

“Loan Availability among Small Businesses Operating in Urban Minority Communities”

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Timothy Bates is distinguished professor of economics emeritus at Wayne State University. Prior to his Wayne State appointment, he was professor of policy analysis and chair of the graduate program of urban policy analysis at the New School for Social Research. He is the author of five books, four of which focus upon entrepreneurship. His most recent book is *Race, Self-Employment, and Upward Mobility* (1997). His short-term academic appointments include codirector, Minority Entrepreneurship Research Center, Kenan Institute, 2006–10; Floyd B. McKissick Visiting Scholar, Center for Urban and Regional Studies, University of North Carolina, 1999; research fellowship recipient, Woodrow Wilson International Center for Scholars, 1993–94; and U.S. Bureau of the Census American Statistical Association Research Fellow, 1988.

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Summary and Findings: Focusing upon firms located in metropolitan areas, we examine Kauffman Firm Survey data, contrasting the outcomes of loan applications submitted by firms located in minority neighborhoods to those of businesses in predominantly nonminority neighborhoods. We addressed the issue of tightening credit standards: were firms located in minority communities disproportionately affected negatively by tougher loan-approval criteria during the crisis years of 2008, 2009, and/or 2010 relative to cohort firms in other urban geographic areas? Our focus is not on minority- versus nonminority-owned-business borrowers but rather on whether firms in minority neighborhoods are treated differently from small businesses located in other parts of urban America. We find a relatively high incidence of firms needing but not obtaining loans in minority communities.

Implications for Policy and Practice: While bank redlining in urban minority communities has disappeared in recent decades, the view that financial institutions are averse to lending in minority neighborhoods persists. The 2007–10 time period is interesting because banks during these years experienced unusually stressful operating conditions as property values declined throughout much of the nation and loan defaults rose substantially. Many banks responded to these chaotic credit-market conditions by substantially tightening their loan-approval criteria. Historically, financial institutions have viewed minority neighborhoods as risky areas in which to lend, yet their traditional risk aversion declined in recent decades. If their rising risk aversion in recent years—manifested as lower loan availability post-2007—extends to minority communities in particular, then we may observe a disproportionate increase in loan application rejection and unfilled credit needs affecting firms located in these communities in 2008 and beyond.