** (see Figure 16).\(^2\)

William Perry, 36, a Black man who wears his hair in cornrows, works at the Wal-Mart Super Center adjacent to the mixed-income housing development River Garden in New Orleans. Despite the goal of building neighborhoods of economic opportunity, the Wal-Mart is still the only retailer and employer in the area.

Perry has been working at Wal-Mart for two years, since he came back to New Orleans after living in Baton Rouge for a year after Hurricane Katrina. He walks with a pronounced limp and has suffered from muscular dystrophy since he was seven years old. Perry relies on Medicaid for healthcare, and because Wal-Mart doesn’t allow him sick days, he said he struggles to make it to work every day. “Some days, I don’t know how I’m going to get out of bed,” he acknowledged, but said he had to work to help support his five children.

Perry was born in the St. Thomas housing projects that were demolished to make way for River Garden. As a former resident of St. Thomas, he is eligible for a subsidized apartment in the mixed-income development, but his application is still making its way through the process. Perry currently rents a $1,000 two-bedroom apartment with his girlfriend further down the river—a lot to pay on the average Wal-Mart annual earnings of around $17,000. Before the storm, the apartment would have cost closer to $500. Perry would prefer to live in River Garden to save on gas and walk to work.
In post-Katrina New Orleans, lack of affordable housing remains one of the main challenges in rebuilding and a significant barrier to the return of its low-income residents, the majority of whom are Black, like Perry. The city suffered damage to more than 76,000 rental units—over half of its rental housing—after hurricanes Katrina and Rita in 2005. As of late 2008, there was only enough recovery funding allocated to replace 27 percent of these units, according to a study by PolicyLink.128

Only half of the city’s original population has been able to return. There are still over 4,600 displaced families living in FEMA trailers and another 17,000 families depending on vouchers from the Disaster Housing Assistance Program, according to March 2009 data from the Louisiana Housing Finance Agency.

Across the country, people face a distinct lack of public and affordable housing. In New York City in November 2008, the number of families entering homeless shelters was 40 percent higher than in November 2007.129 According to a report released by CHHAYA Community Development Corporation, a housing advocacy organization, there are at least 100,000 people who live in illegally converted housing units in New York City—a necessity because of the distinct lack of public housing units.130 New York City often evicts people from these units but does not prioritize creating affordable housing.

Joseph Aranha’s eviction left him with few options. “When they evicted me, they showed, up, handed me $30 and told me to go find another place to live. They told me they could put me in a homeless shelter, but for someone in my condition that’s not an option. Aranha has been on waiting lists for New York City public housing for 11 years but has been turned away again and again. “They just tell me that they can’t do anything for me until my name comes up on the computer.” Often one city agency will send him to another agency, which will send him back where he started.
As an organizer with the Moratorium Now! Coalition in Detroit, a community group fighting for a statewide moratorium on foreclosures, Sandra Hines said her activism is rooted in her understanding that this crisis is historical and structural—that for people of color, this is not new. “This is like redlining, where they would mark off certain areas in the city where Black people couldn’t live,” she said. “It’s on a different level now. They are literally throwing us out of our homes.”

Hines is fighting back. “I don’t want to see what had happened to me and my family happen to other people,” she said. “We mobilized and organized people who are affected by foreclosure into an organizing force to demand a moratorium on foreclosures in the state of Michigan.” Across the country, people are organizing against foreclosure so that families may stay in their homes.

Now Aranha, a South Asian journalist who came to the United States 20 years ago, pays $600 a month for a small room in a house in Queens, far from where he gets medical care and the community he lived in for most of his time here. He gets food stamps and is eligible for Medicaid. After rent, he is left with $161 from his Social Security check each month. “With $161 I have to pay for transportation, all the basics of life, a haircut,” he said. That’s about $5.29 a day. He cuts back on how often he leaves his apartment, consolidating all his errands into one day to save on subway fare. Subway fare is pegged to go up from $2 to $2.25 to make up for transportation budget shortfalls.

According to the Urban Institute: “Because the availability of housing assistance falls so far short of needs [across the country], waiting lists for public housing, privately owned subsidized projects, and vouchers are all long.” In Austin, Texas, one family of four at a job search agency told us that they were facing homelessness if they did not find jobs soon, but when they went to the housing authority office, they were told that waiting lists for housing assistance were up to five years. People of color are more likely to need low-income housing assistance and are struck disproportionately hard by its lack. Especially as more families face foreclosure, the lack of affordable and subsidized housing options across the country threatens to push more and more people into homelessness. According to the National Alliance to End Homelessness, 1.5 million people are at risk of becoming homeless over the next two years without intervention.

It is now clear that predatory lending, which flooded the market with toxic assets, pushed the economy over the edge and into recession. Indeed, the country might be in a very different position today if it had not been for the targeting of communities of color with risky, predatory loans. George Goehl, executive director of the National Training and Information Center noted: “If there were ever a story that proves that we’re all in this together, the foreclosure crisis is the epitome of that.” Without addressing the structural factors that make communities of color vulnerable to predatory lending, foreclosure and homelessness, and without new regulations on financial services and lending that simultaneously deal with racial discrimination in the housing market, everyone will remain vulnerable both to financial predators and the kind of economic crisis we are currently experiencing.

You fight back, organize in your community and demand equity.
Conclusion: Moving Forward

AS THE COUNTRY MOVES TOWARD RECOVERY, creates jobs, re-regulates the economy and builds opportunity, there is a strong impulse to implement policy that posits that the broadest policies would “lift all boats.” But we cannot achieve opportunity for all without constructing policy and practice to address directly the cumulative and compounding causes of racial inequity in the United States.

Persistent and recurring racial inequity and barriers to opportunity for people of color were central culprits in the decline of the economy, and the country ignores these structural flaws at its own peril. Tackling structural racism must be at the core of the national effort to build a healthy economy.

Key Recommendations:

I. Overarching Policy-making Framework
Expand the use of Racial Equity Impact Assessments for public planning and policy so that racial inequities can be anticipated and prevented prior to the adoption of new policies and practices. This will provide a mechanism to systematically address racial inequities during the policymaking process. Using Racial Equity Impact Assessments will lead to new economic decisions based on the needs of communities most vulnerable to economic fluctuations. The past several decades have been marked by a distinct displacement of these concerns, and the current economic crisis provides an opportunity to return to policy centered on the common good. As many historical examples make clear, unless policy explicitly acknowledges racial impacts, racial inequity will be left intact or further entrenched.

II. Policies Needed this Year
Over the next several months, the federal government should begin to address major regulatory and structural flaws in the economy. Communities should be protected from Wall Street's “reverse Robin Hoods” who have been stealing from the poor in order to increase their own wealth, and racial equity must be made a core component of financial policymaking. As the government moves to re-regulate and restructure the economy, the needs of ordinary workers—especially workers of color who have disproportionately been relegated to low-wage jobs and who lack opportunity for advancement—should be at the core of policymaking.

A. Employee Free Choice Act (EFCA) [H.R. 1409, S. 560]—Ensure that all workers have the right to organize and engage in collective bargaining.
The Employee Free Choice Act would allow workers to decide whether they want union representation without fear of employer retaliation and intimidation. The decline of jobs, wages and standards over the past several decades has corresponded with the decline in union density in the United States. Passage of EFCA will ensure that workers can freely organize and pursue opportunity.

B. Community Reinvestment Act Modernization
Congress should expand and modernize the Community Reinvestment Act so that it applies broadly across the financial services industry and includes all financial institutions—indepedent mortgage lenders, mortgage companies affiliated with banks, credit unions, insurance companies and other loan-makers.
Further, CRA should address racial disparities in lending explicitly by requiring race-based evaluation. The practice will help to ensure equitable distribution of fair financial services across racial lines. CRA should be rigorously implemented.

C. Raise the Minimum Wage and Attach a COLA
In 1938, President Roosevelt called the federal minimum wage “an essential part of economic recovery.” The minimum wage will increase to $7.25 an hour in July 2009, but this remains far from a living wage, too little for families to afford basics like housing. Further, the coming increase does not include a mandatory cost-of-living adjustment and will become outdated shortly. State and the federal governments should increase the wage to match the cost of living next year. An annual COLA should be attached. Congress should also restore the minimum wage for tipped workers—currently set at $2.13 an hour—back to 60% of the full minimum wage.

D. Immigrant Legalization
Ensure fair treatment and full rights for immigrants by supporting legalization. The lack of protection for undocumented immigrants impedes a healthy economy. The perpetual presence of an exploitable category of workers who are often paid sub-minimum wages and denied labor protections is catastrophic for both immigrants and all workers. A broad and equitable legalization law could also provide quick economic stimuli. According to a report by the William C. Velásquez Institute at UCLA, legalization would generate $4.5-5.4 billion in net tax revenue.133

E. Green Jobs-Good Jobs
Expand educational access and job training for people who are unemployed and underemployed, with supports and services for finding good jobs. States and cities should prioritize and create incentives for “green jobs” that advance environmental protection, energy conservation and efficiency, community improvement and an equitable and sustainable economy. These jobs should be initially targeted toward people of color, especially women and people with barriers to employment like a previous incarceration.

F. Comprehensive Universal Healthcare
Enact healthcare reform that meets the needs of everyone in the United States. Congress should pass healthcare reform legislation that guarantees quality, affordable healthcare for all people living in the U.S., without exception. This reform should include, but not stop at, universal coverage. It must also address persistent inequities within the healthcare system, such as inadequate healthcare infrastructure in communities of color, gaps in language access and lack of culturally competent and culturally appropriate care.

III. Immediate Actions to Provide Needed Relief
A. Moratorium on Foreclosures
States and the federal government should impose extended moratoria on foreclosures. Foreclosure moratorium legislation is not a fix-all solution, since it does not help borrowers saddled with subprime loans adjust the principal, nor does it increase regulation of the lending industry. But, until these structural changes are made, foreclosure moratoria are necessary to prevent displacement.
B. Suspension of TANF Time Limits
States and the federal government should immediately suspend time limits in the Temporary Assistance for Needy Families (TANF) program. In the midst of the worst recession since the Great Depression, cutting people off from income support, the only general assistance program for poor families, means that more families with children will be pushed into desperate poverty and homelessness.

C. Moratorium on Workplace Raids and Immediate Termination of 287(g) program
In the absence of comprehensive, sensible and just immigration policy, the federal government has dramatically increased punitive immigration enforcement. Meanwhile, states and cities are increasingly implementing their own immigration laws. In a recession, these policies threaten to be particularly destructive. As immigrant workers are targeted with devolved enforcement of immigration laws without equal enforcement of labor laws, they remain exploitable. Local enforcement of immigration laws distracts from law enforcement activities and threatens local economies by making immigrants more vulnerable to exploitation and less able to participate as residents and consumers. The federal government should place a moratorium on punitive immigration enforcement that pushes immigrant workers into the shadows, and it should terminate the 287(g) local enforcement program.

D. Expunge Criminal Records/Ban the Box
In a recession, barriers to employment can mean the difference between sinking and swimming. States should remove one such barrier by immediately sealing the criminal records of formerly incarcerated people.

States and cities should also pass Ban the Box initiatives that remove questions about applicants’ criminal records from all applications for public and publicly contracted employment. All Stimulus-related jobs should be made equally available by ensuring that criminal background checks do not block people from employment.

E. Enforce Anti-Discrimination Laws
Ensure that all people are provided equal opportunity and fair treatment and are not discriminated against on the basis of race, ethnicity, religion, color, national origin, age, sex, disability, familial status, immigrant status, sexual identity, gender identity or other characteristics; and ensure that all anti-discrimination measures are fully implemented and enforced.

The Equal Employment Opportunity Commission should more vigorously enforce Title VII of the Civil Rights Act of 1964, which prohibits employment discrimination based on race, color, religion, sex or national origin. Enforcement will help to prevent racial discrimination and other forms of discrimination for all workers.
# Acknowledgements

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Seth Wessler

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## Research Director
Dominique Apollon

## Art and Design
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## Copy Editor
Susan Starr

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April Pulliam
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Special thanks to the following people for helpful input or for reading drafts of the report. Any errors are the sole responsibility of the Applied Research Center:

- **Seema Agnani**  
  Executive Director, Chhaya CDC

- **Nicholas Bianchi**  
  Research Analyst, National Training and Information Center

- **Joan Burke**  
  Director of Advocacy, Loaves & Fishes (Sacramento)

- **Gary Delgado**  
  Board Member, Applied Research Center

- **Maurice Emsellem**  
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- **Jose Garcia**  
  Associate Director for Research and Policy, Demos

- **Marcia Henry**  
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- **C. Nicole Mason**  
  Executive Director, Women of Color Policy Network

- **Gwendolyn Mink, PhD.**  
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- **Saara Nafici**  
  Garden Apprentice Program Coordinator, Brooklyn Botanic Garden

- **Danilo Pelletiere**  
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- **Amaad Rivera**  
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- **Mark Winston-Griffith**  
  Executive Director, Drum Major Institute
CO–RELEASERS

WORKERS DEFENSE PROJECT, AUSTIN, TX

WASHINGTON COMMUNITY ACTION NETWORK

CHHAYA CDC, NEW YORK CITY, NY

ASSOCIATION OF COMMUNITY ORGANIZATIONS FOR REFORM NOW (ACORN)
  • St. Louis ACORN
  • San Bernadino ACORN
  • Sacramento ACORN
  • New Orleans ACORN
  • Little Rock ACORN
  • Fresno ACORN
  • Colorado ACORN
  • Washington DC ACORN
  • Charlotte ACORN
  • Allegheny County ACORN

COLORADO PROGRESSIVE COALITION

CONNECTICUT CITIZEN ACTION GROUP (CCAG)

OLNEYVILLE NEIGHBORHOOD ASSOCIATION, PROVIDENCE, RI

OREGON ACTION
ENDNOTES

1. Name has been changed.

2. Name has been changed.


6. Ibid.

7. Alaska, Hawaii, Nevada and South Carolina.


11. Name has been changed.


14. Ibid.


18. Ibid.


25. The poverty measure does not accurately account for the extent of needs. The poverty measurement falls significantly below the actual cost of living. For a family of four to be considered in poverty they must earn less than $22,050. In 2008, the poverty guideline for a family of four accounted for only 43 percent of a basic family budget. According to economist Jared Bernstein, “by erroneously excluding those in need from our measure, we fail to reach millions more who desperately need the help.”


29. Name has been changed.


31. Definition from Blackwell Dictionary of Sociology: An ethnic or racial division of labor exists in a society in which ethnic or racial groups have distinctive concentrations or specializations in particular lines of work. Ethnic/racial divisions of labor may arise through relatively benign labor market sorting processes, or they may be the result of systematic acts of bigotry and discrimination, often with state sanction. Regardless of how they arise, ethnic/racial divisions of labor can be observed and traced over time, and they can have measurable effects on social and political dynamics within societies.


36. Name has been Changed


41. Ibid.


43. Ibid.

44. Ibid.

45. Ibid.


49. Ibid.


53. Ibid.


64. Ibid.

65. Name has been changed


69. Zachary Levinson and Liz Schott, “TANF Benefits are Low and Have Not Kept Pace with Inflation (But Most States Have Increased Benefits Above a Freeze Level in Recent Years)” (Washington, D.C.: Center on Budget and Policy Priorities, November 24, 2008), cbpp.org/11-24-08tanf.pdf.


73. Ibid.

74. Ibid.

75. Name has been changed


77. Name has been changed


89. Preferred their last names not be used.


93. These are adjustable and often start off with a lower “teaser” rate—and include high fees, balloon payments, prepayment penalties and broker solicitation.


96. A Yield Spread Premium is the money paid to a mortgage broker based on an interest rate above the lowest rate the borrower qualifies for.


106. Ibid.

107. Ibid.


110. Ibid.


113. Ira Katznelson, When Affirmative Action was White (New York: W.W. Norton & Company, 2005).

114. Ibid.

115. The regulatory agencies responsible for the enforcement of CRA are the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), The Office of the Comptroller of the Currency (OCC) and the office of Thrift Supervision (OTS).


123. Ibid.

124. Ibid.


