

SECTION IV



HEALTHY
NEIGHBOHOODS,
HEALTHY
BUSINESSES

SECTION IV: HEALTHY NEIGHBORHOODS, HEALTHY BUSINESSES

The neighborhood is where economic, educational, and housing opportunities coalesce to affect one's life chances. Poor neighborhood conditions and housing inequities were frequently cited challenges facing the African American community in interviews for this report. Unfortunately, a pattern of neighborhood-based racial segregation persists today; redlining, historically discriminatory urban renewal policies, housing discrimination, and urban decline have placed many African American communities at a great disadvantage.

The following section reviews how neighborhood conditions shape life experiences, identifying critical challenges—especially the impact of the subprime and foreclosure crises—and solutions needed to expand neighborhoods of opportunity and improve housing choices for all Ohioans.

Neighborhoods: Gateways or Impediments to Opportunity?

In 1968, the Kerner Commission Report, in response to the 1960's urban uprisings, noted that “the single overriding cause of rioting in the cities was not any one thing commonly adduced – unemployment, lack of education, poverty, exploitation –...it was all of those things and more...”¹³ The description of the systematic challenges facing distressed communities was repeated nearly 40 years later in a study of concentrated poverty released by the U.S. Federal Reserve and The Brookings Institution. The report authors noted that “[e]ach of the headline issues examined in this chapter – schools and skills, housing, lack of mainstream investment, and limited community capacity – plays a role in perpetuating the disadvantage confronting these high-poverty urban and rural areas today.”¹⁴ It is in neighborhoods that most of us are educated, acquire our first jobs, learn about businesses, find friends, and get involved in civic associations. The powerful effects of neighborhood conditions on life outcomes for residents are well-documented in over forty years' worth of research.¹⁵ Housing mobility programs which moved people into lower poverty neighborhoods have shown the improvements along a number of socioeconomic indicators for low-income families when they can leave neighborhoods of concentrated poverty. For example, research on the results of the Gautreaux program provided evidence of improvements in both educational and earnings outcomes.¹⁶ Results from the Moving to Opportunity program revealed improvements in health and well-being.¹⁷ Living in a neighborhood of concentrated disadvantage and poverty can severely inhibit life outcomes, especially for young children. New studies are showing that living in a severely disadvantaged neighborhood is equivalent to missing an entire year of school.¹⁸ As stated in the findings of the bipartisan Congressional Millennial Housing Commission in 2002,

“Neighborhood quality plays an important role in positive outcomes for families. Stable housing in an unstable neighborhood does not necessarily allow for positive employment and child education outcomes.”¹⁹

Access to high-quality neighborhoods is highly racialized in our society, with people of color being disproportionately concentrated in neighborhoods of disadvantage. In 2000, nearly 3 out of 4 residents in a neighborhood of concentrated poverty were Black or Latino; in our nation's largest metropolitan areas the likelihood of living in a high-poverty neighborhood for African Americans was 1 in 10, but only 1 in 100 for Whites.²⁰ In the U.S., poor communities of color are more likely to be in prolonged poverty and to suffer the cumulative effects of prolonged exposure: poor health, lack of labor market experience, and inadequate education, to name a few.²¹

This research illustrates the systemic disadvantages facing high-poverty, marginalized urban communities of color. Increasing the economic viability of our communities, cities and regions will

require stable, healthy and economically vibrant neighborhoods as well as “well- trained, creative, and flexible work forces.”²² How can communities achieve this goal? This requires a new approach to building community through holistic human and community development—an approach that involves more than just keeping incomes above poverty, but also a sustained commitment to aligning people with the opportunities and tools needed to excel and succeed in our society. Safe neighborhoods, healthy communities, health care, sustainable employment, stable housing, outlets for democratic participation, and a high quality education are the critical building blocks to achieving successful life outcomes, vibrant communities, and a just society. Meeting these goals will require moving our policies away from merely providing social welfare and toward providing pathways to opportunity.

Often, our traditional models of community economic development are not sufficient to meet this holistic and systemic approach to supporting human development. The traditional community development emphasis on affordable housing production in distressed communities provided stable housing, but when built in large numbers, reinforced concentrated poverty. Many housing mobility programs have succeeded at dispersing concentrated poverty, but few housing mobility programs have affirmatively connected people to opportunity in their new neighborhood by offering supportive social services.

The need for more comprehensive, inclusive community development was cited by many of the people we interviewed for this report:

*“There has to be better engagement with families, a value of place, so people feel like they have an investment in their community. There has to be more place-based work. Communities can begin to define what it is they need.... But there are a number of issues across the board. We don’t do enough community planning **with** the communities, to work on the issues they identify.”*

“Capital investment in neighborhoods. Quality of life issues, having grocery stores with fresh fruit and not paying \$4 for a gallon of milk. Getting people out of the box of hiring people like them, but hiring a diverse workforce.... There’s no reason why, in a great country like this, we should have 4th and 5th generational poverty. There is something wrong with the system if that is happening.”

“There are a lot of CDCs that exist, serving African American communities, trying to rebuild communities, but part of the CDC concept had a community organizing component to it, not just building and rehab, but engaging the stakeholders...I don’t see this. There is underutilization in achieving this engagement, locally we are trying to address this ...there are some good CDCs out there that work hard to engage community and community capacity as well. ... I think a lot of the struggle goes back to, right now people are scrapping for survival...dictating an agenda that may not always be community- based and community- focused.”

In an increasingly global and interconnected world, with complex and systemic challenges, we must adopt an opportunity-based approach that underscores the importance of interconnectivity, diversity, and racial and social equity in the 21st century economy. We need to leverage, supplement and complement existing policy and development while assuring communities are positioned to develop the assets needed to excel. Respondents noted the global context within which our neighborhoods now operate, with one remarking:

“...there are kids who have never been out of their neighborhood or out of the State of Ohio. And we’re in a global economy now and in some urban environments the kids have never been out of their neighborhood! How can we compete in a global market?”

Data for Ohio’s African American community offers clear evidence of racialized isolation into high-poverty and opportunity-deprived communities. Ohio’s African American communities are still more likely to be neighborhoods of racial and economic isolation, which are also more likely to be unsafe, unstable and isolated from jobs or other critical opportunities.

In 2000, the neighborhood poverty rate for the average African American household in Ohio’s largest metropolitan areas was double to triple the neighborhood poverty rate found in the average White household’s neighborhood.²³ Similar disparities can be found in the rates of vacant property in Black neighborhoods in Ohio’s largest metropolitan areas. For example, in 2000, the average Black household in the Columbus MSA lived in a neighborhood with a 9.6% vacancy rate and a 45.5% homeownership rate; comparable figures for White households were 5.7% and 65.4%, respectively. ²⁴ The disparities in the Cleveland MSA were even starker, with the average Black household living in a neighborhood with an 11.0% vacancy rate and a 49.3% homeownership rate in 2000, compared to a 5.1% vacancy rate and 73.3% homeownership rate for White households.²⁵ African American children in these metropolitan areas were also more likely to be found in poor schools, with the average Black student’s school having a poverty rate that was approximately two to three times the rate found in the average White student’s school.²⁶

Even for neighborhoods where segregation has slightly improved, a report released by the Mumford Center reveals alarmingly high rates of school segregation, suggesting the failure of policies to effectively desegregate schools.²⁷ For example, while the Dissimilarity Index for the Cleveland MSA decreased from 84.3 in 1989-1990, to 75.3 in 1999-2000, the school segregation index increased from 38.1 in 1989-1990 to 71.2 in 1999-2000.²⁸ Similar trends—decreasing neighborhood segregation and increasing school segregation—were found for the Cincinnati MSA and the Columbus MSA. These trends represent continued isolation of African American children from opportunities that accrue from educational integration. Students who learn in integrated environments fare better than their segregated peers.²⁹ Attending a desegregated school also translates into higher goals for future educational attainment and occupational choices,³⁰ and improved social networks.³¹ Intergenerational gains also ensue when students of color attend desegregated schools. ³² Importantly, diverse educational settings contribute to *all* students’ ability to participate in a democratic society.³³ Blacks and whites who attend desegregated schools are more likely to attend a desegregated college, live in a desegregated neighborhood, work in a desegregated environment, and possess high career aspirations.³⁴

African Americans are also more likely to be isolated from employment opportunities in Ohio’s major regions. According to research by the Brookings Institution, Cleveland and Cincinnati ranked 6th and 8th out of the nation’s largest metropolitan areas with the highest rate of spatial segregation between African Americans and jobs in the US.³⁵

As noted in our neighborhood “opportunity analysis” earlier in this report, African Americans are disproportionately isolated into Ohio’s lowest-opportunity neighborhoods. While 1 in 2 Latinos and 1 in 4 Asians and Whites lived in the State’s lowest opportunity neighborhoods, nearly 3 out of 4 African Americans were living in these stressed communities.³⁶ More than 80% of low-income Black households lived in low opportunity areas. For low-income Whites, only 38% lived in low opportunity

areas. Higher incomes for many Black households did not necessarily translate into living in high opportunity areas at rates similar to other racial groups. More than 2 out of 3 middle- income Black households and more than 1 in 2 high- income Black households lived in low opportunity neighborhoods. Comparative figures for Whites indicate that less than 1 in 3 middle- income White households and less than 1 in 5 high- income White households lived in low opportunity neighborhoods. These data illustrate the opportunity isolation facing many of Ohio’s African American neighborhoods, a fact that inhibits the life outcomes for many in the community, driving many of Ohio’s racial disparities in education, health, employment and economic status. The deprivation of opportunity was cited by many Ohio stakeholders, especially how deprivation across multiple domains impacts outcomes in other domains.

“[We need to] create housing opportunities for lower income families in resource-affluent areas, particularly areas with good education systems. Create opportunities for people to have more options to branch out.”

“Graduation rates and college matriculation are troublesome. The decline of the public school system is incredible. Because of this educational decline, individuals are experiencing a decreased earning and income potential; this then limits housing options.”

“At the educational level we need better performing schools for African American students; we need to continue to deal with issues of residential—if not flat out redlining, at least the tendency of African American folks to be living in a narrow range of neighborhoods that correlate with poorer schools and limited access to other resources...”

Housing Challenges for the African American Community

A number of long- term housing challenges face Ohio’s African American community. The lack of access to stable and quality housing manifests in several ways, including a lack of affordable housing and the concentration of affordable housing into distressed neighborhoods; housing discrimination in the private real estate market; lower homeownership rates; and discriminatory or predatory lending practices. The combination of these phenomena has challenged the African American community for decades. For example, statewide, clear disparities can be found in who is burdened by housing problems in Ohio. Data from the US Department of Housing and Urban Development CHAS database show 38% of Black households to be suffering housing problems, compared to 22% of White households.³⁷ Research by the Kirwan Institute found that in the early part of this decade, 9 out of 10 of the new single- family, owner- occupied housing inventory built for Franklin County Ohio was unaffordable to 70% of Black households.³⁸ Much of the housing affordability gap is due to income and wealth disparities between the African American community and the white community. Nationally, African Americans earned approximately two-thirds as much as whites, with wealth holdings only one-tenth that of whites.³⁹ In 2002, the median net worth of Black households was only 6.8% that of white households’ net worth.⁴⁰ The concentration of affordable housing can also preclude access to opportunity. Subsidized housing opportunities in most of Ohio’s metropolitan areas are more likely to be found in African American neighborhoods. Not only are subsidized housing sites more likely to be concentrated in Black neighborhoods, they are also more likely to be segregated into areas of high poverty and isolated from areas of projected job growth. Our “opportunity analysis” of HUD’s 2000 subsidized housing inventory finds the majority of HUD- subsidized housing concentrated in low- opportunity communities across the

State. Approximately two-thirds of subsidized housing was concentrated in the low opportunity neighborhoods, which represent just two-fifths of neighborhoods in the State (Figure 30).

Neighborhood type	# Projects	# Units	% of Projects	% of Units
Very Low Opportunity	770	88160	32.64%	47.33%
Low Opportunity	553	34907	23.44%	18.74%
Moderate Opportunity	485	28236	20.56%	15.16%
High Opportunity	345	19884	14.62%	10.67%
Very High Opportunity	206	15081	8.73%	8.10%
Grand Total	2359	186268	100.00%	100.00%

Neighborhood type	# Projects	# Units	% of Projects	% of Units
Low and Very Low Opportunity	1323	123067	56.08%	66.07%
Moderate Opportunity	485	28236	20.56%	15.16%
High and Very Opportunity	551	34965	23.36%	18.77%
Grand Total	2359	186268	100.00%	100.00%

Figure 30: Distribution of HUD subsidized housing in 2000 (does not include non- site based Section VIII vouchers) by neighborhood opportunity areas

These disparities are troubling because housing is critical to economic and social health. As mentioned earlier, housing is the primary vehicle for providing access to stable or high quality neighborhoods. Housing is one of the largest expenses incurred by households in the US; high housing costs indicate significant economic pressure placed on family incomes. Further, homeownership is also critical to developing assets and wealth (through home equity). As one respondent noted,

“In concentrated African American communities, those homes are not worth as much as those homes in the white community. The inheritance I leave to my children is less than a white counterpart because they live in a more affluent [neighborhood].”

Home equity represents approximately two-thirds of African American household wealth, compared to just one-third of white household wealth, even though property values tend to be lower in non-white neighborhoods.⁴¹

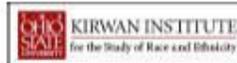
Although overt discrimination in the housing market is illegal, informal methods of segregation such as steering effectively isolate African Americans, and perpetuate the uneven landscape of opportunity. For example, in the North East region of Ohio, there was an increase in complaints based on discrimination in housing, from an annual average of 74.8 complaints for the period 1998-2002, to an annual average of 140.2 for the period 2003-2007; 34.5% of these complaints were based on race.⁴² Between 1990 and 2007, 112.6 complaints, 41.9% of which were based on racial discrimination, were filed each year for the region; three-quarters of the complaints were filed in Cuyahoga County alone.⁴³

Indexes such as the Dissimilarity Index⁴⁴ (DI) also illuminate the prevalence of segregation. While the numbers have improved somewhat over 1990 levels, the DI rankings in 2000 signal that high segregation continues. For example, in 1990, Cleveland’s DI was 0.824; in 2000, it was 0.768, making Cleveland the 6th most segregated large metropolitan area in the nation.⁴⁵ Likewise, slight improvements in the DI can be found for the Columbus metropolitan area: in 1990, the DI was 0.684, and in 2000, the DI was 0.631.⁴⁶ Similarly disappointing DI metropolitan rates in 2000 were found for Cincinnati OH-KY-IN (0.748), Dayton-Springfield (0.720), Youngstown-Warren (0.728), and Toledo (0.691).⁴⁷ Rates above

0.60 are considered highly segregated. The performance of Ohio's metropolitan areas on the Dissimilarity Index complements our findings that African Americans are disproportionately concentrated into low-opportunity areas, and face high rates of racial isolation. Figures 23-28 provide a visual representation of this racialized concentration in every major Ohio metropolitan area. Formal policies, such as exclusionary zoning and other land use policies, also preserve and perpetuate segregation. Restrictions or bans on apartment development, and low-density zoning limit the opportunities for low-income families or people of color to move to the suburbs, for both renters and owners. For example, a Brookings report estimated that about half of the municipalities in the Cleveland region have low-density zoning regulations in place, and 30% of the cities and villages would ban the study's hypothetical⁴⁸ apartment developments.⁴⁹ In the Columbus region, the study found that about 55% of the region's municipalities have low-density zoning, and 34% ban the hypothetical apartment development.⁵⁰ In general, these policies increase the costs of development, and therefore the price of housing in suburbs. These findings may help explain the continued concentration of African American families into low-opportunity areas, and why higher incomes for African Americans have not, by and large, translated into moves into higher opportunity areas.

As troubling as these statistics are, the most critical issue facing African American communities, and communities in general, in Ohio today is the subprime and foreclosure crisis. Predatory and other unsustainable loan products were offered in disproportionate numbers in many urban communities of color. Nationally, half of all subprime loans were given to Black borrowers,⁵¹ and reports estimate that between one-third and one-half of subprime borrowers qualified for a prime loan.⁵² Similarly disparate outcomes can be seen in Black communities in Ohio. In places like neighborhoods on the East Side of Cleveland, nearly 2 out of 3 loans were subprime.⁵³ Statewide in 2007, nearly 60% of home purchase loans and 56% of refinance loans given to Black borrowers were high cost loan products.⁵⁴ Given the unstable and unsustainable nature of these loans, many of these neighborhoods have seen a surge in foreclosures (See Figure 31).

Percent African American with Foreclosure overlay by Census Tract



Franklin County, Ohio

Source: U.S. Census Bureau, HUD - 28 April 2009

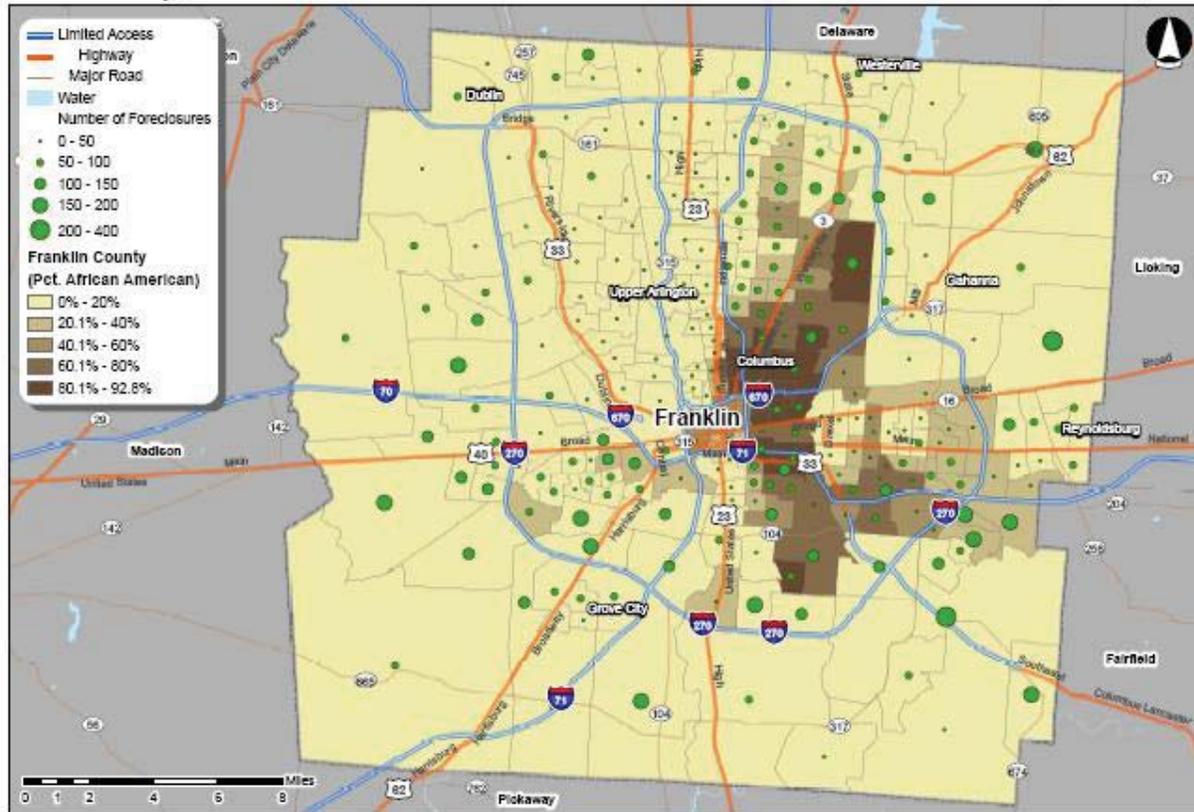


Figure 31: Estimated foreclosures overlaying African American population in Franklin County

In Depth: the Subprime and Foreclosure Crisis

The subprime and foreclosure crisis is *the* most critical housing and neighborhood issue facing African American communities in Ohio today. Historically legal racial housing discrimination and the lack of access to credit set the stage for predatory lending in credit-starved neighborhoods. This historic lack of access in combination with the deregulation of financial markets, encouraged the subprime boom, which depleted many African Americans' home equity and further destabilized African American neighborhoods.

The foreclosure crisis in Ohio is highly racialized. For example, a recent study of Cuyahoga County found that African Americans make up 74% of the population in the quartile with the highest rates of foreclosure (representing 119 census tracts), compared to only 3% of the population in the quartile with the lowest rates.⁵⁵ Furthermore, half of Cuyahoga County's African American population lives in census tracts in the quartile with the highest rates of foreclosures, with 34% of the African American population living in the tracts of the quartile with the second highest rate of foreclosure.⁵⁶ While these tracts contain almost 40% of foreclosure filings, they house only 19% of the county's total population.⁵⁷ Thus, foreclosures are disproportionately found in tracts with lower shares of the general population, but with the highest shares of the African American population.

Study after study has revealed the racial disparities in lending for similarly-situated persons. A CRL report found that, even when controlling for risk factors, African Americans were more than 30% more likely to receive higher-rate loans than white borrowers.⁵⁸ Ohio is no exception. An analysis in 2008 of mortgage lending in Ohio revealed that upper-income Blacks were denied home purchase loans 31.56% of the time, compared to 10.56% for upper-income white borrowers.⁵⁹ Even more disturbing is the finding that upper-income Blacks were denied more than low-income whites, with low-income whites facing denial rates of 27.37%.⁶⁰ The fact that upper-income Blacks also received high-cost home purchase loans 52.28% of the time, compared to 27.63% of low-income whites, further suggests discrimination.⁶¹ The report found that at every income level, and in every Ohio metropolitan area, African American borrowers received higher-cost loans than white borrowers.⁶²

The Cleveland metropolitan region exhibits some of the most racially disparate lending in the State. The region had denial rates on home purchase loans for upper-income Black borrowers at 37.52% compared to a 24.46% denial rate for low-income white borrowers.⁶³ Cleveland also exhibits the highest disparity in high-cost home purchase lending, with upper-income Blacks receiving these loans 63.3% of the time, compared to 14.5% for upper-income whites, and 37.35% for low-income whites.⁶⁴ Even cities with the lowest incidence of racial disparities still report disappointing figures. The lowest incidence of disparities in high-cost home purchase loans for Blacks was in the Toledo MSA, with 40.9% of loans high-cost.⁶⁵ The lowest incidence of high-cost refinancing loans for Blacks was in Cincinnati, with 50.38% of loans high-cost.⁶⁶

Research elsewhere documents that higher-income Black borrowers have similar rates of foreclosure as their white counterparts when the loans were prime, but if the loans were subprime, even upper-income Black borrowers had higher rates of foreclosure.⁶⁷ While high-cost, subprime loans increase the risk of default for all borrowers, as demonstrated above, upper-income Blacks are more likely than lower-income whites to receive these loans. And as reported, Blacks of all income levels are more likely to receive these subprime loans than white borrowers. Again, the characteristic of the loan appears to be the dominant factor.⁶⁸ These figures further signal the lack of access to sustainable credit for even the most qualified of African American borrowers.

Why the racial disparities in subprime lending and foreclosure?

What accounts for these disparities? The disproportionate incidence of subprime lending in African American communities stems in large part from the prevalence of independent mortgage companies targeting these loans to areas historically underserved by credit markets. The financial regulations established under the New Deal in the 1930s successfully expanded homeownership for many moderate-income families: homeownership rose from 44% in the late 1930s to 64% by the mid-1960s.⁶⁹ Unfortunately, these practices were not fairly extended to people and communities of color. The expansion of homeownership was limited largely to white families through explicit criteria that encouraged all-white neighborhoods in suburban, new housing stock, and devalued or refused to insure integrated, minority, or old housing stock neighborhoods.⁷⁰

Layered on top of this uneven landscape of opportunity came waves of financial deregulation, essentially creating a two-tiered delivery system—one prime, one subprime. The legacy of discrimination in lending left low-income and minority communities starved for credit for decades. Deregulation has resulted in a proliferation of high-cost and predatory lending practices targeted to meet the demand for credit within these communities, including payday lending, check cashing stores, and subprime loans. The legacy of redlining has resulted in a situation where the biggest home

mortgage lenders are independent mortgage companies, existing outside the scope of CRA regulations, and typically, these institutions *only* offer sub-prime loans, and not the traditional array of loan options offered by federally-regulated banks.⁷¹ In the mid- 1990s, subprime lending was virtually non-existent. By the end of 2006, over \$1 trillion in mortgage loans were subprime, representing 13% of outstanding mortgages nationally.⁷²

What about the CRA?

The Community Reinvestment Act (CRA), passed in 1977, was enacted to counteract the legacy of discrimination in lending (i.e., redlining) for low- and moderate-income (LMI) and minority neighborhoods. Under the CRA, federally- insured banks applying to merge or to offer new financial services are measured along several indicators of performance in meeting the needs of LMI and minority neighborhoods. These indicators range from the amount and number of loans made to residents, to quality and flexibility of financial services in meeting resident needs, to meeting the needs of community development and retailers within these communities.⁷³ If the bank passes these tests, the merger or new product is permitted. Several studies have highlighted the positive impact the CRA has had on low-to-moderate income and minority communities, increasing access to home mortgage credit during the 1990s.⁷⁴ In the past two years alone, banks have reported making over \$120 billion in community development loans.⁷⁵ Studies by the Federal Reserve have further found that loans made in low-income communities by CRA-covered institutions have been profitable for banks, performing similarly to other types of lending.⁷⁶

Recently, the CRA has come under fire as providing the incentive for high-risk lending. While CRA-covered institutions are in fact allowed to make subprime loans, these criticisms miss one critical caveat: the standard of *safe and sound lending*. The subprime lending that has resulted in the storm of defaults and foreclosures we are now witnessing has not abided by these tried and true principles of safety and soundness. CRA-covered subprime loans represent a small share of the subprime market nationally; over 20% of high-cost loans were made in low-income areas or to low-income borrowers by independent mortgage companies, compared to only 6% of all high-cost loans extended by CRA-covered institutions.⁷⁷ Similar results were found in a study of the Federal Reserve Fourth District⁷⁸ lending patterns and performance. Almost half of all high-cost loans originated in both Franklin and Cuyahoga counties were by independent mortgage companies, not CRA-covered institutions, and about 40% of all high-cost loans for the entire Fourth District were from these institutions.⁷⁹ In Cuyahoga County, 33% of the high-cost loans by independent mortgage companies went to LMI neighborhoods or borrowers.⁸⁰ Conversely, only about 20% of high-cost loans made in Cuyahoga were originated by CRA-covered institutions and about 30% in Franklin County and the Fourth District as a whole.⁸¹ These independent mortgage companies originated five times as many high-cost loans to LMI neighborhoods and borrowers in Cuyahoga County, and three times as many in Franklin County.⁸² While the arguments for modernizing the CRA are valid, those proposing to do away with the CRA risk dismantling a successful source of credit for those communities that need it most, our low-income and minority communities. The effects of the subprime and foreclosure crisis have been devastating in Ohio, and especially in Ohio's African American communities. While it is appealing to believe that these troubles began with the current economic recession, and so will (hopefully) end with the recovery, this is not true. In fact, the subprime and predatory loans markets were the tipping points for the economic conditions we face today. In Ohio, foreclosures were a pressing issue well before they became a national epidemic. Foreclosure filings have increased every year since 1995, with the average Ohio County realizing a 400% increase in filings.⁸³ As of June 2009, there was one foreclosure in Ohio for every 449 houses, and Ohio ranked 8th in the nation in foreclosure activity.⁸⁴

Impacts of Foreclosure and Vacancy

The growing foreclosure crisis has been exacerbated by a declining housing market and tightened lending environment which has severely limited refinancing options for people trapped in unsustainable loans, or now facing sudden economic hardship because of the economic downturn. The concentration of foreclosures in Black communities is a significant challenge because of the wealth loss, housing instability, and surge in vacant property produced by the foreclosure epidemic. The impacts, both primary impacts, such as the loss of one's home, and the potential secondary effects (i.e., spillover effects) are significant and substantial. These secondary effects may include property deterioration and blight, declining property values, crime, population turnover, and government fiscal distress as services demanded increase and revenues decrease.⁸⁵

In sum, the lack of access—both historic and current—to sustainable credit for African American borrowers has resulted in depletion of community development investments, homeownership and wealth, and neighborhood stability for Ohio African American communities. Because homeownership constitutes about two-thirds of African American wealth, the staggering loss of wealth to be experienced by the African American community is estimated at between \$164 billion and \$213 billion from subprime loans.⁸⁶

The impact of the foreclosure crisis on all Ohioans is significant and requires a strong and robust response. Alan Mallach, senior fellow of the National Housing Institute writes, “The state must see this crisis in its full dimensions – not only as a disaster to the struggling families that are losing their homes, but as a force that is undermining the social and economic vitality of the State and its communities, from which it may take decades to recover.”⁸⁷

Policy Responses

Communities of Opportunity To truly promote human development in our communities, we must adopt strategies to open up access to the “levers” or structures of opportunity for marginalized individuals, families and communities that propel people to their full potential. The Kirwan Institute calls this approach a “Community of Opportunity” model, which is an opportunity-oriented, spatial model of intervention, designed to open the pathways of opportunity to more people. The model advocates that increased opportunity for all should be a measure of the health of the entire region. The Community of Opportunity approach combines the various elements to open pathways to opportunity via three areas of focus: *people, places, and linkages*.

Supporting people is achieved through investments in human capital so that everyone has the opportunity to reach their creative potential. This can be advanced through wealth creation, educational attainment, sustained employment, and political empowerment. Examples include affordable homeownership programs, leadership and job training, community organizing and assisted housing where needed. *Supporting places* is achieved through support of community development initiatives and growth management practices that support and empower neighborhoods. This can be generated through neighborhood redevelopment, support of neighborhood anchors, increasing living wage employment opportunities, and equal provision of local services, including high-performing schools. Examples include Brownfield and vacant property development, minority and small business development, improved school conditions, and housing and infrastructure investments. Anti-gentrification strategies such as rent control are also necessary. *Supporting linkages* is achieved through providing the connections between people and places. This concept revolves around the mobility and degree of access for people to high opportunity areas. Examples through which this can be achieved

include fair share and inclusionary (or opportunity -based) housing, public transportation, and school integration. Several strategies can be implemented towards the end of providing access to high opportunity neighborhoods for all Ohioans.

Opportunity-based Housing The following principles guide an opportunity-based housing model:

- *Preserve the supply of existing affordable housing and expand the supply of decent housing for low- to moderate-income families in opportunity- rich neighborhoods across the metropolitan area.*
- *Ensure that all residents can buy or rent homes in the neighborhoods of their choice that are racially and economically integrated, and that feature a rich set of social, economic, and educational opportunities.*
- *Increase wealth opportunities through homeownership for all families in neighborhoods where homes' values are rising rather than falling.*
- *Plan for the development of affordable housing on a regional scale that intentionally connects housing to quality schools, plentiful employment opportunities, and an accessible transportation infrastructure.*
- *Promote a more balanced type of metropolitan growth that promotes the health of the region as a whole and connects all communities to opportunity.*

Foreclosure Response Strategies Given the devastating impacts of the subprime lending and foreclosure crisis on many Ohio communities, responding to this challenge must be a priority. The following broad principles should inform efforts to provide a comprehensive solution to address the impact of the foreclosure crisis.

Stop the Bleeding Ohio's foreclosure trends are only expected to worsen. Due to the economic downturn, job losses are forcing more Ohioans into foreclosure. More than 400,000 Ohio homeowners are "underwater" or facing negative home equity (owing more than the home is worth, due to loan terms or depreciation).⁸⁸ With more than 80,000 foreclosures statewide in 2008, and another 291,000 expected in the next four years, Ohio must act quickly to stop the escalation of foreclosures—and the devastating impact on communities—in the State.⁸⁹

Alan Mallach, a Senior Fellow at the Brookings Institution, has prepared an in-depth document for Greater Ohio, "Addressing Ohio's Foreclosure Crisis: Taking the next steps." In this document, Mallach calls on the State government to develop a new way of thinking about the foreclosure crisis, in recognition of the "inextricable relationship between individual foreclosures and their neighborhood effects."⁹⁰ To this end, he lays out seven priority objectives that should be included in the State's response. Mallach describes specific strategies for each objective, which include getting borrowers information about (and access to) other options; creating a fair foreclosure process; preventing fraudulent 'rescue' scams; breaking the nexus between foreclosure and vacancy/abandonment; and coordinating foreclosure prevention with neighborhood stabilization activities.⁹¹

Importantly, Mallach explicitly draws attention to the impact on communities, recognizing that any economic recovery for the State of Ohio will depend upon the health of its communities. This theme has been echoed throughout this report. We urge the legislature to not only focus on individual impacts and foreclosure mitigation, but to also recognize the impact on communities, that is, the "spillover effects," and incorporate such acknowledgement in legislation designed to benefit and stabilize both individuals and communities. We recommend that the Ohio legislature utilize this in-depth and specific set of

recommendations written expressly for Ohio legislators on the foreclosure crisis.

We should note that the proposed HB 3, as well as other State initiatives such as the “Save the Dream” program, incorporate some of these recommendations, but as Mallach notes, more can and must be done to stem the tide and provide a full, robust recovery for Ohio.

Ensure Sustainable Credit Ohio must lend its political muscle to the call for federal fair credit, banking and housing reforms. Ohio must also affirmatively promote alternatives to predatory lending across the State -- not just subprime home loans, but payday lending, rent-to-own, and other subprime credit practices.

Neighborhood Revitalization Principles and Strategies Housing mobility alone will not address the challenges facing marginalized populations. In order to grow neighborhoods of opportunity, deliberate efforts must also be made to direct resources and cultivate opportunities in distressed neighborhoods or communities. A balance between in-place strategies (neighborhood and community revitalization) and mobility-based strategies (opportunity -based housing) is needed to make a transformative impact. Neighborhood and community revitalization is an important but challenging goal. Revitalization is a complex, dynamic and long-term challenge. Successfully intervening to bring positive and transformative change to distressed areas requires a long-term commitment, extensive collaboration, in-depth community engagement, a multi-faceted approach and the ability to leverage initiatives with public policy and private dollars. The following strategies should spur and support neighborhood and community revitalization.

Define success before intervening A shared vision of a successful neighborhood or community is needed to convene and effectively engage the various stakeholders. The goal should be focused on promoting sustainable community revitalization, not gentrification, which would displace existing residents. Neighborhoods should be communities of choice and opportunity, accessible to a wide spectrum of residents, and contain the critical opportunities to be livable, healthy and safe. The exact measures for this broad goal will vary by community and should be guided by local residents and stakeholders.

Make equity, “fairness” and inclusion explicit goals Equity, fairness and inclusion must be explicit goals for neighborhood and community revitalization. Without explicitly planning for and maintaining a focus on inclusion in revitalization activities, existing residents could be excluded from the benefits. Revitalization must seek to produce mixed income communities and infuse neighborhoods with a variety of housing options. Efforts should also reinforce existing social networks and organizations in the community, while attempting to connect marginalized and impoverished residents to opportunities.

Adopt a long-term approach Neighborhood distress did not occur quickly in marginalized communities, but represents decades of disinvestment, segregation and decline. Therefore, successful community revitalization will require a long-term approach and strategy. Interventions must give initiatives time to mature. (Grant cycles and planning should recognize this need.)

Adopt a multi-faceted approach A number of impediments and challenges converge to systematically disadvantage urban neighborhoods or neglected rural communities. Efforts to mitigate these challenges must be multi-faceted to address this reality, targeting critical intervention points. For example, targeted revitalization may require intervention and simultaneous support for education, housing and economic development initiatives.

Engage critical stakeholders Universities, urban hospitals and major employers have tremendous resources, influence and linkages to nearby communities. The investment of these partners (and the ability to leverage their considerable assets) can significantly increase the likelihood of successful revitalization effort.

Focus on “turning point” neighborhoods or communities Many communities have resources and attributes which give them great potential for revitalization, where strategically placed investments can effectively spur revitalization. Initiatives to promote revitalization must first target communities who are “on the brink” of revitalizing.⁹²

Bring small success to scale Revitalization strategies should seek out small-scale, successful initiatives and bring these initiatives to scale. Many small-scale interventions have proven locally effective, but are not producing significant results because of their limited scale or scope. An assessment of which potential small-scale models are working within the Foundation’s service area would be useful. Revitalization will require seeking out these potential model initiatives that have the best potential to be brought to scale.

Address specific macro-level issues Supporting initiatives to address systemic problems in marginalized communities can also aid both targeted “turning point” communities and communities who are least likely to redevelop. For example, addressing macro-level issues, such as discriminatory public investment policies, will produce benefits for many communities.

Support establishment of anchor institutions Successful revitalization initiatives often involve anchor developments in the community. Highly visible and targeted investments can spur nearby private investment and provide a positive physical sign of reinvestment to encourage the private sector. Revitalization efforts must seek out these potential highly visible, targeted investments for distressed communities.

Make catalytic investments It is necessary to align actions with public policy, public agencies, non-profits investment and private capital. Community revitalization requires significant capital investment -- public sector or non-profit funds alone will not be sufficient to spur revitalization. Activities must seek out projects and investments that have the potential to attract private investment, be coordinated with large-scale public investments and policy or encourage nearby private investment. The best strategy to promote catalytic investments is to geographically target investments.

Neighborhoods and Economic Empowerment

The past two decades have seen some progress in the overall economic conditions of African Americans in Ohio. The poverty rate in 2007 was slightly less than it was in 1990, and homeownership among Ohio’s African Americans increased 23 percent between 1990 and 2007. The nearly 20 percent increase in African American college graduates, as well as the nearly 60 percent increase in the number of African American-owned businesses, represent obvious successes. While these figures do not signal the end of discrimination or marginalization, they are indicators of improved access to opportunity over time and must continue to be built upon in order to further economic empowerment in Ohio.

However, in spite of these significant steps forward, the poverty rate among Black Ohioans actually increased recently, from 26.5 percent in 2000⁹³ to 30.5 percent in 2007.⁹⁴ This is compounded by the

fact that African American households in Ohio continue to be concentrated in neighborhoods of low opportunity (see Figures 23-28). Endemic and concentrated poverty poses a major obstacle to business development and wealth-building because of reduced property values and the anemic customer base for goods and services. Such an environment also makes credit and business capital difficult to obtain, exacerbating the challenges faced by neighborhood economies. Concentrated poverty neighborhoods often house underperforming schools, making it difficult for students to prepare for the job market, much less become entrepreneurial leaders in the community. Reforming the way that schools are funded, student progress is tracked, and teachers are placed is critical to improving the economic prospects not just for black Ohioans, but for all Ohioans.

Further, the current recession has had a particularly devastating effect on communities of color throughout the State. As detailed in the section on housing, subprime lending and the foreclosure crisis have had a disproportionate impact on communities of color. Nationwide, the recession has eliminated nine percent of the jobs held by Black male workers immediately prior to the recession.⁹⁵ Public service cuts as a result of government revenue being spread thin will potentially disproportionately hurt low-income Black communities as well, making economic empowerment as important as ever for the State of Ohio.

There must now be a renewed emphasis on economic recovery, particularly within marginalized communities. Access to fair housing and good neighborhoods is at the heart of the pernicious cycle of underinvestment and undercapitalization in Ohio's African-American communities. Generational property ownership is key to wealth-building, and blacks have been systematically denied those opportunities throughout American history. For example, African American veterans were specifically excluded from the homeownership opportunities that resulted from the G.I. Bill after World War II due to racially restrictive FHA guidelines. In addition, the history of redlining practices contributed to the difficulty African Americans faced in obtaining good loans with which to purchase homes or start businesses. The current foreclosure crisis stems from a continuation of these principles. African Americans were 30 percent more likely to be steered towards high-cost loan products than their white counterparts, even when controlling for risk factors.⁹⁶ African American communities need better access to sustainable and conventional forms of credit and lending so that they can buy homes, have better educational opportunity, build equity and wealth, and experience economic development.

Challenges to Economic Empowerment

Unemployment and Underemployment Despite gains made during the 1990s, unemployment rates among Black Ohioans increased from 7.5 percent to 11.7 percent between 2000 and 2007⁹⁷. Unemployment at these rates limits upward mobility and entrepreneurship in local economies. Much of the unemployment being experienced by Black Ohioans can be attributed to a lack of healthy educational and workforce development systems, which are necessary for economic growth and prosperity. One interviewee stated the challenge as such:

"It all seems to come back to jobs: the health of the neighborhood, the community, strengthening the center city. A lot of concentrations of African American population are in cities and need to connect to suburbs and the rest of the region. Getting our neighborhoods healthier and providing sound jobs and strengthening the schools is vital. Making sure the services are available to everybody."

Place, Work, and Home Much research has focused on the geographic difference in metropolitan regions between where jobs are being created and where African American communities are located, known as “spatial mismatch.” Recent research indicates that among metro areas over 500,000, Cleveland and Cincinnati ranked 6th and 8th highest in terms of urban sprawl and spatial mismatch, and all the other major metro areas except Akron (Columbus, Dayton, Toledo, and Youngstown) had a higher degree of spatial mismatch than either city, although overall urban sprawl was lower in the latter cities.⁹⁸ This “spatial mismatch” increases the costs for African Americans in their job search efforts, whether in terms of gasoline for those with cars, or in terms of bus fares and travel time for those without – and at least one study indicated that, even in a car-dependent region like Los Angeles, more than half of low-income blacks lack access to an automobile.⁹⁹ In the current fiscal environment, transit authorities across Ohio and across the country are facing service cuts that will limit the already sporadic access to areas where entry-level jobs are available.

Research has also shown that in some cities, although there are in fact jobs in close proximity to where many African Americans live, these jobs are typically the most-competed for jobs and require a college degree or better, whereas nearby African Americans overwhelmingly have a high school degree, GED, or less education.¹⁰⁰

Youth Unemployment Overall participation in the labor force for youth aged 16 to 24 has declined by a third since 1989, the peak year for youth employment according to the Bureau of Labor Statistics, and the rate of decline has accelerated since 2000.¹⁰¹ Black youth employment nationwide is only 20.9 percent, compared to 35.9 percent for white youth, both of which represent 28 percent declines from the year 2000, when the rate for Black youth was 28.9 percent and for white, 49.1 percent.¹⁰² According to the Center for Labor Market Studies, high rates of unemployment for low-income youth decrease the capacity to transition into the labor market in the late teens and early twenties, reducing future wages and earnings potential. Research has also found that employed youth are less likely to drop out of school, get pregnant, or enter the criminal justice system.¹⁰³

One study found that differences in job search methods account for the majority of the difference in employment rates for Black and White youth and virtually all of the difference in the probability of finding a job.¹⁰⁴ Black youth are more likely to put in unsolicited applications without a referral, whereas White youth are more likely to be referred to jobs by friends or relatives. It stands to reason that this is a reflection of differences in job opportunity in the broader labor market; since Black youth are much more concentrated in areas with low job opportunity, they are probably much less likely to interact with people who have access to job opportunities than are White youth.

Education and Preparing for the ‘New Economy’ Educational disparities in our urban communities are limiting the development of Ohio’s workforce to be able to participate in the new economy. The chapter on education in this report thoroughly documents disparities in access to high-quality teachers and schools. High-poverty, low-performance schools experience higher turnover among teachers,¹⁰⁵ and are more likely to have teachers who are not certified in the subject that they are teaching. For example, one study found that one in three Black and Hispanic students were taught by a math teacher who lacked a college major or certification in the subject.¹⁰⁶ The No Child Left Behind law required states to have highly-qualified teachers in all core academic subjects by 2006, but allowed states to set their own standards for what “highly qualified” means. Ohio’s standard does not include those with a Master’s degree, a major with 30 or more hours in the content area or those who qualify through the State’s own HOUSSE (High, Objective, Uniform State Standard of Evaluation) metric!¹⁰⁷ Health and

environmental factors also impinge on the success of African American children. Some interviewees worried that the current budget crisis would only exacerbate these educational disparities:

“The horrible condition of the inner city schools is failing to prepare the kids to succeed in a competitive work environment. State funding has dropped, and remedial programs that offset the ‘deficiencies’ of incoming students are cut.”

The difference in access results in a lower quality of education, which has a direct negative impact on graduation rates in the black community. The black graduation rate in Ohio is 55 percent, compared to 83 percent for white Ohioans.¹⁰⁸ This means that a given African American birth cohort is much less prepared to enter the workforce, not only because they lack the credential of a diploma, but because they lag behind in critical skills. The federal education department released statistics this year that indicate a persistent achievement gap between black and white Ohio eighth graders: a 33-point gap in math scores and a 27-point gap in reading scores, differences that are virtually unchanged from 1990.¹⁰⁹ Without even basic skills, it is difficult for black Ohioans in high-poverty, low-quality schools to gain the skills to participate in the information economy and earn wages that can support families and support wealth-building. One interviewee commented:

“The federal government is going to spend half a trillion on infrastructure. How beneficial will this be to employment in the black community? How many of our men or women are in apprentice programs so they can participate? How many black people in road construction? We need job training and apprenticeship programs in order for communities to take advantage.”

Workforce Development As blue-collar manufacturing jobs have dwindled in the face of a technology-based transition, many African Americans do not have access to the opportunities to step into emerging professions and industry sectors. Research done on workforce development services in Columbus found that service recipients generally found services to be unhelpful¹¹⁰ and that service providers believed they lacked sufficient resources to provide adequate support to targeted populations.¹¹¹

The occupations experiencing the most growth over the next decade are information technology and services, healthcare, and social services,¹¹² and job-training programs are increasingly oriented toward these fields. However, anecdotal evidence suggests that those entering the workforce at entry-level positions in the current recession, who are disproportionately African Americans and other minorities, are losing their jobs at faster rates than the white population.¹¹³ As a result, the income gains that some studies indicate result from job training have disappeared for many in low- to moderate-income communities. In addition, because the labor market is slack, employers are less likely to hire applicants who are viewed as having barriers such as being welfare recipients or ex-offenders, or who are viewed as having low attachment to the labor force, as many participants in job training programs are.¹¹⁴ Therefore, low- to moderate-income African Americans have a difficult time acquiring the job experience and necessary skills to participate in the New Economy.

Social Capital and the Informal Job Market Research suggests that forty to fifty percent of all jobs are found through friends and relatives.¹¹⁵ The spatial mismatch between African Americans and jobs means that not only are they disconnected from jobs by spatial barriers, but they also are less likely to come into contact with people who can connect them to those jobs. In addition, the jobs that they are connected to tend to be lower-skilled, entry-level jobs similar to the ones that people in their social networks have, which reinforces their socioeconomic status. This type of social structure may leave them less aware of the variety of opportunities available to them. For example, a young woman may be made aware of the opportunity to take a year-long program to become a medical assistant by friends

with that position, a job which yields a salary of approximately \$30,000 per year on average,¹¹⁶ but be unaware of the opportunity to take a similar 18-month program to secure a bachelor's degree in nursing which would gain earnings potential as high as \$70,000 per year.¹¹⁷

Prisoner Re-entry Despite the availability of cost-free fidelity bonding (insurance against employee theft and dishonesty) for businesses that hire ex-offenders, research indicates that businesses are more resistant to hiring ex-offenders than any other disadvantaged group.¹¹⁸ This has a disproportionate impact on the African American community because African American men in Ohio are *eight times* as likely to be incarcerated as white men,¹¹⁹ and black men are the majority of incarcerated fathers in the Ohio correctional system.¹²⁰ According to at least one study, the persistent lack of economic opportunity for ex-offenders is a key contributor to recidivism, at least for older workers, and therefore places the communities they return to at higher risk for criminal activity.¹²¹ Since ex-offenders are less likely to be employed, their families experience more economic insecurity, which is a major indicator for low educational achievement among children,¹²² meaning that it is a contributing factor to children growing up unprepared to enter the job market.

African American Business Development

Growth and Opportunity The amount of African American-owned businesses in Ohio grew dramatically between 1992 and 2002, from 22,690 to 35,658, a rate more than double the growth rate of all businesses in Ohio during the same period; however, gross receipts for African American-owned businesses declined 8.8 percent between 1997 and 2002, while receipts for all firms increased 12.4 percent (see Figure 1). Firms with employees (as opposed to those that only employ the owner) accounted for about 1 in 10 Black-owned firms (compared to roughly 1 in 4 of all firms) and employed approximately 30,000 people in 2002, although this represented a slight decline from 1997. About a quarter of those firms were in health care and social services, while only 2.4 percent were in education and one percent was in information technology (see Figure 2). Recall that information technology and health care have been identified as the fastest growing sectors of the economy.

Overall, African Americans are underrepresented as business owners in every sector of the economy except for health care and social services, where the proportion of business owned by African-Americans is nearly the same as their proportion in the population (see Figure 2). Since African Americans in Ohio are overwhelmingly urban, lack of representation in forestry, mining and agriculture is not an unexpected result. However, they are also most severely underrepresented as owners in manufacturing, construction, and wholesale trade, where they comprise less than two percent of business owners (see Figure 2). These capital-intensive industries present a high hurdle because of the lack of wealth in the African American community, caused by factors described earlier.

Nationwide, African Americans are fifty percent more likely to try to start a business than whites, and the gap in likelihood increases as African Americans become more educated: those with graduate training are twice as likely as whites with similar training to be involved in starting a business.¹²³ As one interviewee noted:

“A lot of African Americans are interested in entrepreneurship, in building enhanced, larger businesses. And the African American community supports each other – you want the best lawyer, but if you can find an African American one, even better. Wealth generation within can help us and the state economy as a whole...We need more bookstores, eye doctors, dentists, in our communities. We need access to capital, information, funds. Neighborhoods are full of people who want to

contribute and see things happen, who have business savvy. They just need help taking an idea through the implementation phase.”

Thus, it is not desire or motivation that hinders African American business ownership. Other factors have to be considered and are discussed subsequently in this section.

	1992		1997		2002	
	AA firms	All firms	AA firms	All firms	AA firms	All firms
Total number of firms	22690	666183	26970	781284	35658	817693
Sales and receipts (\$M)	n/a	n/a	3947	796506	3600.4	894945.5
Number of firms with employees	2328	114987	3486	202528	3143	201515
Sales and receipts for firms with employees	n/a	n/a	3499.5	775731.5	2981.8	870605.5
Number of employees	n/a	n/a	32719	4647653	29996	4707283

Figure 1: Total numbers of all firms and Black firms in Ohio, 1992-2002

Industry	# of AA businesses	% of AA business in industry	# of businesses overall	% of businesses in industry	AA business as % of industry
Forestry, fishing, hunting and agricultural support	10	0.0%	5469	0.7%	0.2%
Mining	16	0.0%	4020	0.5%	0.4%
Utilities	23	0.1%	551	0.1%	4.2%
Construction	2218	6.2%	108732	13.2%	2.0%
Manufacturing	339	1.0%	27518	3.4%	1.2%
Wholesale trade	388	1.1%	26084	3.2%	1.5%
Retail trade	2690	7.5%	99374	12.1%	2.7%
Transportation and warehousing	2287	6.4%	39065	4.8%	5.9%
Information	359	1.0%	9099	1.1%	3.9%
Finance and insurance	735	2.1%	31479	3.8%	2.3%
Real estate rental and leasing	1871	5.2%	76424	9.3%	2.4%
Professional, scientific, and technical services	3210	9.0%	104354	12.7%	3.1%
Management of companies and enterprises	12	0.0%	1378	0.2%	0.9%
Administrative and support and waste management and remediation services	3705	10.4%	57259	7.0%	6.5%
Educational services	871	2.4%	15002	1.8%	5.8%
Health care and social assistance	8833	24.8%	70619	8.6%	12.5%
Arts, entertainment and recreation	1569	4.4%	32038	3.9%	4.9%
Accommodation and food services	899	2.5%	23746	2.9%	3.8%
Other services (except public administration)	5621	15.8%	88649	10.8%	6.3%
TOTALS	35656	100.0%	820860	100.0%	4.3%

Figure 2: Distribution of Black firms and all firms in Ohio by industry sector¹²⁵

Networking and Regional Economy Research suggests that African Americans are less likely to have a parent or relative who is self-employed.¹²⁶ Since patterns of residential and school segregation also limit African American access to white business owners, a reasonable inference is that this lack of access to models of entrepreneurship diminishes the amount of information they have about how to run successful businesses, as well as critical mentorship relationships and information about the business climate in general. According to a report on minority business development in the Cleveland area, there are “natural opportunities” for non-minorities to form mentor-protégé relationships with older generation business owners within their families and among family friends. Such relationships expose entrepreneurs to knowledge of how to manage every aspect of running a business, and eases access to venture capitalists, bankers, and others who can support their business development.¹²⁷

As a result of all these contributing factors, despite the fact that African Americans are 12.2 percent of Ohio’s population, only 4.3 percent of all firms are black-owned, and they account for only 0.4 percent

of sales and receipts for all firms. The numbers are even bleaker for businesses with employees, where African Americans account for only 1.5 percent of all firms and 0.3 percent of sales and receipts (see Figure 1).

Technical assistance organizations are intended to step into this gap, but one interviewee noted that these organizations do not seem to be effective:

“We have to give real technical assistance to minority businesses. Right now at a minority business center, someone helps you write a “business plan.” Great. It’s something on paper, you take it to the bank, and get the money, and then you don’t know what the hell to do. How do you set up a cash register, what documentation do you keep every day? Most small minority business owners I know literally have a shoe-box of receipts that they take to the tax person at the end of the year. They have a hand-written register. They don’t have a machine register with a memory. They don’t have a computer. They don’t have those tools and it puts them at a disadvantage for growth.”

Similarly, a report on minority business in Cleveland indicated that these organizations are inconsistent, unaccountable, and stretch themselves beyond technical capacity due to “turf wars.”¹²⁸

Credit and Business Investment Another factor limiting the growth and success of African American business is that the average African American household has one-tenth the wealth of the average white household.¹²⁹ This means that black entrepreneurs not only have fewer indigenous assets with which they can launch a business, they have fewer assets to present as collateral when interacting with the formal banking sector.

In the Caribbean, West Africa, and Asia, rotating credit and savings institutions known as *susus* (Ghana, Nigeria, the Caribbean), *tontines* (Cameroon, Senegal), and *bishi* (India) provide capital by pooling resources among community members and distributing large sums at regular intervals to individuals that they can use for business, education, or other purposes.¹³⁰ The African American community had similar structures, known as mutual aid societies, during the nineteenth century,¹³¹ which later evolved into insurance companies that declined after the end of Jim Crow.¹³² The resulting lack of community financing – necessitating the use of white-owned institutions – thus becomes a major barrier to entrepreneurship.

Research has identified persistent systemic racism in the financial sector, with Black and Hispanic applicants facing significantly higher loan denial rates than white men or women.¹³³ When they do receive loans, they pay more for credit than other groups even when differences in firm and personal characteristics are taken into account.¹³⁴ This results in a much slower growth curve for African American businesses: for example, a study of minority business development in Cleveland showed that minority business enterprises take at least two-and-a-half years longer to reach the ten-employee level than businesses overall.¹³⁵ This is a challenge that African Americans have faced for generations, and it continues to prevent sustainable economic development in Black communities throughout the State. In order to foster economic growth in these communities, Black business owners must be connected to more venture capital and other business financing opportunities.

Government Contracting and Procurement According to a March article in *The Columbus Dispatch*, the State of Ohio has been extremely deficient in meeting its procurement goals for minority business contracting. Since 1980, the State has had a goal of setting aside 15 percent of its contracts for bidding by minority businesses, yet only 3 percent of State business was with minority businesses by 2008.¹³⁶

The State also established the EDGE program to purchase 5 percent of its goods and services from disadvantaged businesses, but only 2 percent of purchases went to these types of businesses.¹³⁷ Research indicates that minority set-aside programs may have had a positive effect on the growth of black self-employment in sectors that are the focus of set-aside programs, but that they have a mixed record on the long-term survival of these companies.¹³⁸ More problematically, research indicates that young MBEs that primarily rely on government contracts have a higher rate of failure than comparable white-owned firms, possibly due to larger black companies serving as “fronts” for white businesses and smaller black businesses being given contracts they lack the capacity to handle.¹³⁹

Recommendations and Opportunities for Continued Economic Empowerment

Although African American communities throughout Ohio share uniquely difficult and multi-layered challenges to accessing opportunity, there are strengths that can be leveraged, even in the midst of a recession. The Kirwan Institute offers the following recommendations in order to spur economic growth and stability among all segments of Ohio’s African American population.

- *Capitalize on the investment potential of the American Recovery and Reinvestment Act.*
- *Empower the statewide stimulus “czar,” Ronald B. Richard of the Cleveland Foundation, to track existing (formula-based) spending, advocate for sustainable investments in undercapitalized communities and people, liaise among state, local and advocacy groups, and require data on minority business enterprises in contracting.*
- *Revamp the statewide transparency and accountability website (<http://recovery.ohio.gov/>) so that publicly accessible reporting on the Ohio stimulus spending has a particular emphasis on tracking minority and disadvantaged business procurement.*
- *Connect stimulus investment and job creation to local workforce development programs and encourage local hiring.*
- *Get underserved populations “in the pipeline” for construction jobs, a huge initial proportion of stimulus job creation, by targeting a proportion of new workforce/job training funds to neighborhoods of concentrated poverty, align training activities with economic growth sectors or job opportunities supported by stimulus policies and other state policies.*
- *Capitalize on and connect minority businesses throughout the state*
- *The State of Ohio is not reaching minority business procurement goals, with a recent 2009 evaluation finding that just 3 percent of State contracts went to minority businesses, significantly lower than the 15 percent goal set forth by the State. The State must expand its efforts to procure to minority firms, including proactive marketing to minority firms and provide incentives for contractors to subcontract to minority firms.*
- *Sponsor MBE partnerships with Ohio’s business schools and community colleges.*
- *Increase low-cost business loan funds to ease minority businesses through the “credit crunch” brought on by recession (through existing loan and bond programs via the MCBACs).*
- *Provide subsidies or tax incentives for private companies who consistently work with MBE suppliers.*
- *Recognize outstanding private companies through an awards luncheon to market the program.*
- *Work with Chambers of Commerce to increase networking opportunities for minority business owners through awards dinners and social events, formal mentoring programs that match established business owners with minority business owners, and workshops and trade fairs.*
- *Connect workers and minority businesses to growing areas in the economy & foster inclusive and equitable regional economic development*

- *Offer increased scholarship funding to minority students who major in STEM and healthcare fields.*
- *Host a business fair designed to showcase emerging sectors and bring together businesses and suppliers in those fields. This event(s) can be used to help minority businesses network and learn about bid projects/contracts.*
- *Incentivize minority businesses to explore economic opportunities in emerging sectors and public policy efforts.*
- *Sponsor education and training to MBEs in Ohio's emerging sectors and industries in which minorities are underrepresented (i.e., ramp up existing Minority Business Development Organization capacity). Partner with local universities, colleges, and businesses to provide the content knowledge.*
- *Provide equity capital for minority firms in emerging sectors and industries, including infrastructure, education, green energy, and science and technology (i.e., encourage minority venture capital for, or suppliers to, firms in polymers; biotechnology; agricultural engineering; aviation; etc.).*
-

Many African Americans in Ohio now have a greater access to opportunity than previous generations, and many have achieved new levels of economic success. Yet, there is still a need to continue improving our social and economic systems and the access to opportunity for marginalized communities. Recent setbacks in the economy have brought these needs into focus once more, and the implementation of the above recommendations will help all of Ohio's communities continue to move forward. Improving access to economic opportunity for African Americans will increase Ohio's gross state product, which will improve Ohio's budget outlook over the long term and make it a more attractive place to do business overall.