DRIVERS OF WEALTH

2023

STATE OF HISPANIC WEALTH REPORT

HISPANIC WEALTH PROJECT

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Established in 2012, the American Center for Economic Advancement, dba the Hispanic Wealth Project™, is a non-profit charitable organization whose mission is to advance sustainable Hispanic homeownership through engagement in strategic efforts focused on Hispanic workforce participation in housing, small business development, and wealth building.

The National Association of Hispanic Real Estate Professionals® (NAHREP®) is a non-profit trade association founded in 1999. The association has a network of 40,000 real estate professionals and 100+ chapters that include real estate agents, brokers, mortgage professionals, and settlement service providers. NAHREP's mission is to advance sustainable Hispanic homeownership in America by educating and empowering real estate professionals who serve Hispanic homebuyers and sellers, advocating for policy that supports the organization's mission, and facilitating relationships between industry stakeholders and housing professionals.

The State of Hispanic Wealth Report is a publication of both NAHREP® and the Hispanic Wealth Project™.

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EXECUTIVE SUMMARY

The Hispanic Wealth Project (HWP) was established in 2014 to financially and educationally empower the Hispanic community in America. At its founding, the HWP set the goal of tripling Hispanic household wealth by 2024, and we are quickly nearing that target. In 2013, Latino[a] families had a median net worth of $15,200.[1] By 2019, that had more than doubled, rising to $36,100. The wealth gap between Hispanics and non-Hispanic whites is narrowing, but remains considerable. In 2019, non-Hispanic whites had a median net worth of $189,100, more than five times that of Hispanic households. However, Hispanics are the youngest demographic by far and, when controlling for age, the Hispanic wealth gap decreases substantially.

To guide progress towards the objective of tripling Hispanic household wealth, the HWP established three component goals: achieving a Hispanic homeownership rate of 50 percent or greater, increasing the number of Hispanic-owned employer businesses[b] to 400,000 or greater, and raising the percentage of Hispanics who own retirement accounts to 37 percent or greater. These component goals correspond to three pillars of wealth: homeownership, business ownership, and financial assets.

This report, part one of a two-part series, considers how each of these three pillars drive the accumulation of wealth. Homeownership, business ownership, and financial assets all impact how individuals and families build wealth and have potential "multiplier" effects on net worth. Prior to diving into the relationship between the three pillars and net worth, we consider how age and education influence income and wealth. We then explore the correlations between homeownership, business ownership, and financial assets on household wealth. Part two of this report, which will be released in late fall 2023, will analyze updated household wealth data from the Federal Reserve, further considering where the Hispanic community stands in relation to the HWP goals and examining impacts of the COVID-19 pandemic on Latino net worth.

Age is highly consequential to wealth; as individuals age, earnings rise and assets have more time to appreciate. Education is also highly correlated with income; in 2019, Latinos with a college degree had a median income 79.5 percent greater that of those without.[2] In addition, education is important to wealth as it provides exposure to wealth building principles, including a better understanding of homeownership, business ownership, and financial assets.

Home equity has always been the primary source of wealth for American families, and the correlation between homeownership and net worth is staggering: Latinos who own a home have a median net worth that is, on average, 27.4 times that of renters. The connection between homeownership and wealth is especially consequential for Latinos, who hold 54.1 percent of their total wealth in real estate. The Urban Institute estimates that 70 percent of homeownership growth in America over the next 20 years will come from Hispanic homebuyers.[3] However, the current housing inventory and affordability crisis has created substantial barriers to homeownership. Concrete steps can be taken to increase Hispanic homeownership, including improving access to mortgage credit, increasing housing inventory and improving Hispanic participation in the real estate and mortgage industries. Americans have long considered homeownership the key to the middle class, and it is true that homeownership is the most significant factor in determining net worth. There is a limit, however, to how much equity a property can accrue. Therefore, while homeownership is the key to the middle class, other factors, including business ownership and financial investments, are essential to affluence.

Business ownership is another significant driver of wealth. Latinos are starting businesses at almost twice the rate of their non-Hispanic white counterparts, and Latino-owned employer firms are growing their revenue and number of employees more quickly.[4] There are now more than 375,000 Latino-owned employer businesses in the U.S. Self-employed Hispanic households[c] have, on average, 5 times the median net worth of households that are employed by others. However, the large majority of Hispanic-owned businesses are very small. This is partially due to limited access to business loans and investment capital, which

[a] The terms "Hispanic" and "Latino" are used interchangeably throughout this report to refer to people of Mexican, Puerto Rican, Cuban, Central American South American, Dominican, and Spanish descent and those descending from other Spanish-speaking countries.

[b] Employer businesses are those businesses with at least one employee other than the owner.

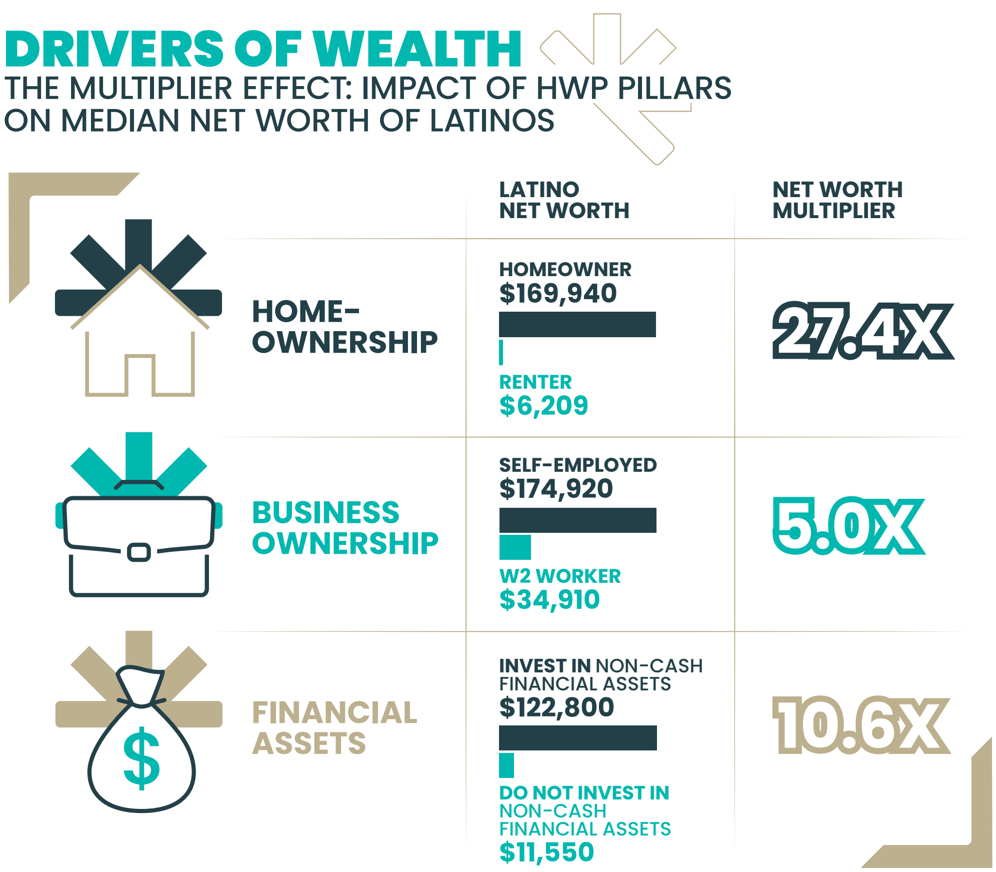
[c] Self-employed households are those in which the "reference person" in the family (the Primary Economic Unit (PEU)) is self-employed. The Federal Reserve determines the reference person using the following methodology: "if a couple is economically dominant in the PEU, the reference person is the male in a mixed-sex couple or the older person in a same-sex couple. If a single person is economically dominant, that person is designated as the family reference person in this report. Note that the term 'reference person' is a new descriptor as of the 2019 survey, replacing the outdated 'household head' terminology used in previous surveys" (Federal Reserve, 2020, https://www.federalreserve.gov/publications/2020-bulletin-changes-in-us-family-finances-from-2016-to-2019.htm).

remains a challenge for Latino entrepreneurs. Studies show that Latino-led start-ups received only 2 percent of all venture capital invested in 2021.[5] A dramatic increase in the amount of capital invested in Latino-led businesses along with improved access to mentorship and government and corporate contracting opportunities will substantially increase Hispanic wealth and, according to the Stanford Latino Entrepreneurship Initiative, add 5.3 million new jobs and $1.5 trillion to the U.S. economy.[6]

Diversification of assets is critical to wealth building, and in addition to non-financial assets like home and business equity, financial assets are also highly correlated with net worth. Latino families who own non-cash financial assets, such as stocks, bonds, and retirement accounts, have a median net worth that is, on average, 10.6 times that of families who do not. Currently, however, only 41.5 percent of Hispanic households invest in any form of non-cash financial asset, and only 25.5 percent own a retirement account. Outreach by U.S. financial service providers to Hispanic communities, a reimagination of traditional financial services in more culturally relevant ways, and an increased awareness of the importance of asset diversification will collectively help shift the Latino community's understanding of and investment in financial assets.

The data presented in this report attest to the importance of three pillars – homeownership, business ownership, and financial assets – for building wealth. Each of these assets appreciates over time, thereby driving the accumulation of wealth. There are also important relationships between homeownership, business ownership, and financial assets, and money invested in non-cash assets has the potential to appreciate far more rapidly than that held as cash. Understanding each pillar and implementing recommendations formulated on the basis of this knowledge will accelerate wealth building in the Latino community.

In 2021, the Hispanic community in the U.S. contributed $3.2 trillion to the American economy.[7] Latinos are just beginning to age into their prime earning and investing years, and as they continue to age and become more educated, their economic impact will undoubtedly grow. Supporting the growth of Hispanic wealth will ensure both the financial stability of Hispanic individuals and families and the greater prosperity of the U.S. economy.



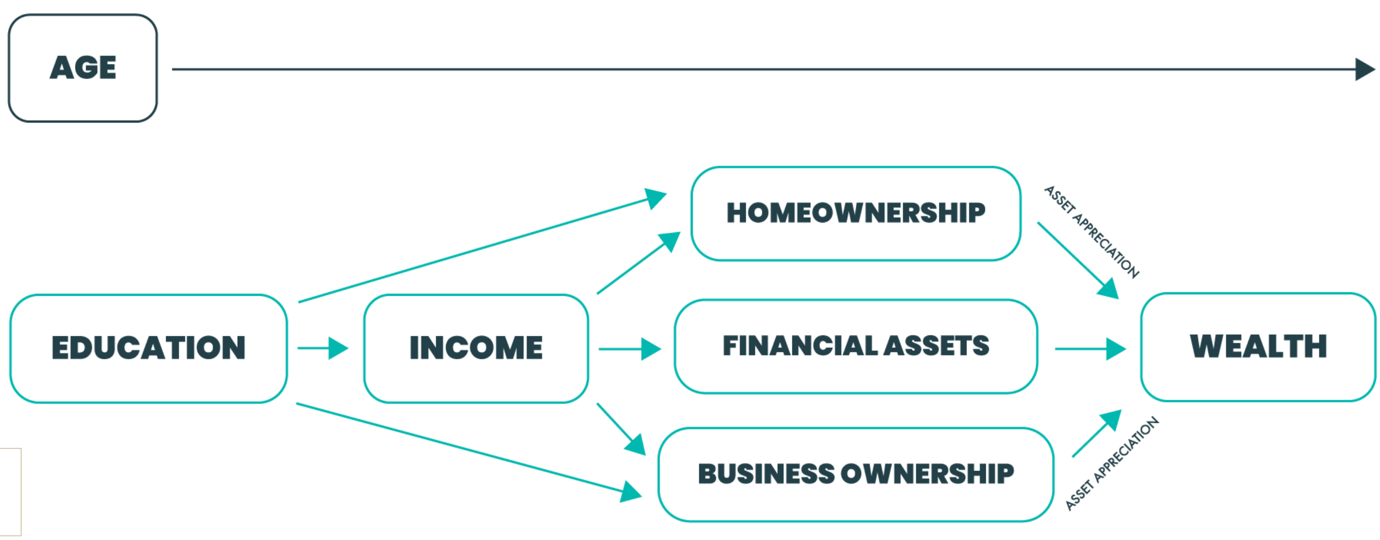
SOURCE: FEDERAL RESERVE, SURVEY OF CONSUMER FINANCES (2019 INFLATION-ADJUSTED DOLLARS) ANALYZED IN PARTNERSHIP WITH POLYGON RESEARCH.

INTRODUCTION

In 2014, the National Association of Hispanic Real Estate Professionals (NAHREP®) established the Hispanic Wealth Project™ (HWP), an initiative born in the wake of the Great Recession, when Latinos lost up to two-thirds of their median household wealth. It was then that the organization set the ambitious goal to triple Hispanic household wealth by 2024. The HWP produced a blueprint outlining three primary areas of focus, along with a series of targeted component goals for building wealth: increasing homeownership, scaling small businesses, and diversifying investments.

As we near the end of that ten-year goal, it is important to consider where Latinos stand in regard to wealth building and identify key drivers of wealth while considering the factors that influence the achievement of these goals. The HWP has identified three areas of focus: homeownership, business ownership, and financial assets. These pillars drive the accumulation of wealth, creating opportunities, and advancing timelines to help families reach their financial goals.

This report is part one of a two-part series and considers how each of these three pillars relates to household wealth. Prior to diving into the relationship between the three pillars and net worth, we consider how age and education influence income and wealth. We then explore the relationships between homeownership, business ownership, and financial assets and net worth. Part two of this report, which will be released in late fall 2023, will analyze updated household wealth data, further consider where the Hispanic community stands in relation to the HWP goals, and examine impacts of the COVID-19 pandemic on Latino net worth.



THE ROLE OF AGE: EARNINGS RISE AND ASSETS APPRECIATE OVER TIME

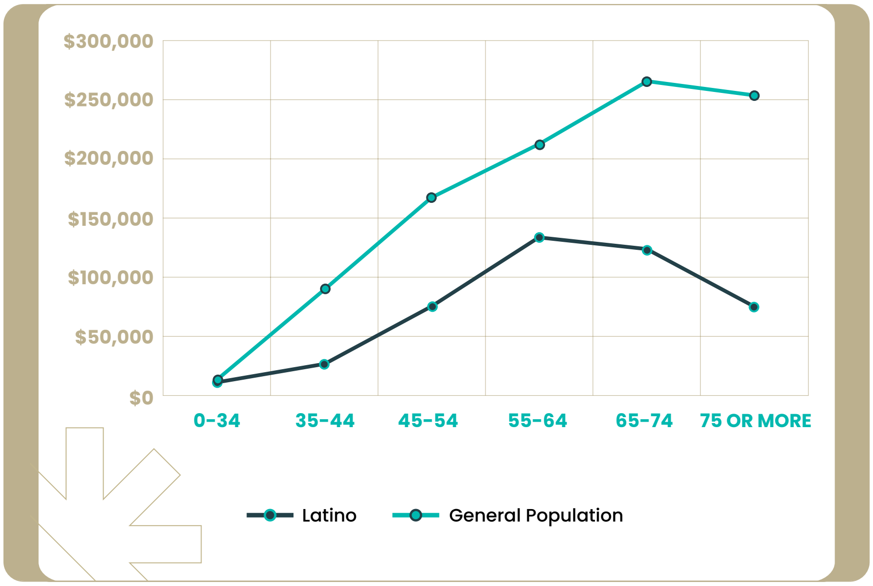
Age has a massive impact on wealth; across all demographic groups, net worth increases with age. As individuals age, earnings rise and assets have more time to appreciate. Data demonstrate that net worth increases rapidly after the age of 35, and income typically peaks between the ages of 35 and 54 before falling again in later working years and retirement.[8] Higher earnings, of course, translate to more money available to save and invest.

The wealth gap between Latinos and the overall population can be partially attributed to age, as Latinos are by far the youngest racial or ethnic group in the U.S. with a median age of 30 — a full 8 years younger than the general population.[9] Given that wealth accumulates with age and the fact that the Latino community is much younger than the general population, it is unsurprising that this community also has less wealth.

AGE IS A FACTOR IN THE RACIAL WAGE GAP

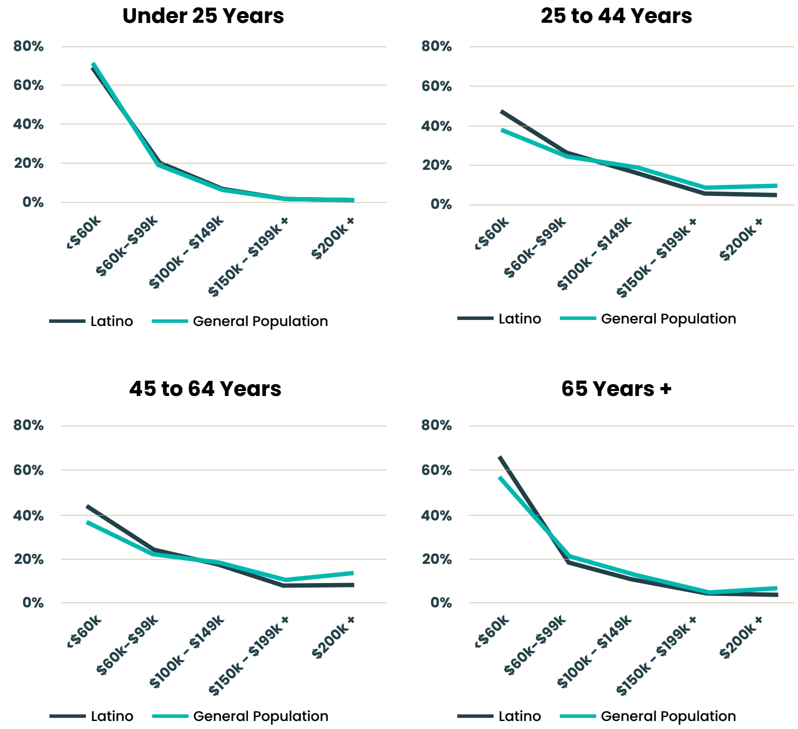
While it does not completely account for income gaps, the relative youth of Latinos does play a role in household income trends. Nearly a decade younger than the general population, Latino heads of households tend to be earlier in their career, thus earning less than their non-Latino counterparts. When controlling for age, the gaps between Latinos and the general population shrink significantly. This is particularly true for younger households. For households where the reference person is under the age of 25, the share of earnings in each of the associated income brackets is almost identical. As households start to age into their prime earning years,

MEDIAN NET WORTH BY AGE
FOR LATINOS AND THE GENERAL POPULATION



SOURCE: FEDERAL RESERVE, SURVEY OF CONSUMER FINANCES (2019 INFLATION-ADJUSTED DOLLARS) ANALYZED IN PARTNERSHIP WITH POLYGON RESEARCH.

SHARE OF HOUSEHOLDS
BY HOUSEHOLD INCOME AND AGE OF HOUSEHOLDER



SOURCE: U.S. CENSUS BUREAU (2021). AMERICAN COMMUNITY SURVEY: 2021 ACS 1-YEAR ESTIMATES: B19037 AND B19037I: AGE OF HOUSEHOLDER BY HOUSING INCOME IN THE PAST 12 MONTHS (IN 2021 INFLATION-ADJUSTED DOLLARS).

between 25 and 64, larger discrepancies exist, especially at the top and bottom of the income scales — those earning less than $60,000 and those earning more than $150,000.[10]

YOUNG AMERICANS TODAY HAVE SIGNIFICANTLY LESS WEALTH THAN PRIOR GENERATIONS DID AT THE SAME AGE

While historical trends pertaining to the connection between age and wealth continue to hold true, several factors are changing how younger generations accumulate wealth. The Generational Wealth Gap references the fact that younger Americans (Millennials and Gen Z) have significantly less wealth than Gen Xers and Baby Boomers did at the same age.

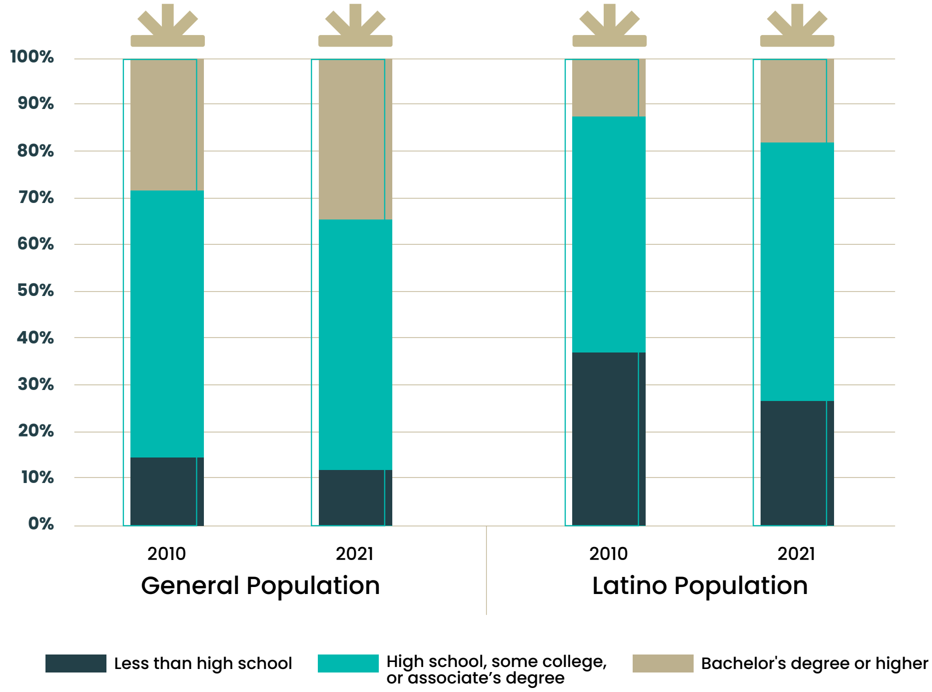
In an inflation-adjusted analysis conducted by the Federal Reserve Bank of St. Louis, Gen X held, on average, 46 percent more wealth than Millennials at the age of 34, while Baby Boomers' net worth was more than 38 percent higher.[11] As nearly two-thirds of Latinos in the U.S. are Millennials or younger, Latinos are disproportionately impacted by the Generational Wealth Gap. There are a number of macroeconomic factors that contribute to younger Americans having significantly less wealth than prior generations did in young adulthood, including having less accessible home-ownership opportunities and the increased cost of education coupled with the lower financial return of a college degree.

THE ROLE OF EDUCATION: HIGHER INCOME AND INCREASED EXPOSURE TO WEALTH BUILDING PRINCIPLES

Over the last decade, Latinos have made incredible strides in educational attainment. Since 2010, the share of Latinos with a bachelor's degree or higher has increased by more than 50 percent, far outpacing other demographic groups.[12] However, the Latino community still lags behind the general population in the attainment of high school diplomas and bachelor's degrees.

In addition to marking educational progress, increased participation in higher education has significant implications for income and, therefore, wealth building in the Latino community. Educational attainment is very closely linked to income – the more education an individual has, the higher their income is likely to be. In 2019, Latinos with a college degree had a median income 79.5 percent greater that of those without a degree ($70,000 and $38,000, respectively).[13]

EDUCATIONAL ATTAINMENT OF LATINOS AND THE GENERAL POPULATION



SOURCE: U.S. CENSUS BUREAU. AMERICAN COMMUNITY SURVEY: 2010 AND 2021 ACS 1-YEAR ESTIMATES: S1501: EDUCATIONAL ATTAINMENT AND B15002I: SEX BY EDUCATIONAL ATTAINMENT FOR THE POPULATION 25 YEARS AND OVER (HISPANIC OR LATINO).

THE VALUE OF A COLLEGE DEGREE HAS HAD A LOWER IMPACT ON WEALTH IN RECENT YEARS, BUT REMAINS SIGNIFICANT

While Latinos are becoming more educated, the value of a college degree is changing for all Americans. The gap between the net worth of college-educated households and those without degrees is gradually shrinking. Between 2013 and 2019, those Latino families without a college degree saw their net worth increase 65.6 percent. In contrast, the net worth of those Latino families with college degrees saw their net worth increase only 5.7 percent.[14] In this sense, the financial return of a college degree, in comparison to a high school diploma, is smaller for younger generations than previous college graduates, which may be partially due to the increased cost of education and proliferation of student loans. Yet while the relationship between education and wealth has slightly weakened in recent years, a college education still provides a massive financial advantage.

In addition to having significantly higher incomes, employees with college degrees are more likely to have access to other employer-sponsored methods of wealth building, including retirement plans.[15] When considering jobs created since the Great Recession, a study found that nearly all new jobs in the upper third of median wages went to college graduates, and most had employer-provided health insurance (68 percent) and retirement plans (61 percent).[16] Another study found that of American employees nearing retirement age (those 55 and up), those with a college degree were far more likely to participate in a retirement plan at their current job.[17]

HOMEOWNERSHIP

Homeownership is the largest contributor to net worth, surpassing both business ownership and financial assets. In 2019, the median net worth of a homeowner in the United States was more than 40 times that of a renter.[18] Latino homeowners have a net worth roughly 27.7 times greater than renters.

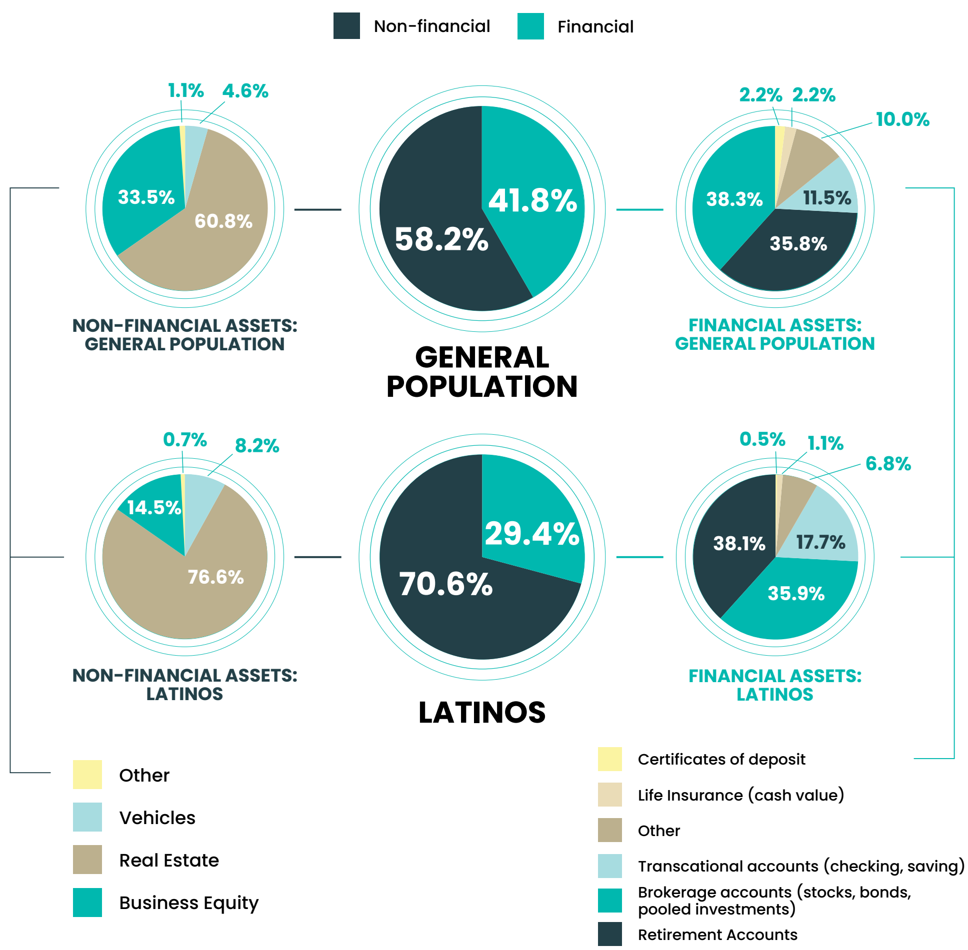
While homeownership is the greatest factor, length of ownership also plays a role. Latinos are, in large part, younger than the general population, and the community has a high proportion of new homeowners. Though it is difficult to estimate length of homeownership, we can assume that the relative youth of Latinos means they have owned property for less time and, therefore, have had less time to accrue equity.

Home equity has always been the primary source of wealth for American families. Primary residences account for 45 percent of all non-financial asset value in the United States. When considering all forms of real estate, including investment and non-residential property, that figure jumps to 60.8 percent.[19] This is even more true for Latino families, who hold a significantly smaller portion of their wealth as financial assets, instead choosing to invest heavily in non-financial assets, particularly real estate. In terms of non-financial assets, Latinos' portfolios are actually becoming less diverse. In 2013, Latinos held 69 percent of all non-financial assets, or 48.7 percent of all wealth, in real estate. By 2019, that had increased to 76.6 percent of all non-financial assets or 54.1 percent of total wealth.[20] For the general population, real estate accounts for just over one-third of total net worth.

Hispanic households are also increasingly using real estate as a form of investment, though the percentage remains small. 4.5 percent of Latinos were invested in non-residential real estate in 2019, up from 3.8 percent in 2013. This is not necessarily negative, but it is important to understand the role of diversification of assets for a healthy portfolio.

FINANCIAL AND NON-FINANCIAL ASSETS

AS PERCENTAGE OF TOTAL WEALTH FOR LATINOS AND THE GENERAL POPULATION



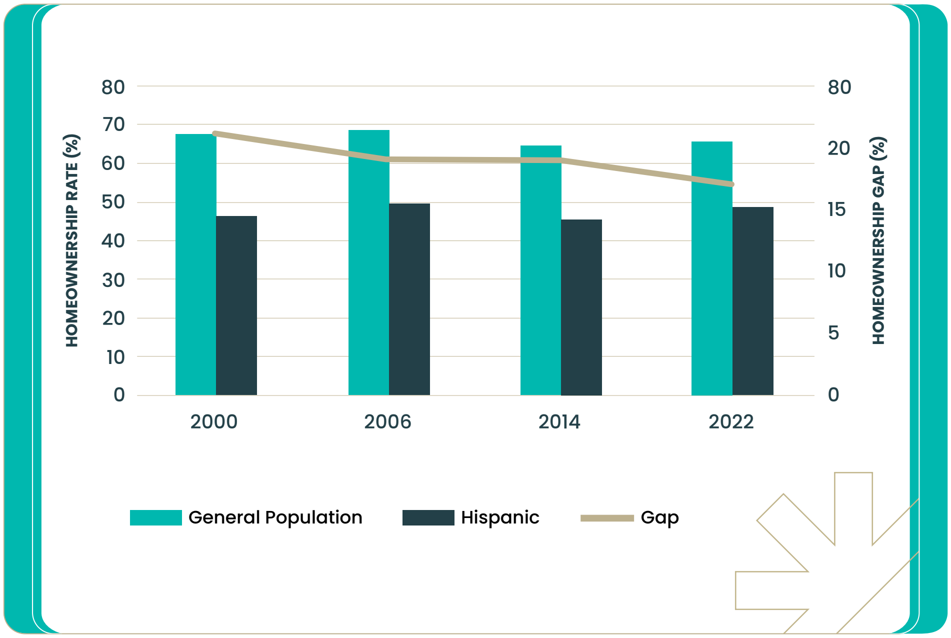
SOURCE: FEDERAL RESERVE, SURVEY OF CONSUMER FINANCES (2019). ANALYZED IN PARTNERSHIP WITH POLYGON RESEARCH.

DIVERSIFICATION IS CRITICAL TO BUILDING WEALTH

Diversification of assets is a key principle in wealth building and refers to the practice of distributing investments across a number of asset categories in hopes of reducing risk and increasing returns. In terms of risk reduction, diversification is vital because of the noncorrelation between different types of investments. That is, factors that may cause one type of investment to perform poorly may result in growth for others. If a portfolio is adequately diversified, growth across some assets will compensate for losses across others. For example, if an individual experiences a significant loss in business equity, having wealth invested in real estate or various financial assets can temper the financial blow. It should be noted that lack of diversification is a primary reason the Hispanic community was so economically devasted by the housing crisis and Great Recession as the community holds such a significant percentage of wealth as real estate.

Diversification within asset categories is also important and is most commonly discussed in relation to financial assets like cash, stocks, and bonds. Here too, diversification is an important principle for deciding how to allocate investments. Recent trends provide evidence for this: though many financial assets depreciated in 2022, a recent Morning Star report found that more diversified portfolios performed better than a basic 60/40 portfolio made up of U.S. stocks and investment-grade bonds.[21]

THE HISPANIC HOMEOWNERSHIP GAP IS SHRINKING BUT REMAINS SIGNIFICANT



SOURCE: U.S. CENSUS BUREAU (2023). CURRENT POPULATION SURVEY/HOUSING VACANCY SURVEY. TABLE 6: HOMEOWNERSHIP RATES BY RACE AND ETHNICITY.

ADDRESSING A PERSISTENT HOMEOWNERSHIP GAP

Over the last several decades, housing advocates have made concerted efforts to close the homeownership gap for Latinos and other communities of color. From a percentage standpoint, it may seem little progress has been made: the Hispanic homeownership rate was 48.6 percent in 2022, up from 46.1 percent in 2013.[22] Yet, those percentages are somewhat misleading. Since 2000, the number of Latino homeowners has more than doubled, with an increase of 4.9 million net new owner households. Yet because the Latino population is growing so rapidly, this only translates to a 2.3 percent increase in the Latino homeownership rate. While the homeownership gap between Latinos and the general population has narrowed by 4.0 percent in the last 20 years, nearly half of that progress can be attributed to a decline in overall homeownership. This trend is likely to continue. The Urban Institute predicts that the overall homeownership rate will continue to decline and estimates it will reach 62.2 percent by 2040. Latinos, however, are the only demographic group projected to increase their homeownership rate during this time.[23]

Hispanic homeownership rates reached a peak of 49.7 percent in 2006 and 2007, just before the Great Recession. Unfortunately, the housing crisis then forced these rates down. As a result of the crisis, new home construction slowed dramatically and has yet to fully recover. During the pre-crisis peak of 2006, nearly 2 million housing units were completed, but by 2011, that number dropped to fewer than 600,000 units, a 70 percent drop from 2006 figures.[24] Even today, new home construction is down 30 percent from pre-crisis highs, despite a national net increase of 17.9 million households between 2006 and 2022 — a growth rate of 16 percent.[21] The inability of new construction to keep pace with demand has pushed up home prices, building massive equity for existing homebuyers while pushing homeownership out of reach for many potential first-time buyers.

In the context of homeownership and particularly the homeownership gap, it is once again critical to note the youth of the Hispanic community. In 2022, the National Association of REALTORS® estimated that first-time homebuyers had a median age of 36.[25] With a median age of 30, Latinos are only beginning to age into their prime homebuying years. Meanwhile, the homeownership rate for non-Hispanic whites is actually decreasing. As this trend continues and the Hispanic community continues to age, the homeownership gap will surely narrow.

HOME VALUES HAVE INCREASED DRAMATICALLY IN RECENT DECADES

While homeownership has long been the primary way American families build wealth, wealth building through home equity has accelerated over the past decade. The average home value in the United States has more than doubled since the end of the Great Recession, rising steadily year over year and reaching a record high of $338,368.30 in 2022.[27] The rise in home values has been particularly sharp in the last three years following the onset of the COVID-19 pandemic. Between 2020 and 2022 alone, average home values rose by 33.8 percent.[28] For existing homeowners, this translated into a massive gain in home equity.

While the rise in home equity is a net-worth boost for existing homeowners, it simultaneously raises the barrier of entry for first-time homebuyers. Considering Latino homeownership rates are just shy of 50 percent, most Latino families have not benefitted from rising home values, and decreasing affordability is making homeownership less attainable for new homebuyers.

LATINOS ARE CONCENTRATED IN HIGHER-COST HOUSING AREAS

While rising home prices are a national phenomenon, real estate is primarily driven by local economies. Most Latinos are generally concentrated in states with higher housing costs with the largest Latino populations found in California, Texas, Florida, and New York.[29] California is home to one in four Latinos.[30] It boasts by far the largest Latino population in the country at 15.7 million, making up 40 percent of the state's total population. But California is also home to some of the highest-cost markets. According to CoreLogic, it is home to nine of the ten most expensive housing markets in the United States with median home prices ranging between $704,000 and $1.4 million.[31]

Texas, historically known to be more affordable, is also seeing home prices rise quickly. Over the last five years, the median property value for a home financed in Texas has risen by $110,000, an increase of over 30 percent.[32] Likewise, housing affordability in Florida and New York is challenging. In November of 2022, Florida saw the highest year-over-year home price appreciation of any state at 18.0 percent, even after rising interest rates tempered the market.[33] New York, which is home to the fourth-largest Latino population in the U.S., has the second-lowest Latino homeownership rate in the country at 28.6 percent.[34] Meanwhile, significant increases in Hispanic homeownership have occurred in non-traditional markets like Poughkeepsie, NY, which saw a 39 percent increase in Latino homeowners between 2020 and 2021. The number of Latino homeowners in the Portland, OR-Vancouver, WA and Baltimore, MD metro areas, also non-traditional markets for Latinos, grew significantly in that year as well, each increasing 20 percent.

ADDRESSING BARRIERS TO ADVANCING SUSTAINABLE LATINO HOMEOWNERSHIP

Despite a record-breaking affordability crisis and an industry that is not yet fully equipped to service diverse customers, Hispanic homeownership has continued to outpace the overall market. To advance the Hispanic Wealth Project's goal of a 50 percent homeownership rate by 2024, there are several areas that must be addressed.

1. Improve access to mortgage credit: Financial incentives for mortgage companies who want to lend more to Hispanic borrowers are lacking. Government-controlled secondary mortgage market providers must develop products more relevant to Hispanic homebuyers while providing financial incentives to lenders that outperform the market in lending to first-time buyers in Hispanic/minority census tracks.

2. Improve housing affordability by increasing housing supply: The Fair Housing Act made the explicit segregation of communities by race illegal. However, zoning laws are still able to segregate communities – if not by race, then by wealth. Housing affordability, which is greatly influenced by housing supply, is the most significant barrier to minority homeownership, and no issue is a greater deterrent to increasing housing supply than restrictive zoning laws.

3. Close knowledge gaps by increasing access to housing counseling: Purchasing a home is complex and intimidating, especially for first-time buyers. Research shows that non-profit housing counseling is highly effective in preparing buyers to purchase and sustain their first home.

4. Diversity in the real estate and mortgage industries: The overwhelming majority of new homebuyers over the next twenty years will be Hispanic. Access to a real estate professional with the cultural competence to help prospective buyers navigate the process is invaluable.

BUSINESS OWNERSHIP

According to the Survey of Consumer Finances, self-employed Latino households have 5 times the median net worth of non-self-employed households.[35] Business ownership is not as impactful as other wealth drivers analyzed in this report, since the net worth among self-employed households is growing at a slower rate than the non-self-employed. Yet self-employment does provide a significant boost in household wealth.

LATINOS HAVE THE HIGHEST RATE OF ENTREPRENEURSHIP AMONG ALL RACIAL AND ETHNIC GROUPS

Latinos are historically entrepreneurial, and over the last two decades, Latino-owned businesses have been the fastest-growing business segment. According to the Kauffman Early-Stage Entrepreneurship (KESE) Index, Latinos have had the highest rate of entrepreneurship every year since 2002.[36] It is estimated that there are nearly 5 million Latino-owned businesses in the U.S. today, generating over $800 billion in economic output annually.[37] While the number of Latino-owned businesses is quite large, the vast majority of Latino business owners are solo-prenuers, those who own businesses with no employees.

While the Hispanic Wealth Project has included entrepreneurship as a pillar within wealth building, business ownership is not always an indicator of a positive financial trajectory. In some cases, business ownership is born out of financial necessity - either because adequate employment is not available or supplemental income is needed. Smaller businesses without employees and/or sellable assets have a lower impact on wealth building through business equity. For that reason, the HWP has created component goals around employer firms, or businesses with at least one employee. Employer businesses have a much larger impact on household wealth than non-employer firms.

Between 2010 and 2019, the median net worth for self-employed Latino households increased by 53.0 percent. While this growth is significant, the median net worth for Latino households working for someone else increased by 81.0 percent — an even larger gain. Comparatively, in that same time period, the general population saw lower outside growth in the net worth of non-self-employed households at 13.3 percent for the self-employed and 38.9 percent for those working for someone else.[38]

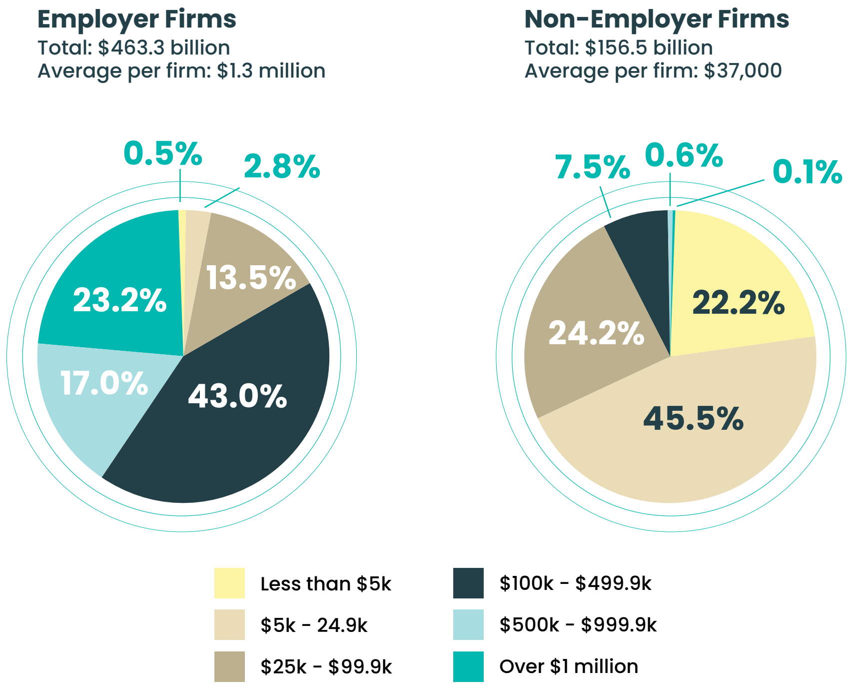
BUSINESS EQUITY REPRESENTS A SMALLER SHARE OF NON-FINANCIAL ASSETS FOR LATINO HOUSEHOLDS THAN OTHER GROUPS

Since the majority of Latino-owned businesses are small, they tend to have fewer assets that can be liquidated and thus lower overall business equity, contributing to a smaller share of Latino household wealth. For the general population, business equity represents 34 percent of non-financial assets, the second-largest share (following equity in a primary residence at 45 percent). For Latino households, business equity makes up only 14.5 percent of non-financial assets or about one out of every seven dollars of nonfinancial assets.[39]

Given the small size of most Latino-owned businesses, it is not surprising that Latino households hold a smaller share of their non-financial assets in business equity. In 2019, there were 4.2 million Latino-owned non-employer businesses with an average sales revenue of $37,000 per firm; 82.9 percent of these businesses had annual revenues under $50,000 per year.[40]

Employer businesses generate significantly more revenue, garnering much more business equity. Latino-owned businesses with employees had an average annual revenue of $1.3 million per firm, while 83.2 percent had annual revenues of at least $100,000 per year. On the high end, nearly a quarter (23.2 percent) of Latino-owned employer firms are scaled (earning at least $1 million in annual revenues) compared to just 0.1 percent of Latino-owned non-employer firms.[41]

ANNUAL REVENUE OF LATINO EMPLOYER AND NON-EMPLOYER FIRMS



SOURCE: U.S. CENSUS BUREAU NONEMPLOYER STATISTICS BY DEMOGRAPHICS SERIES (NES-D): STATISTICS FOR EMPLOYER AND NONEMPLOYER FIRMS BY INDUSTRY, SEX, ETHNICITY, RACE, AND VETERAN STATUS FOR THE U.S., STATES, AND METRO AREAS: 2019.

LATINO-OWNED EMPLOYER BUSINESSES ARE GROWING AT A FASTER RATE

The growth rate for Latino-owned employer businesses is far outpacing that of the general population, which has been largely stagnant in recent years. According to the U.S. Census Bureau, as of 2020 (the most recent available data), there are over 375,000 Latino-owned employer businesses, a year-over-year increase of 8.2 percent.[42] Comparatively, employer firms overall grew by 0.1 percent, while the number of non-Hispanic-owned firms decreased. Employer businesses owned by Latinas also experienced significant growth, 11.2 percent, accounting for 34.8 percent of the growth in female-owned employer businesses overall.[43] Given the link between employer businesses and wealth, this trend is extremely promising.

Beyond generating wealth for owners, Latino-owned businesses are generating significant economic output for employees through annual payrolls. Since 2017 when the U.S. Census Bureau's Annual Business Survey was launched, Latino-owned employer businesses have more than doubled their number of employees to 2.9 million people, with an annual payroll of $105.6 billion. Employer firms owned by Latinas employ 692,000 people with an annual payroll of $22.5 billion.[44]

ACCESS TO CAPITAL REMAINS A CHALLENGE FOR LATINO-OWNED BUSINESSES

Limited access to capital is one of the reasons that Latino-owned businesses tend to stay small. The vast majority of Latino-owned employer businesses (91.6 percent) require capital at start-up, but only 11.4 percent of these secure a business loan from a bank or financial institution, the lowest rate of any racial or ethnic group. Other forms of capital can also be challenging to secure. A study found that less than 1 percent of the $487 billion invested by the top 500 venture capital and private equity deals in 2020 went to Latino-owned businesses.[45] Instead, the majority of Latino business owners (72.0 percent) tap into their personal or family savings to fund their businesses at start-up.[46]

Latino-owned businesses are not only less likely to secure financing to start their business, they also receive fewer government and corporate contracts, slowing revenue growth. The contracts they do secure also tend to be lower in value and take longer to secure. According to the Stanford Latino Entrepreneurship Initiative, state and federal contracts secured by non-Hispanic businesses are, on average, more than 30 times larger than those secured by Latino-owned businesses, and corporate contracts are 3.4 times larger.[47]

ADDRESSING BARRIERS TO CAPITAL WILL ADVANCE THE U.S. ECONOMY

A primary goal of the HWP, removing barriers to capital should also be a priority for both advocates and business leaders. Not only would increasing capital flow to the Latino business community allow Latino entrepreneurs to generate more wealth, it would also benefit the American economy at large.

According to an analysis conducted by McKinsey & Company, improving access to capital and Latino representation in business growth sectors would result in a net increase of $2.3 trillion in economic output, 750,000 new employer firms, and more than six million new jobs.[48] There is no question that addressing barriers to capital is in the best interest of the nation.

To advance the HWP's goals to improve access to capital and increase the number of Latino-owned employer firms to 400,000 or more, advocates and members of the business community should focus on several priorities, including:

1. Substantially increase capital investment in Latino-led businesses, including small business loans and equity investments.

2. Facilitate access to mentorship and increase access to accelerator and incubator programs.

3. Increase government and corporate supplier opportunities for Hispanic-owned and -led businesses

4. Improve Hispanic participation in the business lending industry.

FINANCIAL ASSETS

To understand the impact of the diversification of financial assets on wealth, we considered the net worth of families with and without any form of non-cash financial asset, which includes all financial assets with the exception of transactional accounts (e.g., checking and saving accounts, money market accounts, etc.). The correlation is substantial: Latino families who own non-cash financial assets have a median net worth that is, on average, 10.6 times that of families who do not.[49]

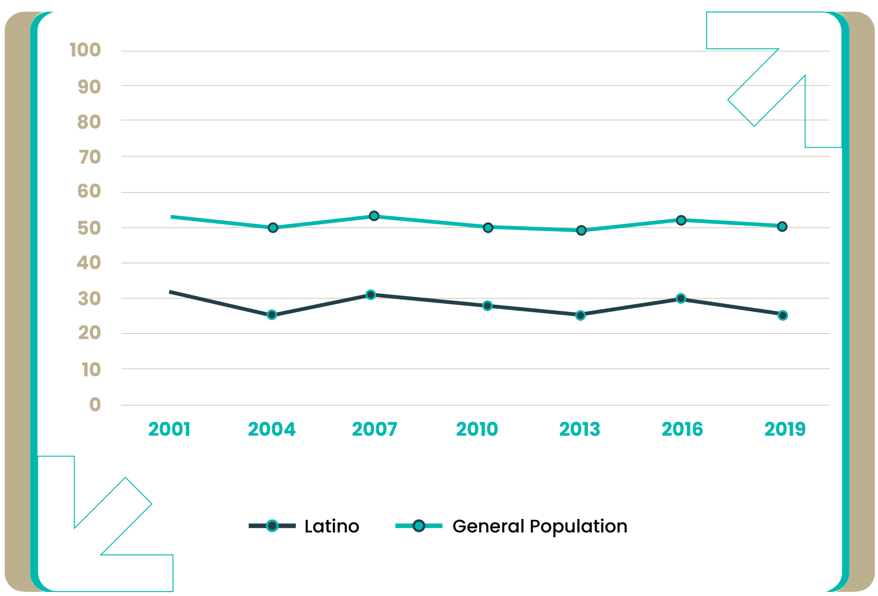
FEWER THAN HALF OF HISPANIC HOUSEHOLDS CURRENTLY INVEST IN NON-CASH FINANCIAL ASSETS

Despite the significant correlation between financial assets and wealth, fewer than half of Latinos (41.5 percent) hold any of these assets, in comparison to two thirds of the general population (66 percent).[50] Furthermore, the non-cash financial assets of those Hispanic families who do hold them are less diversified. The Federal Reserve's Survey of Consumer Finances collects data on nine different types of non-cash financial assets: certificates of deposit, savings bonds, directly-held bonds, stocks, pooled investment funds (e.g., mutual funds), retirement accounts, the cash value of life insurance, other managed assets (e.g., annuities and trusts), and other miscellaneous financial assets. Hispanic households underinvest in financial assets so significantly, however, that the percentage of families holding them can only be estimated for four of the nine categories: stocks, retirement accounts, the cash value of life insurance, and other miscellaneous financial assets.[51] For example, so few Latino families invest in pooled investment funds that the number is not statistically meaningful.

In fact, Latinos are the least likely of any racial or ethnic group to hold financial assets in each of the nine categories reported by the Federal Reserve, with the sharpest disparities across retirement and brokerage accounts and life insurance holdings. In 2019, only 25.5 percent of Latino families owned a retirement account, compared to 50.5 percent of the general population.[52] Not only do fewer Latinos hold non-cash financial assets, but they also invest a lower percentage of their total wealth in this way. While the general population holds 37 percent of total wealth in non-cash financial assets, Latinos hold only 24.2 percent of total wealth as such.[53]

The relationship between assets and net worth is not equal across financial asset categories. For example, the net worth of those Latino families with life insurance policies is, on average, 3.4 times greater than those without.[54] In contrast, those few Latino families who invest in pooled investment funds (mutual funds, etc.) have a median net worth that is, on average, 26.4 times that of families who do not invest in this asset category.[55] Yet, almost no Hispanic households invest money in this way. This is not to say families should exclusively invest in pooled investments, but a testament to the importance of diversification. Investing in a wide array of non-cash financial assets helps to both reduce risk and increase returns.

PERCENTAGE OF HISPANIC HOUSEHOLDS AND THE GENERAL POPULATION WHO OWN A RETIREMENT ACCOUNT



SOURCE: FEDERAL RESERVE, SURVEY OF CONSUMER FINANCES (2019).

THERE IS SUBSTANTIAL ROOM FOR GROWTH OF LATINO INVESTMENT IN NON-CASH FINANCIAL ASSETS, BUT PROGRESS IS BEING MADE

As part of the HWP's plan to triple Hispanic household wealth by 2024, the Project set the goal of increasing by 25 percent the number of Hispanic households owning non-cash financial assets (e.g., stocks, bonds, mutual funds, 401k accounts). Though we have not yet met that goal, progress is being made. In 2013, 38.8 percent of Latino households invested in these non-cash assets.[56] By 2019, that had risen to 41.5 percent. While this change may seem small, it is evidence that the Latino community is moving in the right direction in regards to financial investments.

There is, however, little change across financial asset categories. In 2013, 25.1 percent of Hispanic households held retirement accounts, and, in 2014, the HWP set the specific goal of raising the percentage to 37 percent. Yet, by 2019, that number had only risen to 25.5 percent.[57] While the percentage of Latinos who invest in stocks nearly doubled between 2013 and 2019, the original number of Hispanic households with stocks was so small that the increase only resulted in a total of 4.3 percent of Latinos investing in stocks.[58] Furthermore, the percentage of Latinos who hold life insurance policies has actually decreased slightly, at 5.8 percent in 2019, down from 6.1 percent in 2013.[59]

HOMEOWNERSHIP, BUSINESS OWNERSHIP, AND FINANCIAL ASSETS SUPPORT ONE ANOTHER

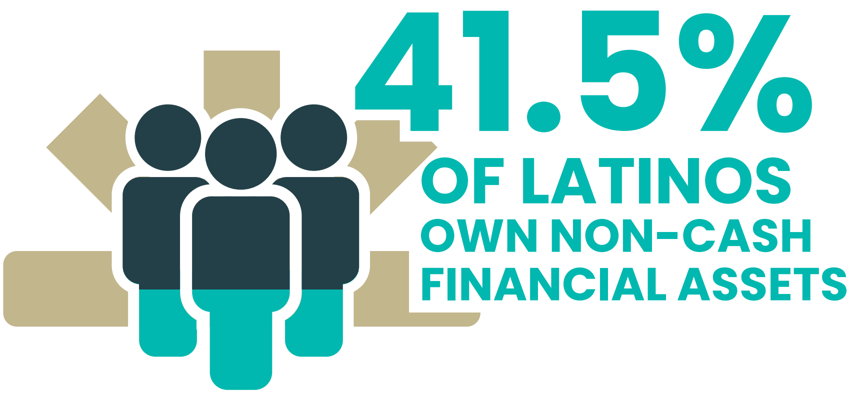
Of course, assets do not exist in isolation from each other. There are important relationships between homeownership, business ownership, and financial assets. For example, financial assets facilitate the initial purchase of a home both in terms down payments and mortgage qualification. Financial assets, particularly easily liquidated assets like stocks, can also be used to provide small businesses with start-up capital. And, entrepreneurial homeowners can borrow against their home equity to start a business.

Furthermore, it is important to recognize that money invested in stocks and bonds has the potential to appreciate far more rapidly than that held in transactional accounts (e.g., checking and savings accounts). Those with diverse financial assets, then, will be better positioned to more quickly buy a home or start a business because their money has grown more significantly.

ADDRESSING BARRIERS TO HISPANIC INVESTMENT IN NON-CASH FINANCIAL ASSETS

To address the HWP's goal of increasing Hispanic investment in non-cash financial assets and overall diversification of assets, advocates and members of the business community should:

1. Encourage outreach by U.S. financial service providers to Hispanic communities.
2. Reimagine the delivery of traditional financial services in contexts and through programs that align with the cultural, geographic, employment and transactional patterns of Hispanic households.
3. Promote education in Hispanic communities to increase awareness of asset diversification and investment options, including participation in employer-sponsored 401(k) programs.



SOURCE: FEDERAL RESERVE, SURVEY OF CONSUMER FINANCES (2019). ANALYZED IN PARTNERSHIP WITH POLYGON RESEARCH.

CONCLUSION

The economic power of the Hispanic community in the U.S. is indisputable. In 2021, the economic output, or gross domestic product (GDP), of U.S. Latinos was $3.2 trillion dollars.[60] If U.S. Latinos were an independent country, they would have the third fastest growing GDP in the world, while the U.S. economy overall would rank fifth.

As the youngest racial or ethnic group in the U.S., the majority of Latinos are only now aging into their prime earning years. These young adults have set their sights on wealth building goals, including purchasing homes, starting businesses, and investing in various financial assets. As the cornerstone of wealth for most American families, homeownership is crucial to advancing the economic stance of the Hispanic community, but increasing homeownership rates among Latinos is also critical to the contemporary economy. The Urban Institute predicts that Latinos are the only racial or ethnic group that will increase homeownership rates between 2020 and 2040, while the rate for all other groups and Americans overall will decline.[61] In fact, 70 percent of new homeowners during this time period are expected to be Hispanic. To support this growth, business communities and advocates should improve access to mortgage credit to Latinos, increase housing supply, expand access to housing counseling for the Hispanic community, and diversify the real estate and mortgage industries to reflect this new homebuyer population.

The Hispanic community also strengthens the economy through business ownership and growth. Latinos start businesses at nearly twice the rate of their non-Hispanic white counterparts, and Latino-owned businesses have outpaced the revenue and payroll growth of white-owned businesses and American businesses at large.[62] In addition to increasing capital investment in and government and corporate supplier opportunities for Latino-owned businesses, facilitating access to mentorship and improving Hispanic participation in business lending will support the establishment and growth of both Latino-owned businesses and the American economy at large.

Latinos invest heavily in real estate and are highly entrepreneurial. Yet, the Hispanic community as a whole has not yet tapped into the wealth building power of non-cash financial assets. Promoting education around diversification and investment opportunities is critical to building Hispanic wealth. The appreciation of financial assets creates opportunities and advances timelines to help families reach their financial goals like buying a home or starting a business. Financial service providers should encourage outreach to Hispanic communities and reimagine the delivery of their services in culturally relevant ways. Diversification will both grow Latino wealth and help protect Hispanic households from the possibility of future financial shock.

Latinos are currently the second largest racial or ethnic group in the U.S., and the Census Bureau predicts that between 2020 and 2060, the Hispanic community will account for 68 percent of population growth.[63] As the population grows, so too does Latinos' economic power. The Hispanic community is also expected to make up 64.8 percent of labor force growth in the next ten years.[64] American economic prosperity, then, is directly tied to the prosperity of Latinos, and supporting the growth of Hispanic wealth is in the interest of all Americans and the U.S. economy.

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