

Ferguson says Fed remains vigilant against credit bias

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by Christian Morrow

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It is a rarity when those in control of the nation's monetary policy visit Pittsburgh. So, when the second-in-command of the Federal Reserve Board speaks to the African American Chamber of Commerce of Greater Pittsburgh—it's a coup.

Although private wealth creation among minorities continues to lag behind non-minorities, the Fed is committed to fiscal policies that can close the gap, said Federal Reserve Vice Chairman Roger Ferguson, during a Downtown luncheon Nov. 12.

He also said the Fed will "remain vigilant for any indications of illegal discrimination in credit decisions."



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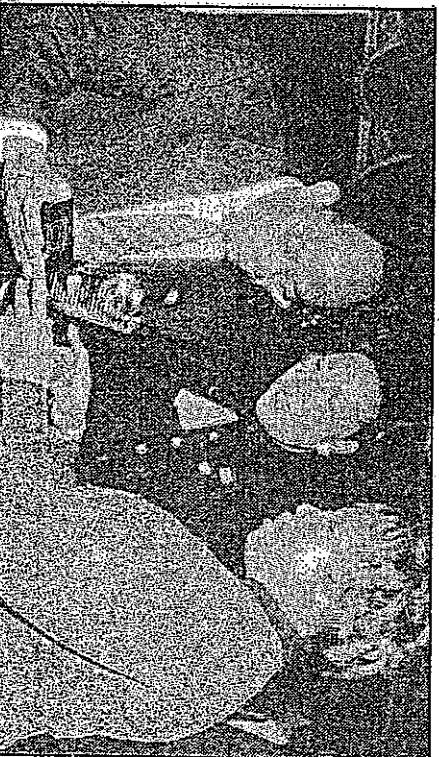


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PRIME-TIME PLAYERS—Fed Vice Chair Roger Ferguson accepts thanks and gifts from Grace Robinson and Doris Carson Williams after his speech to chamber members.

decision is disturbing, and the moral and legal objections to it are obvious. In addition, constraints on access to credit due to discrimination carry real costs," said Ferguson. "At its heart, discrimination artificially restricts the flow of capital. It means that viable economic activity goes unfunded and that markets that should work do not."

On the surface, Ferguson said, the Fed's most recent Survey of Small Business Finances (1998) indicated Black-owned firms were more likely to be turned down for credit than their white-owned counterparts. On closer examina-

tion, however, the picture was more complex. "Differences in denial rates are less pronounced in urban markets, which account for a vast majority of the urban areas. And when small firms are considered separately, the denial rates are similar," he said.

More research is needed, Ferguson said, since these data cannot identify discrimination because it cannot account for unique factors in individual credit-granting decisions.

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"We, of course, will continue to examine banks to measure and ensure their compliance with the Equal Credit Opportunity Act," he said. "And we will continue to sponsor research on credit availability and constraints, including potential illegal discrimination."

A lack of capitalization would be magnified when looking at one of the economic bright spots for minorities—business ownership. Minority-owned firms, said Ferguson, have been expanding at more than four times the rate of businesses overall.

"By some estimates we have 25 million small businesses in the United States, accounting for 99 percent of all firms," he said. "As of 1998, about 15 percent of all small businesses were minority-owned. About 4 percent each were Black-owned and Asian-owned, and 6 percent were Hispanic-owned. However, a general lack of financial literacy among minorities limits their ability to become business owners and to

create personal wealth. Ferguson said the most substantial part of the wealth gap is found in differences in asset ownership. For example, in 2001:

- About 22 percent of minority families had no kind of non-financial assets—a residence, a vehicle, or a business.

- About 18 percent had no financial assets—checking or savings accounts, stocks or bonds.

- For non-Hispanic whites, the number without these assets was well below 10 percent.

Without such basic assets as checking and savings accounts, Ferguson said minorities cannot benefit from their appreciation and are therefore hindered from entering the economic mainstream. While he noted net worth for minorities grew at the same rate as whites during the first part of the 1990s, between 1998 and 2001, inequality in growth reappeared. As median net worth leveled off for minorities, it increased an additional 17 percent for non-minorities. "As a result, in 2001 the me-

dian net worth was \$17,100 for minority families versus \$120,900 for non-Hispanic white families," he said.

Perhaps the brightest economic indicator for Blacks was an increase in homeownership rates from 43 percent in 2001 to 47.5 percent this year. The rate for non-Hispanic whites, however, is well above 70 percent.

To combat these problems, Ferguson said the Fed has embarked on a national initiative to highlight financial literacy, and is providing technical assistance to small businesses, bankers and community development corporations to address capital and credit issues.

"Our goal is to help maintain price stability and to create conditions for sustainable economic growth which will provide continued opportunities for families and small businesses to flourish," he concluded, "through these efforts we are working to enhance job opportunity, business expansion and wealth creation for all Americans."