

Banks shown to still offer Black entrepreneurs inferior loans, service even when they are better qualified than peers

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Nearly a decade ago, researchers from Brigham Young University, Utah State University and Rutgers [published a disheartening study](#) revealing

how discrimination in bank loan services was tainting the American Dream for minority entrepreneurs.

Unfortunately, even in 2023, not much has changed. A newly published paper from this core group of authors finds banks still offer Black customers inferior loan products and service, even when those Black customers have objectively stronger financial profiles and FICO scores than white customers.

"Even though a lot of time has passed and a lot of reckoning has taken place in society, we are still seeing the same discrimination patterns we've seen in the past," said study co-author Glenn Christensen, a professor in the BYU Marriott School of Business. "It hasn't changed, it hasn't ameliorated, and it's still a problem."

But there is a silver lining to the new *Journal of Marketing Research* paper: while the onus is unequivocally on the [financial institutions](#) to eliminate discrimination, the study identifies specific empowering approaches minority [small business owners](#) can use to signal a level of sophistication to secure business loans more regularly.

"Individuals may be totally oblivious that they are being treated differently," said study co-author Sterling Bone, a professor of marketing at USU's Huntsman School of Business. "We don't want to pass the burden to the consumer, but we find there are ways to turn off the bias."

To assess the continued [racial bias](#) found in financial lending institutions—and to ultimately discover mitigation strategies—the researchers carried out three field studies:

- Study 1: Twelve Black and 12 white testers visited 52 bank branches in the Atlanta metro area over a four-month window as

potential customers seeking loans for [small businesses](#). The testers were given business profiles strong enough to easily qualify for a loan, with Black testers given better profiles (greater business income, more years in operation, more money in the bank and higher credit scores). Despite having better financial profiles, Black testers were offered a business line of credit (BLOC) significantly less often than white testers.

- Study 2: Black and white testers were given either a high or low socioeconomic profile and instructed to inquire about small business loans with banks in the Washington, D.C., metro area over a six-week period. Researchers found that white customers with low socioeconomic profiles were treated significantly more favorably than their Black counterparts with the same profile. However, the study also showed that Black testers with high socioeconomic profiles received similar treatment as their white counterparts.
- Study 3: Researchers surveyed 266 small business owners across the country to see how the structures of their companies (e.g., sole proprietorship vs. LLC) impacted their loan approvals. They found loan approvals for Black-owned sole proprietorships were less than half that of white-owned sole proprietorships. However, when Black entrepreneurs' business structures were joint proprietorships or partnerships, the racial bias on loan approvals was mitigated. Additionally, when Black entrepreneurs had LLC, S corps or C corps, the racial bias was reversed: 75% of Black owners had loans approved, as opposed to 42% of white owners.

"There are still problems we need to root out; banks need to recognize the bias that exists," Bone said. "But there is some hope, as we are seeing ways to empower consumers with interventions to improve the situation from their end. There are little extra steps to signal you are more

legitimate and sophisticated than what might be perceived."

Christensen said one specific step small business owners can do is spend \$45 to register their company as an LLC, which potential lenders see as an outside indicator of sophistication. He added that the study findings suggest minority business owners with high FICO scores should be sure to make that clear up front when they are seeking a loan.

"Everyone should tell their very best story," Christensen said. "The data backs that up: if minority loan seekers can manage the moment, the outcome will be more favorable."

More critically, the researchers call on financial services executives to acknowledge they have work to do and take action to pre-empt employee biases. The study's authors suggest firms develop policies to ensure loan product options are uniformly offered to all customers and require at least two employees to independently evaluate each loan application. Furthermore, firms can increase internal compliance with legal frameworks, deliberately design more inclusive products and use self-service technology to reduce bias, researchers said.

Finally, the study suggests policymakers step up in specific ways as well by creating standardized small business lending forms, funding programs that provide technical assistance and education for minority-owned [business](#), and increasing oversight and enforcement.

"The bias training at banks is simply not working," Bone said. "It's time to do something different."

More information: Maura L. Scott et al, EXPRESS: Revealing and Mitigating Racial Bias and Discrimination in Financial Services, *Journal of Marketing Research* (2023). [DOI: 10.1177/00222437231176470](https://doi.org/10.1177/00222437231176470)

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