ial system, minorities turn to new products
man,’ Sherman says

Minority Americans are turning to so-called decentralized financial products like cryptocurrency as a central part of their financial lives following decades of distrust in traditional banks.

About 23 percent of Black and 17 percent of Hispanic Americans own cryptocurrency compared to 11 percent of whites, according to two Harris Poll-USA Today surveys of more than 2,000 U.S. adults in June and July.
Decentralized finance, or DeFi, is the term for financial products that are available on a public network that has no single authority or organization overseeing it. There are no intermediaries such as banks involved in transactions and no credit checks. The category includes cryptocurrency as well as investments in digital assets created from photos or artwork.

Advocates of DeFi say it will benefit people left behind by the financial system, while others decry the risks.

[Treasury pushes global crypto data-sharing rules in budget bill]

"The minorities that are in cryptocurrency, we’ve gotten to a place where we are willing to take a risk on technology and we’re taking technology over the actual system," said Joshua "Tipz" Richardson, CEO of New Black Wall Street LLC.

Richardson launched the organization a year ago to teach financial literacy to Black Americans. The organization hosts weekly Zoom seminars on topics such as money management, real estate and cryptocurrency. There are 348 members in its community on the messaging app Telegram and about 71 percent of those are interested in cryptocurrency, Richardson said.

"We feel finance is changing right before our eyes and it’s actually giving us a chance to participate in this wealth transfer," he said. "We’re in love with the idea of being in control for once."

For decades Black Americans have faced evolving forms of discrimination.

One complaint is that federal housing and social policies worked against them.

The government would not guarantee home loans for African Americans, said Donald Cravins Jr., chief operating officer at National Urban League, during a House Financial Services subcommittee hearing on economic and racial justice in the financial services industry in June.

"As a result of these and other discriminatory practices, African Americans were unable to establish housing equity which makes up about two-thirds of median household wealth," Cravins said. "These practices locked out most African American families and created permanent wealth disparities."

Black-owned firms were the most likely group to be turned down for credit cards, according to Federal Reserve data from 2012 to 2017. Fewer than half of Black-owned firms’ applications for bank financing were fully funded, the data show.

Decentralized lending systems allow people to deposit bitcoin and receive a loan within minutes, Richardson said. Users can connect their digital "wallets" to such lending platforms, with the cryptocurrency acting as collateral. No credit checks or screenings are needed.

**A new demographic**
Investors in cryptocurrency are different from those investing in stocks and bonds in that they’re younger, include Latinos or Blacks, and less likely to want a broker or other financial expert, said Campbell Harvey, a finance professor at Duke University’s Fuqua School of Business.

"This idea of bypassing the traditional financial institutions is quite intriguing for a segment of the population that’s largely not welcome in our traditional centralized finance," Harvey said.

Tony Delgado, founder of Puerto Rico bailed Latino Wall Street, a financial literacy platform, said the COVID-19 pandemic has accelerated Latino Americans’ interest in cryptocurrency.

"Traditionally, it’s definitely been a white guy’s game with investing in general and now crypto too," Delgado said. "A lot of the early players were not Black and Latino for sure. So with this recent surge during COVID, there has definitely been a surge in the minority community wanting to get involved and they want to get their piece of the pie. They don’t want to be left behind."

He said more than 100,000 people take classes through Latino Wall Street and its videos on social media have more than 10 million views.

The shift to cryptocurrency, however, is also a shift to a riskier form of money, as there is often no remedy if money is stolen or lost.

"If this happened in the real finance industry, you could take people to court, you could call the sheriff and have them placed under arrest, but typically you can’t even identify the people behind these platforms," said David Yermack, finance professor at New York University’s Stern School of Business.

No one should be investing money in crypto they can’t afford to lose, said Yermack, who doesn’t own cryptocurrency.

Sen. Elizabeth Warren, D-Mass., said in an email to CQ Roll Call that the banking system has cut out too many Americans for too long, but cryptocurrencies aren’t the solution that promoters claim they are.

"With no cop on the beat, this unregulated market draws in scammers promising massive returns," said Warren, a member of the Senate Banking Committee.

Rep. Brad Sherman, D-Calif., chairman of House Financial Services’ Investor Protection, Entrepreneurship and Capital Markets Subcommittee, said low wages drive people outside the traditional financial system. As for DeFi, Sherman noted that a cryptocurrency trading platform like Coinbase is bigger than 90 percent of the banks in the country.
Coinbase’s total assets were $15.79 billion according to a quarterly filing in June with the Securities and Exchange Commission. Using Federal Reserve data on 2,108 banks’ consolidated assets as a comparison, the crypto exchange would rank 108th.

Payby Corp., a financial technology company focused on the empowerment of the people of color, is exploring non-fungible tokens and cryptocurrency investing as alternative means of finance for clients. NFTs, a type of DeFi, are digital assets that can’t be replicated and represent things such as art and music.

Payby was founded in August 2020 in the wake of the murder of George Floyd by a Minneapolis police officer. CEO and founder Hassan Miah said the Black-owned company has a mobile-only banking app that offers checking and savings accounts.

Minorities are looking for financial services they can trust, Miah said. They are open to new financial products that appear to offer freedom and equal access and cryptocurrency seems to do that, he said.
"But like anything, minorities are careful and still need to build trust as history shows many new promising developments do not meet expectations," he said. "It is why institutions need to focus on quality and building trust."
Wyden wants tweaks to infrastructure bill’s cryptocurrency rules

Futures product to test Wall Street taste for cryptocurrencies