

USU Research Shows Discrimination in Small Business Lending Practices

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Utah State University research showing that minority and women applicants seeking small business loans receive poorer treatment and more scrutiny from bank lending officers was presented at a Consumer Financial Protection Bureau (CFPB) symposium on Nov. 6, in Washington, D.C.

The symposium provided a public forum for the CFPB to hear perspectives on small business lending as it pertains to Section 1071 of the Dodd-Frank Act, which requires the collection and reporting of small business lending data, including the race and gender of the small business owner.

“Small business financing is a \$1.4 trillion market, according to estimates by the CFPB,” said Sterling Bone, Associate Professor of Marketing at Utah State University’s Jon M. Huntsman School of Business. “Because of discriminatory customer service, banks are leaving money on the table instead of lending to minority and women small business owners who are very well qualified.”

Done in partnership with the National Community Reinvestment Coalition (NCRC), Bone and his colleagues, which include Jerome Williams of Rutgers University and Glenn Christensen of Brigham Young University, have studied 10 years of data on the financial lending landscape for minorities and women. The research, which has been published in the [Journal of Public Policy & Marketing](#) and [Journal of Consumer Research](#), was also presented in written and oral testimony in a [congressional hearing](#) of the U.S. House of Representatives’ Financial Services Committee in September.

The researchers used publicly available data on small business lending to analyze bank lending practices from 2008 to 2016. They also used mystery shoppers who met with bank lending officers – controlling for factors such as gender, credit scores, dress, age and physical features – to examine differences in the customer service experiences for potential borrowers of different races. Some of the findings which were included in a recent [NCRC white paper](#) show the disparity in lending and customer service practices, such as:

There are tremendous gaps in black and Hispanic business ownership relative to their population size. Although 12.6% of the U.S. population is black, only 2.1% of small businesses with employees are black-owned. Hispanics are 16.9% of the population yet own only 5.6% of businesses.

Bank personnel introduced themselves to white testers 18% more frequently than they did to black testers. White testers received friendlier service overall.

Black and Hispanic testers were requested to provide more information than their white counterparts, particularly personal income tax statements, where Hispanic testers were asked to provide them nearly 32% and black testers 28% more frequently than their white counterparts.

White testers were given significantly better information about business loan products, particularly information regarding loan fees, where white testers were told about what to expect 44% more frequently than Hispanic testers and 35% more frequently than black testers.

One area of customer service was significantly better for black and Hispanic testers – they received an offer to schedule an appointment to take their application more often, which happened 18% more frequently for black testers and 12% more often for Hispanic testers.

“The question is, is it a level playing field in access to capital? In our experience in pre-application testing, the answer is a categorical no, it is not,” Christensen said. “In 10 years of testing, we find statistical significance in a lot of areas, and in almost every instance, minorities are treated more poorly than their white counterparts, even though with their profiles on paper, they should be treated better.”

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