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DISPARITIES IN DEBT:

WHY DEBT IS A DRIVER IN THE RACIAL WEALTH GAP

FINANCIAL SECURITY PROGRAM

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The findings, interpretations, and conclusions expressed in this report—as well as any errors—are Aspen FSP's alone and do not necessarily represent the views of its funders or participants in our research process.

ABOUT THE ASPEN INSTITUTE FINANCIAL SECURITY PROGRAM

The Aspen Institute Financial Security Program's (Aspen FSP) mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity. We believe that transformational change requires innovation, trust, leadership, and entrepreneurial thinking. Aspen FSP galvanizes a diverse set of leaders across the public, private, and nonprofit sectors to solve the most critical challenges. We do this through deep, deliberate private and public dialogues and by elevating evidence-based research and solutions that will strengthen the financial health and security of financially vulnerable Americans.

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Introduction

Racial wealth inequality has been pervasive in the United States from the earliest days of colonization 400 years ago. Despite constitutional guarantees of equality and numerous anti-discrimination laws, racial wealth gaps not only remain but some are growing. Scholars, policymakers, and others have deeply investigated the historical roots and current drivers of racial wealth inequality in the United States. Most analyses focus on total asset holdings,[1] intergenerational transfers,[2] or disparities in specific assets (such as home equity).[3] Media coverage and social narratives about racial wealth gaps similarly tend to concentrate on assets.

Less attention has been paid to the other side of the household balance sheet: debt. Although there has been analysis of racial disparities in mortgages, and recent research has illuminated the role of student loans in widening the wealth gap between Black and white households,[4] debt remains under-appreciated as a driver of racial wealth gaps.

This brief explores the links between racial disparities in debt and those in wealth. It is informed by Aspen FSP's years of engagement with consumers and families about their financial challenges. It reflects findings from a literature review, interviews with experts from the academic and private sectors, analysis of federal survey data, and focus groups and consumer surveys. Fully understanding the impact of debt on people's lives requires a multidisciplinary approach that includes systematically seeking input from and listening to people who struggle financially.

The growth in racial wealth inequality makes it imperative that policymakers, business leaders, and nonprofit and philanthropic institutions invest in strategies that increase wealth accumulation among those with the least and reduce racial disparities across every dimension of net worth. This brief provides a resource for leaders across sectors to understand more deeply the interactions between racial disparities in debt and racial gaps in wealth.

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WHAT'S IN THIS PAPER

Racial Disparities in Debt are Pervasive

The types and levels of household debt held by Americans varies considerably by racial group.[5] The Federal Reserve's 2019 Survey of Consumer Finances[6] (SCF), completed just prior to the COVID-19 pandemic, provides an in-depth look at US households' finances at the height of the longest economic expansion in US history.[7] The data show that millions of households were in a position of net debt rather than net worth, including 10.8% of households with zero or negative wealth.[8] Disproportionate numbers of Black (18.9%) and Hispanic/Latino (11.3%) households were in net debt.[9]

Regardless of racial or ethnic group, the three most common assets owned by households were transaction accounts, vehicles, home equity, and retirement accounts. More than 90% of all households in each category have transaction accounts, and at least 71.5% of each group owns vehicles. However, the ownership rates for homes and retirement accounts, critical appreciating assets, vary widely for each. White households are the only group in which more than half of all households (57.3%) own retirement accounts, for example. The rate among Hispanic/Latino households was less than half that (25.5%). With primary residences, white households and other households are most likely to own homes (73.7% and 54.2%, respectively. Rates for Black (45%) and Hispanic/Latino (47.6%) households are considerably lower.

Defining Racial and Ethnic Group Terms Used in This Brief

Throughout this paper, we use a number of terms interchangeably, generally to ensure that our analysis conveys survey data and others' research findings accurately. For example, we conform to the terms used in the federal Survey of Consumer Finances (SCF), when we draw on that data. In SCF, "white" refers to people who select only that label for their race; "Black" refers to people who select only that label for their race; "Hispanic/Latino" refers to people who select only that label (this also appears in SCF as "non white Hispanic/Latino"). People of all other races and ethnicities, including Asians and Pacific Islanders, Native people, Afro-Latino people, as well as multiracial people, are grouped into the "Other, including multiracial" category. Similarly, in federal data, people indigenous to the Americas are referred to as American Indian/Alaska Natives (AI/AN), though Native Hawaiians are counted as Pacific Islanders. In other research, Native and Indigenous are frequently used, and throughout this report we use them interchangeably with AI/AN. In other cases, terms used to describe Latino people in the United States include Latino, non white Hispanic/Latino, and once, just Hispanic. Latino people in the United States are generally understood to be those who came to the US from Latin America, or whose families did so in the past, or who live in parts of California, Arizona, New Mexico, and Texas that belonged to Mexico prior to Westward Expansion. "Hispanic" refers to people of Spanish descent.

Figure 1. Household Asset Ownership and Median Asset Values by Racial and Ethnic Group

Type of Asset		White	Black	Hispanic/ Latino	Other and Multiracial
Transaction Accounts	Percent of Households Holding Asset	98.8%	96.8%	95.5%	98.8%
	Median Value of Asset by Households	$8,200	$1,500	$2,000	$5,000
Securities	Percent of Households Holding Asset	31.2%	9.6%	8%	31.5%
	Median Value of Asset by Households	$25,000	$10,000	$5,000	$50,000
Retirement Accounts	Percent of Households Holding Asset	57.3%	35.1%	25.5%	52.7%
	Median Value of Asset by Households	$80,000	$35,000	$31,000	$47,000
Other Financial Assets	Percent of Households Holding Asset	36.8%	30.5%	12.4%	34.7%
	Median Value of Asset by Households	$20,000	$5,000	$5,500	$17,900
Vehicles	Percent of Households Holding Asset	89.3%	71.5%	84.5%	81.1%
	Median Value of Asset by Households	$19,000	$12,200	$16,000	$15,900
Primary Residence	Percent of Households Holding Asset	73.7%	45%	47.6%	54.2%
	Median Value of Asset by Households	$230,000	$150,000	$200,000	$308,000
Non-primary Residence	Percent of Households Holding Asset	19.6%	9.5%	11.4%	21.3%
	Median Value of Asset by Households	$143,500	$56,800	$111,500	$180,000
Business Assets	Percent of Households Holding Asset	16.5%	4.8%	7%	11.9%
	Median Value of Asset by Households	$99,000	$70,000	$52,000	$92,000
Other Non-financial Assets	Percent of Households Holding Asset	9%	1.6%	3.3%	7%
	Median Value of Asset by Households	$15,000	$10,000	$10,000	$5,000

Source: *Aspen FSP analysis of Federal Reserve, 2019 Survey of Consumer Finances.*

Figure 1 reveals that the assets that are typically purchased with financing (primary residence, non-primary residence, vehicles), represent very different amounts of wealth for households of different races and ethnicities. The value range for vehicles goes from a median value of $12,200 (Black car-owning households) to $19,000 (white car-owning households). For primary residences, median values range from $150,000 (Black homeowners) to $308,000 (other and multiracial homeowners). In the cases of both vehicles and primary residences, Black households' assets were worth about two-thirds of white households' assets, and Hispanic/Latino households' assets were worth about 85% of white households' assets.

Figure 2. Percentage of Households Holding Debts, by Racial and Ethnic Groups

Type of Debt	White	Black	Hispanic/Latino	Other and Multiracial
Mortgage, Primary Residence	44.4%	27.3%	32%	37.6%
Other Property Debt	5.5%	2.9%	2.9%	4.1%
Credit Card Balances	44.5%	47.7%	49.9%	43.7%
Vehicle Loans	37.4%	33.8%	40.1%	35%
Education Loans	20%	30.2%	14.3%	24.3%
All Other Debt	15.8%	16.1%	18.7%	17.4%

Source: *Aspen FSP analysis of Federal Reserve, 2019 Survey of Consumer Finances.*

Mortgage debt tends to build less housing wealth for Black,[10] Latino,[11] and Native[12] homeowners because their mortgages are often higher-cost and riskier than the mortgages most often made to white households. Moreover, although white households borrow more heavily, their higher incomes translate to lower debt burdens (payments as a share of household resources).[13]

Student loans—another form of debt that can generate positive returns (through employment and increased wages)—are an additional source of racial disparity. Black households are particularly affected by student loan debt: 30% have outstanding loans, compared to 20% of white households.[14] The median value of unpaid student loan debt held by Black borrowers is about $7,000 greater than that of white borrowers.[15] Black borrowers are especially likely to carry student loan debt that reduces their net worth below zero.[16] As **Figure 2** shows, they are the only group for which it is more common to have student loans than it is to have a mortgage. Latino borrowers have lower outstanding student debt, in part because they attend relatively inexpensive schools.[17]

Figure 3. Most Common Household Debts by Racial and Ethnic Group

	White	Black	Hispanic/Latino	Other and Multiracial
1	Credit Card Balances	Credit Card Balances	Credit Card Balances	Credit Card Balances
2	Mortgage	Vehicle Loans	Vehicle Loans	Mortgage
3	Vehicle Loans	Education Loans	Mortgage	Vehicle Loans

Source: *Aspen FSP analysis of Federal Reserve, 2019 Survey of Consumer Finances.*

Figure 4. Median Value of Household Debts by Racial and Ethnic Group

Type of Debt	White	Black	Hispanic/Latino	Other and Multiracial
Mortgage, Primary Residence	$130,000	$116,000	$130,000	$180,000
Other Property Debt	$110,000	$60,000	$215,000	$140,000
Credit Card Balances	$3,200	$1,300	$1,900	$2,400
Vehicle Loans	$14,000	$11,000	$14,000	$14,000
Education Loans	$23,000	$30,000	$17,600	$19,000
All Other Debt	$5,200	$2,400	$4,000	$7,500

Source: *Aspen FSP analysis of Federal Reserve, 2019 Survey of Consumer Finances.*

Debt Profiles of Asian, Pacific Islander, and Indigenous Households

The Survey of Consumer Finances does not provide disaggregated data on Asian or Pacific Islander (including Native Hawaiians), nor on American Indian and Alaska Native households, significantly limiting understanding of their financial security more broadly. Researchers have used other surveys and independently collected data to improve understanding of these racial groups' financial security. Several themes emerge:

Asian and Pacific Islanders: The Asian and Pacific Islander (API) population of the United States has both grown and diversified over recent decades. That diversity makes it difficult to draw blanket conclusions, as API people of different ethnic backgrounds and countries of origin have widely varying levels of income, employment, poverty, and wealth.

In 2019, using Survey of Income and Program Participation data, Census researchers estimated API household wealth to be $156,300, roughly equal to that of white households.[18] The relatively high median net worth of API households masks disparate economic outcomes across different national and ethnic backgrounds. A case study in Los Angeles found that the median net worth of Japanese, Indian, and Chinese households was over $400,000, while the median net worth of Korean, Vietnamese, and Filipino households ranged from $23,400 to $243,000.[19]

Asian households tend to carry more debt than white households.[20] Nearly half of all Asian households have housing-related debt, similar to white households. They are less likely to have credit card debt (38% of households) compared to the national population (48%).[21] Again, however, there are significant differences within the group; one case study found that Filipino households tend to carry more debt and debts of different types than other API households.[22]

American Indian and Alaska Natives: As previously mentioned, there is very little research on the assets and debts of Native households. The most recent estimate of their household wealth that the authors are aware of is that, in the year 2000, AI/AN households owned just $0.09 for every dollar of wealth held by white households.[23] Looking at other measures of financial security shows that large disparities persist.

Although median income for AI/AN households grew from $35,062 to $45,476 between 2010 and 2019, these families still earn about $20,000 below the national median income. In fact, the gap between AI/AN median income and the national median increased by $5,000 during this period.[24]

Subprime credit is most prevalent in communities where Native Americans are the majority.[25] More than half of adults in Native communities have debt in collections - more than the rates in white communities and other communities of color.[26] Indigenous homeowners also pay more for mortgage loans, and loan amounts are 40% smaller within reservations than the surrounding areas.[27]

Racial Disparities in Debt are Systematic and Destructive

Three aspects of the debt held by people of color demonstrate the significant contribution of racial disparities in debts to racial wealth gaps. Compared to white people, the debt held by people of color is: 1) more likely to be harmful; 2) more likely to involve the court system; and 3) more likely to have spillover non-financial consequences. These characteristics undermine households' wealth by disrupting cash flow, chronically constraining accumulation of savings, and stripping away existing wealth.

In 2018, Aspen FSP conducted a series of focus groups with borrowers struggling to repay debts. Participants of color, primarily Black and Latino, spoke not only of the financial consequences but also the negative impacts on their health, relationships, and ability to pursue their goals. Their feedback was foundational to our understanding of the complex roles of debt in racial wealth gaps, and this section features many of their experiences and insights.

Households of Color Are Disproportionately Likely to Hold Harmful Debt

One insight[28] from our surveys of and focus groups with people struggling to repay debt is that—while it is difficult to draw neat lines between good debt and bad debt—certain types of debt are usually harmful not only to borrowers' financial stability but also their personal well-being. These are non-loan debts such as medical bills and public fines and fees, and alternatives to mainstream credit such as payday, vehicle title, and private student loans. Some of these debts are especially harmful because they are designed to be difficult to discharge and carry fewer consumer protections. They can be barriers to employment and medical care, and they can be entry points for entanglement in court systems.

Medical debt: Medical debts pose great financial strain. They are not associated with any asset or component of wealth generation; instead, they diminish households' ability to amass investible sums and can limit access to credit for years (due to the impact on credit scores[29]). Among adults ages 18-64, nearly a third (31%) of Black people had past-due medical debt compared to 23% of white adults.[30] These debts are most common in states that have not expanded Medicaid.[31] One focus group participant spoke of feeling helpless as a medical emergency both ended his career and left him with debts he could not repay.

Public fines and fees: Accumulated state and local fines (such as unpaid parking tickets) and fees (such as court costs) can quickly derail a household's financial stability.[32] A fine can be compounded by late fees, and collections processes can turn a one-time cost into a long-term drain on household financial health.[33] Inability to pay a fine can even result in jail time (which can itself impose additional fees). Governments disproportionately issue fines and fees to people of color, and the negative financial consequences most harshly affect Black and Latino households.[34] Fines and fees have even widened racial gaps.[35]

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Racial Disparities in Credit Reporting and Scoring

Low credit scores limit future borrowing options and impair long-term financial health, and they are the most prominent example of bias-prone algorithmic barriers to participation in mainstream household finance.[36]

Credit scoring greatly affects the availability and cost of debt. Well-documented racial disparities in credit reporting and scoring translate into disparities in debt. Black and Latino households tend to have lower credit scores than their white peers,[37] deeply limiting their financial choices and ultimately widening the racial wealth gap.[38] Several factors contribute to lower credit scores among people of color. Because having a mortgage positively affects scoring,[39] lower rates of homeownership drag down scores (which is self-perpetuating, as low scores make it harder to borrow for a home). Greater exposure to public fines and fees negatively affects scoring.[40] Errors in adverse information on credit reports appear to be more common among residents of majority Black and Latino neighborhoods than elsewhere.[41]

Credit invisibility—not having a credit report or having a report with insufficient data to generate a score—also disproportionately affects Black and Latino[42] and Native[43] households.[44] Credit invisibility is more likely among people living in deep and persistent poverty and recent immigrants; people of color predominate both groups.[45]

Beyond credit availability and cost, the ability to participate in mainstream financial systems is increasingly dependent on third-party consumer reporting and algorithmic scoring systems. In addition to the three nationwide consumer reporting companies (Equifax, TransUnion, and Experian), dozens of boutique reporting companies cater to specific sectors.[46] Negative reports from ChexSystems[47] or Innovis[48] can prevent people from opening bank accounts or accessing other financial services. Non-financial reporting services (such as medical histories provided by MIB Underwriting Services[49]) can determine access to and costs of disability and life insurance and similar products.

High-cost alternative loans: Low-income Black and Latino households have reduced access to affordable financial products and services and are more likely to rely on other borrowing options.[50] Payday loans and vehicle title loans are the most common high-cost alternatives to mainstream credit. The interest rates for these loans are generally in the triple digits,[51] and these products tend to lock borrowers into a cycle of predatory debt.[52] Payday lenders are more likely to be concentrated in Black and Latino communities. For example, payday lenders were 2.4 times more concentrated in these communities of color in California.[53]

People of Color Are More Likely to Become Involved with Court Systems Due to Debt

Racial disparities in **debt collection practices** aggravate the harm of debt on household financial health and the ability to build wealth. About 70 million Americans have a debt in collection.[54] More than half of debts in collection are medical debt.[55] Half of consumers report being contacted by collectors regarding debts they do not owe.[56] Rates of contact are significantly higher for people of color than for white people.[57] Credit scoring models heavily weight the presence of a collections tradeline in a credit report, significantly penalizing people's scores even when the information is inaccurate.[58]

Debt collections lawsuits exacerbate the harm from having a debt in collection. A national survey found that 15% of those who had a debt in collection in the preceding year had been sued by a creditor or debt collector.[59] Black consumers tend to be sued over smaller amounts compared to their white peers.[60] Black and Latino consumers face a higher incidence of debt collection lawsuits.[61] More than 70% of debt collection lawsuits end in a judgment against the alleged debtor,[62] even though debt collectors often do not need to show any proof or records.[63] Court judgments have long-term consequences for financial well-being.[64]

Bankruptcy is the principal remedy available to people who cannot repay their debts. Racial disparities affect both the rates of filing for bankruptcy and successful completion. There are significantly higher rates of bankruptcy filings in majority Black ZIP codes than in majority white ones.[65] Yet, a national study found that bankruptcy cases filed in primarily Black neighborhoods were twice as likely to be dismissed as those in white areas.[66] One focus group participant from Washington, DC described how a bankruptcy repayment plan required her to work multiple jobs, and then she learned that her private student loans would still not be forgiven, leaving her feeling hopeless. She also persuaded her four children to go into the military, despite ongoing wars, for the education benefits.

Imprisonment for unpaid debt, although rare, is extremely damaging. In 44 states, debtors face the possibility of jail time for not cooperating or abiding by post-judgment proceedings. In 2019, Black residents in New Orleans faced jail time for lack of payment of fines at 1.5 times the rate of their white peers.[67] Black, Latino, and low-income families and communities disproportionately experience these fines and fees.[68] In our focus groups with borrowers struggling to repay debts, one woman shared how a traffic stop for a minor infraction became an arrest, because a judge had issued a "bench warrant"[69] over an unpaid fitness class. She described feelings of stress and shame as well as complications with her jobs and family.

People of Color Disproportionately Experience Non-financial Damage from Debt

People of color in debt are more likely than their white peers to experience negative non-financial consequences related to debt. These include diminished health and well-being and reduced trust in institutions.

Consumer debt is associated with both physical and mental health challenges. A meta-analysis of more than 50 studies of the relationships between health and financial and socioeconomic status found in nearly 80% of the studies a link between being in debt and poorer physical health.[70] Student loan debt appears particularly harmful to mental health.[71] A focus group participant with significant medical debt in collections following a suicide attempt said the debt was an ongoing source of stress and misery, resulting in being afraid to seek more help. Racial debt disparities become disparities in health; negative health outcomes further limit wealth by affecting income and the ability to amass investible sums.

Negative experiences with debt also engender a lack of trust in financial institutions and governments. Lack of trust and lack of money are the top two reasons that unbanked Black and Hispanic/Latino households do not have bank accounts.[72] Consumer disputes can be both a cause and effect of diminished institutional trust. The Consumer Financial Protection Bureau looked at the rate of consumer dispute flags on credit reports across Census tracts and found that, across all types of debt, disputes were more common in majority Black and majority Hispanic areas than in majority white areas.[73] Lack of trust in the financial institutions people interact with most regularly can lead people away from these financial institutions,[74] affecting not only borrowing for future asset purchases but also utilization of formal savings mechanisms.[75]

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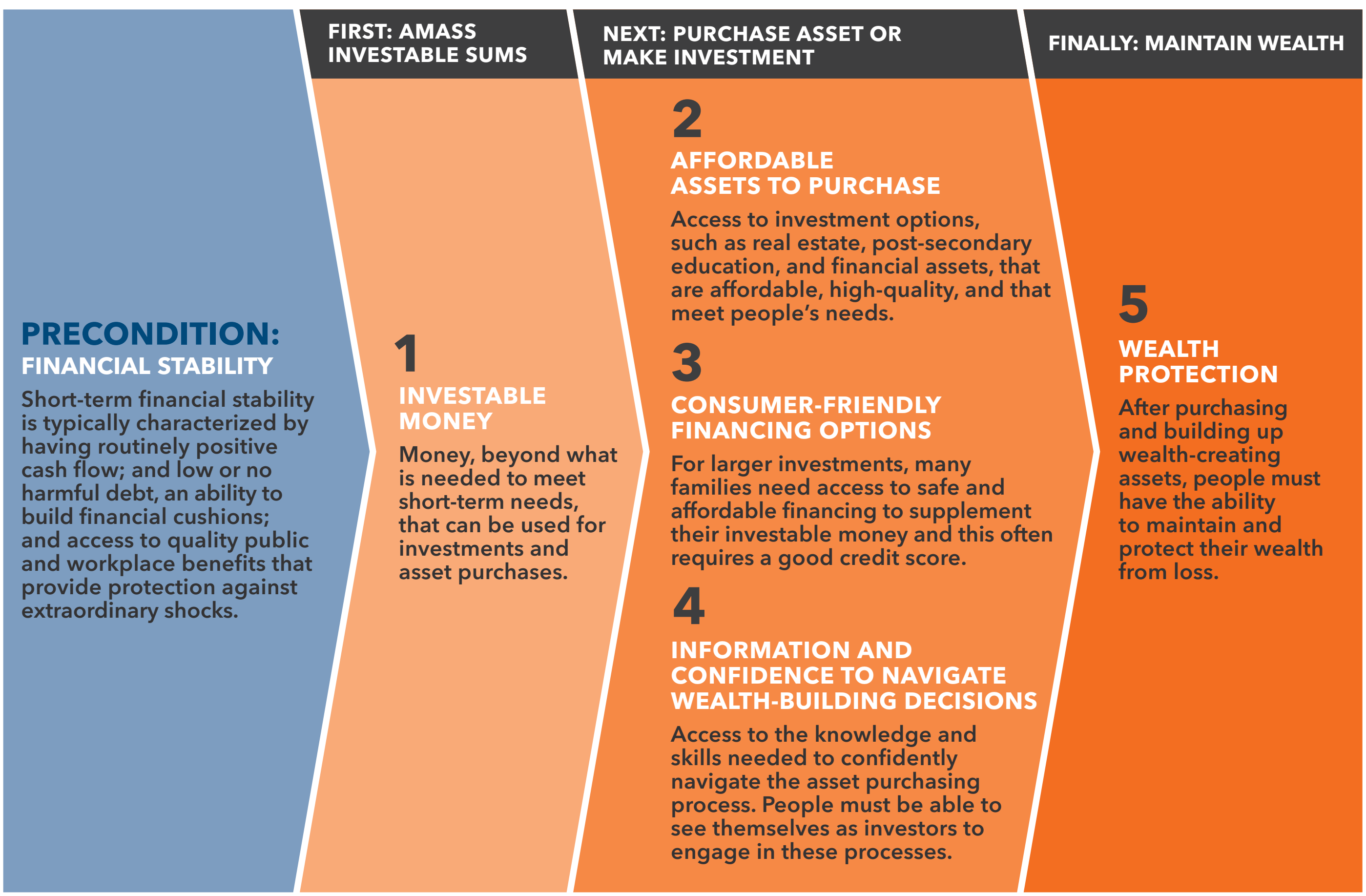
Racial Disparities in Debt Disrupt Every Phase of the Wealth-Building Process

Financial stability, a prerequisite for sustainable wealth-building, is characterized by having routinely positive cash flow (income regularly exceeding core expenses), little or no harmful debt, an ability to build financial cushions such as liquid savings, and access to quality public and workplace benefits providing protection against extraordinary shocks.[76] When these pre-conditions of financial stability are in place, there are three phases to sustainable wealth-building: 1) amassing investible sums through personal savings and transfers from employers and public institutions; 2) acquiring assets, which requires access, financing, and information and confidence; and 3) protecting the accumulated holdings.

> Explore our wealth-building model in more depth in Aspen FSP's recent report: "**Foundations of a New Wealth Agenda: A Research Primer on Building Wealth for All**."[77]

Figure 5. Five Conditions - and One Precondition - Support Wealth-Building

People need each of the conditions below to be available to them—and at the right time—to build wealth.



People of color face systemic disadvantages in each of these phases of the wealth-building process and disparities in debt are among the systemic barriers they face. Debts can inhibit amassing investible sums, limit acquisition of assets, and diminish rather than protect the wealth that people of color are able to build.

Phase One: Amassing Investible Sums

Investible sums are savings set aside for wealth accumulation. Debt service burdens driven by the cost of harmful debts can reduce the amount of cash a household can amass in savings, curtailing engagement with wealth-building activities.

Debt service burdens are not distributed evenly by race. Nine percent of Black households have high debt service burdens, defined as debt payments exceeding 40% of monthly income. Incidence is slightly lower for Hispanic/Latino households (8%) and is 6% for white households.[78]

Savings patterns also vary by race. Although 63% of white families in the 2019 SCF reported saving money during the prior 12 months, this was true of only 47% of Black and 45% of Hispanic/Latino families.[79] Prosperity Now finds similar significant disparities in having sufficient liquid savings to cover at least three months of expenses: this is true for 76% of Asian and 71% of white households but just 47% of Black and 42% of Latino households.[80]

Phase Two: Purchasing Assets

Successfully converting savings into other assets depends on having access to affordable assets to purchase, consumer-friendly financing options, and the information and confidence needed to navigate wealth-building decisions. Racial disparities in debt, especially negative experiences with harmful debt, affect people of color across all three dimensions.

Access to affordable assets. People must have available wealth-building options—such as financial investments, real estate, or business assets—that are affordable, high-quality, and tailored to their needs. Negative experiences with debt can restrict access to acquisition of assets. For example, people whose debts have led to wage garnishment may be unable to take advantage of the access to wealth-building afforded by workplace-based retirement plans.

Access to consumer-friendly financing options (when acquisition requires financing). Not all assets can be purchased outright. Larger purchases such as a vehicle, real estate, or college degree usually require borrowing to supplement investable funds. To be effective for wealth-building, financing needs to be safe and affordable. Access to high-quality financing requires having a good credit score. Negative experiences with debt are often reflected in reduced credit scores that can greatly limit access to safe and affordable financing for asset acquisition. One consequence is that a far larger share of Black and Latino households reports not being able to get the credit they need. Among those who applied for credit in 2019, 26% of Black respondents said they were denied credit or received less than requested, compared to 23% of Latino respondents and 15% of whites.[81]

Information and confidence about one's ability to navigate investment and wealth-building decisions. Information on its own is inadequate to build wealth, but people must have access to the knowledge and skills needed to navigate confidently the often complex and overwhelming asset purchasing process.[82] Moreover, people must see themselves as investors capable of engaging in assset purchases and investments.[83] Negative experiences with debt can make interactions with financial institutions fraught with both doubt and anger. Prior bad experiences with debt can also undermine confidence and reduce self-efficacy, adversely affecting all decision-making regarding investment in assets. Distrust of financial institutions, often based on personal and family experience, is a concern shared not only by Black and Latino people, but also Native people[84] and immigrants.[85]

Phase Three: Protecting Acquired Wealth

People must also have the ability to protect their accumulated wealth from loss. Wealth protection involves risk management related to safety, longevity, health, financial and real estate markets, and, increasingly, climate change.

Wealth protection can take the form of insurance and of public policies regulating financial services and protecting consumers and investors.

As with debt, there are racial disparities in wealth protection. Decades of wealth-stripping policies have hurt Black and Latino families and chipped away at their holdings. Foreclosure processes following the Great Recession targeted Black and Latino neighborhoods.[86] Forbearance programs created to mitigate negative financial effects of the COVID-19 pandemic tended not to enroll eligible Black and Latino homeowners and mostly reached white households.[87] The differential experience of people of color with bankruptcy proceedings further undermines wealth protection.[88]

Conclusion and Call to Action

The contribution of racial disparities in debt to racial wealth gaps cannot be overstated. No level of commitment, creativity, or resources will make substantive progress on increasing the wealth of households of color without attention to—and scaled solutions for—the racial disparities associated with debt. The lived experience for families of color is that debt undermines positive progress in all phases of wealth creation: saving funds, investing in assets, and protecting those assets.

Over the next year, Aspen FSP will continue our investigation into the most promising solutions to dramatically increase the wealth of people and families who have the least. Using the data and insights gathered in this brief, we will include debt solutions as a foundational component of our work. We do this with optimism, because there are powerful solutions present in both the marketplace and the public policy spheres that are backed with compelling evidence that they would significantly reduce racial wealth gaps. For example:

Cancel federal student loan debt. Cancelling large amounts of federal student loan debt per borrower would substantially reduce the Black/white wealth gap. One study found that broad-based student loan cancellation would immediately increase the wealth of Black households by about 40%.[89] Aspen FSP recommends that federal policymakers cancel at least $30,000 of federal student loan debt for all borrowers, in order to eliminate debt for those who have been most harmed, close racial wealth gaps, and set 43 million people on more sustainable paths to building wealth.[90]

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Massively increase access to homeownership and high-quality mortgages for people of color, particularly Black and Native homebuyers. This involves policy and market leaders, as well as philanthropic and nonprofit institutions, to act on a variety of fronts, from increasing targeted down payment assistance funds to improving access to small balance mortgage loans to public and private investments in building modestly-sized, lower-cost "starter homes" that are currently difficult to produce. Increasing fair lending supervision and enforcement is critical to root out racial disparities in mortgage costs and home appraisals and ensure that these efforts are as effective as possible in closing racial wealth gaps.

Increase access to insured, affordable health care. This requires implementing Medicaid expansion in every state, limiting high-deductible insurance plans, and strengthening hospitals' mandatory charity care programs. It could also include new regulations on how health care institutions can try to collect on medical debts, exclusion of medical debts from credit reports and scores, expanding the "essential benefits" established by the Affordable Care Act, or implementing policies such as Medicare for All, that would completely transform healthcare service delivery in the United States.

Eliminate most public fines and fees and stop issuing bench warrants for unpaid fines and fees. State and local policymakers must ensure that remaining fines and fees are not predatory debt traps and that any amounts levied on individuals are commensurate to their income and family needs.

Just as racial disparities in asset ownership and appreciation have deep roots and broad consequences, racial disparities in debt are pervasive, systematic, and destructive. Although the problems associated with debt are not small, we are profoundly optimistic about the development and expansion of solutions that will ultimately improve the net worth of households of color in this country and lead to new and durable wealth opportunities.

Methodology

In developing this report, Aspen FSP drew upon a variety of sources, including:

- A traditional literature review of research in economics, sociology, and public policy on consumer debt, racial disparities in assets and debt, and financial security more broadly.
- Analysis of the Federal Reserve's 2019 Survey of Consumer Finances data from 2019.
- An internal synthesis of our own key findings from dozens of expert interviews conducted between 2016-2018, using transcripts, contemporaneous notes, and internal presentations.
- Areview of the transcripts of four consumer focus groups conducted in 2018 in Baltimore and Washington, DC.
- Insights from Aspen FSP's Consumer Insights Collaborative members about barriers to wealth-building in the communities that member organizations serve.

Learn more about the focus group participants' experiences. For more information about the Consumer Insights Collaborative members and their clients click here.

Endnotes

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