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Financial Incentive or Implicit Discrimination?

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While performing a regular review of its lending practices, Citigroup found that some of its minority borrowers were not receiving earned discounts under a program that provides a break on mortgage rates to customers with large deposits in banks. This "break" acts as a stimulus for customers to expand their business relationships with banks by providing financial incentives. An issue arises in the application of these incentives when a specific subset of the population is strategically excluded from the incentive because the incentive is applied in a discriminatory manner to other subsets. Such practices violate fair lending laws and have had a long, historical effect on the wealth accumulation of communities of color and our economy.

Although such discounts may appear miniscule facially, this exclusivity mirrors many discriminatory practices that fair lending laws and other similar fair housing laws were created to prevent.

In 1963, the United States passed the Fair Housing Act, legislation specifically designed to protect buyers or renters of a dwelling from discrimination based upon race, color, national origin, and religion. This law was passed in the midst of the 20th century, a time of rampant housing discrimination against people of color. Banks refused home loans to many people of color and actively participated in redlining practices. Because many people of color were effectively excluded from receiving the same low mortgage rates as their white counterparts, they were unable to purchase homes and enter the growing middle class. Without these loans, people of color either lacked the sufficient funds needed for home ownership or entered highly predatory loan agreements with third-party lenders. These discriminatory practices created a heightened need for the implementation of fair lending laws to protect marginalized groups in pursuit of owning or renting a home.

Ultimately, although economic ramifications of discriminatory lending vary, these ramifications are primarily caused when people of color are discriminatorily denied a form of economic prosperity that is essential to the American dream. Home ownership within the United States has become a quick gateway to economic stability that not only secures wealth in the present but also for future generations as homeownership translates into intergenerational wealth. By denying people of color the right to homeownership, banks are effectively contributing to an ever-present wealth gap.

As our society increases in heterogeneity along racial lines, laws must be enacted that allow for punitive ramifications when such discriminatory behavior is sustained. Banks must take an active role to ensure lending and everyday business practices are conducted in an equitable manner, which would ensure economic prosperity for all despite racial or ethnic background.