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Perceptions of the Value of Financial Education in African American Creditworthiness

Melvin Thomas Miller
Walden University

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Walden University

College of Management and Technology

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Melvin T. Miller

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Walden University
2020

Abstract

Perceptions of the Value of Financial Education in African American Creditworthiness

by

Melvin T. Miller

MPhil, Walden University, 2019

MBA, Webster University, 1999

BS, University of South Carolina, 1988

Dissertation Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Philosophy

Applied Management and Decision Sciences

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February 2020

Abstract

Research suggests a disparity for African Americans within the banking system, as they are denied credit at a higher rate than other ethnic groups. The purpose of this phenomenological study was to explore the perceptions of African Americans financial training in regards to qualifying for consumer loans. The conceptual framework was based on seminal theories on credit risk assessment and critical race theory. The research questions were designed to address banking officials' perceptions of financial training and the effectiveness of training in improving African Americans' credit. A phenomenological design was employed with the purposeful sample of 9 banking officials within the African American community from 4 states within the Southeast United States. Data analysis consisted of interpretive phenomenological analysis of lending documentation and interviews. The thematic analysis of face-to-face interviews were collected, coded, validated, and triangulated. An emergent theme concluded that banking officials acknowledged the important role financial competency plays in consumers' ability to access financial resources. The findings indicated that exposure to comprehensive financial training may increase African Americans creditworthiness. The results of the study could impact perceptions of the value of financial education and its usefulness in enhancing African American creditworthiness. The study may create positive social change by improving African Americans ability to obtain consumer loans and promote African Americans' financial welfare.

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Dedication

I would like to dedicate my dissertation in memory of my parents, Nathaniel C. Miller, Sr. and Lillie Mae Vaughn Miller, who instilled in me the importance of education. They provided me with the love and support necessary to make a difference in society. Also, I would like to dedicate my dissertation to my siblings: Malinda A. Miller, Nathaniel C. Miller, Jr., Earl E. Miller, and Gerald L. Miller, for their unwavering love. Lastly, I would like to dedicate my dissertation to the rest of my family, friends, and colleagues that provided me encouragement during this journey.

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Table of Contents

List of Tables	v
Chapter 1: Introduction to the Study	1
Background	2
Financial Education	10
Importance of African American-Owned Banks	12
Need for the Study	14
Problem Statement	15
Purpose of the Study	16
Research Questions	16
Conceptual Framework	17
Nature of the Study	18
Definition of Terms	20
Assumptions	21
Scope and Delimitations	22
Limitations	22
Significance of Study	23
Implications of the Study	25
Chapter Summary	25
Chapter 2: Literature Review	27
Introduction	27
Literature Search Strategy	27

Conceptual Framework	28
Risk Assessment	28
Disparities in Banking Policies, Practices, and Procedures	41
Lending Institutions Approach to Financial Education and Training.....	68
Gap in the Literature	76
Chapter Summary	80
Chapter 3: Research Methodology.....	81
Introduction.....	81
Research Design and Rationale	81
Role of Researcher	83
Methodology	84
Target Population and Sampling Procedures	84
Data Collection	85
Data Analysis	90
Issues of Trustworthiness.....	91
Reliability and Validity.....	91
Protection of Participants’ Rights	92
Chapter Summary	93
Chapter 4: Results	95
Introduction.....	95
Setting	96
Demographics	96

Data Collection	98
Data Analysis	98
Results.....	101
Research Question 1	101
Research Question 2	109
Research Question 3	114
Research Question 4	121
Research Question 5	124
Summary.....	128
Chapter 5: Discussion	130
Introduction.....	130
Interpretation of the Findings.....	131
Research Question 1	132
Research Question 2	134
Research Question 3	135
Research Question 4	136
Research Question 5	137
Limitations of the Study.....	137
Recommendations.....	139
Implications.....	140
Recommendations for Practice	141
Conclusion	142

References.....149

Appendix: Protocol for Research.....161

List of Tables

Table 1. Initial Participant Contact	86
Table 2. Participant Demographics	97
Table 3. Data Analysis Themes	100
Table 4. Theme 1 Codes	102
Table 5. Theme 2 Codes	106
Table 6. Theme 3 Codes	110
Table 7. Theme 4 Codes	115
Table 8. Financial Educational Programs Offered by Participants' Banks	116
Table 9. Theme 5 Codes	119
Table 10. Theme 6 Codes	121
Table 11. Participants' Perceptions of Their Banks' Services for African Americans ..	123
Table 12. Theme 7 Codes	125

Chapter 1: Introduction to the Study

Research indicates that race continues to play a significant role in determining financial equity in the United States (Herring, 2016). Although banking policies are designed to evaluate applicants' creditworthiness, there are inherent biases within the banking system. African Americans' creditworthiness are negatively impacted proportionately higher than other ethnic groups as a result of these explicit and implicit biases that exist in the lending process (Henderson, 2015). Thus, I explored African American banking officials' perceptions of financial education programs (FEPs) as tools in improving lending opportunities to African Americans.

I discussed credit risk factors with African-American banking officials to assess how they are using credit scoring systems to grant or deny loans to African Americans. The interviews also included discussions of whether the banks have existing FEPs and how their training programs are designed and if the training programs explain the credit scoring process. I also examined FEPs effectiveness in meeting the needs of African Americans seeking loans.

Although the subject of training and financial opportunities exists, there is no specific or relevant data that address African American creditworthiness and financial training. The study provided the opportunity to explore the relevance of financial training and creditworthiness. The potential implication of this research is helping educate African Americans to improve the banking industry and the African American community. This study may provide data that could be useful in helping African

Americans better understand how to become creditworthy as well as individuals seeking to increase their creditworthiness.

Background

When the first bank loans spread in Florence, Siena, and Lucca, and later in Venice during the 14th century, lending was limited to financing the harvest that could be seen in the fields and their value appraised (Freixas, 2008). Thus, credit risk was small. Bankers tried to make their loans secure when possible through the use of collateral. Initially banks used fully collateralize loans much like pawnbrokers, which required them to take on limited financial risk. But this was not always a good measure of individuals' ability to repay; thus, riskiness of loans has increased through time.

The change in the riskiness of bank loans can be traced back to the start of investment banking (Freixas, 2008). Investment banking was performed by a different type of institution and was a different concept from traditional credit activity. Investment banking introduced a different philosophy of banking because it involved advancing funds to industry and individuals rather than providing funds only with guarantees for repayment or collateral to cover the advanced funds.

This appraisal of risk on a loan is one of the main functions of modern bankers (Freixas, 2008). Bankers study the risk of the loan to determine the interest rate and terms of the loan—lower risk results in more favorable loan interest rates, and higher risk results in higher interest rates and possibly shorter terms. This type of financing has become an important part of banking activities.

Banking institutions' function now is to control and limit their risk factors. Management does this through purposeful control, which diversifies their loan risk (Schoderbek, 1991, p. iv). Management determines what percentages of the various types of loans they would like their loan portfolio to consist of based on risk, preferring a portfolio of various loan risk levels while purposefully controlling their overall risk.

Risk management has provided guidelines for risk control and management of banks' loans. Instituting credit policies are the most important decision that lending institutions have to make (Chacko, Sjoman, Motohashi, & Dessain, 2006). A policy that is too liberal could result in losses for the financial institution due to bad debt, whereas a rigid policy could result in a reduction in the number of loans being granted to borrowers.

Risk is a part of everyday decision making that financial institutions must manage through implementing policies and procedures that increase the likelihood of repayment of borrowers. Because banks are vital to the health of the U.S. economy (Duignan, 2013), they are concerned about borrowers' ability to repay loans, as their funds are derived from customers' investments in order to stay in business.

Banks use these surplus funds from deposits and investments to lend to consumers for buying homes, buying cars, sending children to college, and starting or expanding businesses. Banks are the first choice for saving, borrowing, and investing for many individuals and businesses. Banking that includes commercial, trust companies, stock savings banks, and industrial banks render a wide range of services in addition to their primary function of making loans and investments and handling demand for savings and other time deposits (Duignan, 2013).

Although credit and credit risk are important aspects of banking, one of the main tasks of a bank is to lend money. Success depends on techniques, knowledge, and an attitude to assess both creditworthiness of a potential borrower and the merits of the proposition to be financed (Ince, 2009).

Banks have increased the use of credit scoring techniques to evaluate loan applications they receive from consumers (Blochlinger & Leippold, 2006; Karan & Arslan, 2008; Macerinskiene & Ivaskeviciute, 2008; Vojtk & Kocenda, 2006). Increased need for credit has increased banking need to better assess credit risk of potential borrowers, as society has become more credit oriented with the influx of products in the marketplace that can be purchased with credit rather than needing to pay cash.

To establish borrower's creditworthiness, lenders employ the concepts of income and credit history to predict loan repayment. Banking officials use various evaluation processes to determine creditworthiness. Banks use their internal scoring systems and criteria for evaluating loans along with applicants' credit history. Their approach to granting loans is designed to limit financial risk. Commercial banks, investment banks, and mutual funds have to control and select the risks inherent in the management of deposits, loans, and off-balance-sheet contracts (Freixas, 2008). This is important if banks are to remain solvent.

When making loans, lenders consider different criteria in determining creditworthiness. Lenders make decisions about the creditworthiness or the granting of credit based on factors such as income, credit history, capacity to repay the loan, and

delinquent or slow payments (Wells Fargo, 2017). However, applicants are often denied loans because of notations such as late payments documented in their credit report without the lender taking into consideration the reasons for delinquent payments.

There could be numerous reasons to explain why individuals do not meet their credit obligations such as loss of employment or a health issue that causes the borrower not to be able to pay on time (Kenton, 2018). Often applicants are denied loans based on length of employment in a current job while not receiving benefits for previous employment history. Financial institutions may also look at the credit history of the spouse or any individual that is jointly attached financially.

For instance, minorities often cosign for other individuals and are not aware of how this action can negatively impact their creditworthiness such as a higher debt ratio that leads to disqualification. However, applicants are not informed of the specifics for loan denial and what prevents them from receiving loan approvals nor what resources exist that could help them improve their credit standing in the future.

There are also racial disparities in the opportunities to access credit and seem creditworthy to lenders. Higher interest rates often prompt consumers to reduce the cost of their overall purchases, which may make them more attractive to lenders because they have another source of repayment (Scopelliti, 2016). Although this may be prevalent in the majority population, this may not be true for the African American population due to their inability to secure credit, leverage the equity in their home, or save money.

Since the end of the recession in the mid-2000s, significant reductions in household debt, renewed access to consumer credit, and resurgent asset prices have

bolstered consumer spending and are likely to continue for the majority population (Duca, Murphy, & Organ, 2016). However, African Americans may not have the same access to credit as other groups because they may not understand consumer credit policies or possess financial expertise. This lack of knowledge may result in many lending institutions perceiving them as not creditworthy.

Further, there are individuals at a disadvantage due to lack of credit history. One in 10 American consumers has no credit history, and about 26 million American adults have no histories with national credit reporting agencies such as Equifax, Experian, and TransUnion (Consumer Financial Protection Bureau, 2015). In addition to these individuals, an additional 19 million have credit reports that are limited or out of date. Black and Hispanic individuals are significantly more likely to be without a credit score compared to Whites. Additionally, consumers in low-income neighborhoods are more likely to be credit invisible or unscored, which could limit financial opportunities.

When consumers do not have a credit report or have too little information to have a credit score, this significantly impacts their lives (Consumer Financial Protection Bureau, 2015). Under these circumstances, African Americans are not building their credit. Lack of data for many African Americans leads lenders to conclude that they have no credit history, which implies negative credit and a credit risk. But African Americans are often not aware that these credit history factors prevent them from the flexibility in borrowing money from many financial institutions.

To assess the methods that bankers use in making lending decisions, credit scoring models have been designed to evaluate applicants for loans. Those identified as

creditworthy are considered to be a good credit risk for the financial institution, whereas those identified as noncreditworthy are considered to be less likely to repay financial obligations (Lee et al., 2006). However, the credit scoring model does not take into consideration reasons for any of these delinquent factors (Score, 2013). These credit scoring models are designed to only categorize applicants as accepted (creditworthy) or rejected (noncreditworthy).

Credit scoring is a means of applying a sophisticated mathematical model to credit behavior, and the behavior of other borrowers (Scoring Game, 2006). It is a gauge used by financial institutions to determine the risk the lender is taking. Although there are many scoring models being employed by various financial institutions, the most well-known is the Fair Isaac and Company (FICO). There are also other scoring systems that have been developed by independent companies, credit reporting agencies, and even some lenders, but FICO is the most widely known and used in credit scoring (Berger, 2017).

FICO analyzes the credit-related information on the credit report, developing a credit score from information from Equifax, Experian, and Transunion. According to the Fair Isaac Corporation (2017), approximately 90% of lenders use FICO scores to help them make credit decisions. But the FICO score does not take into consideration any outside factors in assessing the borrower's ability and willingness to repay a debt obligation.

In 2006, VantageScore was created to provide another scoring system that also includes the three major credit bureaus—Equifax, Experian, and Transunion.

VantageScore differs from the FICO score because it provides a letter grade as well as a numeric scale ranging from 300–850. The letter grade is similar to grading in an educational classroom, where an A is an excellent grade or credit compared to F which is a poor grade or bad credit. Additionally, the higher the numerical score the better the credit (Berger, 2017).

However, though credit scoring systems provide tools to assess consumers' creditworthiness, the systems do not explore all available predictors of loan repayment such as the use of FEPs as an alternative method of enhancing creditworthiness. Therefore, credit scoring systems are a limited measure in predicting loan repayment.

The credit scoring mechanism include factors that not only assess the risk characteristics of the borrower, but it also reflects the riskiness of the environment in which a borrower is obtaining credit. In addition, it also includes the riskiness of the types of products a consumer uses or has used in the past. This could have a negative impact on African Americans, as they have a history of obtaining more risky loans like payday type loans. As a result, African Americans are more likely to be viewed as being higher credit risk consumers.

Many financial institutions feel that credit scoring is a good idea based on its ability to decrease biases among lenders, but this may not be accurate for all financial institutions. The use of credit scores has increased the availability of credit to some borrowers but not all borrowers (The Scoring Game, 2006). Many minorities are more likely to ascertain their credit scores prior to applying for loans than nonminorities.

Some financial experts have concluded that there is too much secrecy on how the scoring is derived, leaving borrowers unaware of how their applications are viewed by the lender (Scoring Game, 2006). African Americans are often left in a position of having no idea exactly how good or bad they may appear to the lender. Historically, the FICO tends not to release scores and the components used to determine an individual's score due to fear of competition from other credit scoring models.

In addition to the use of credit scoring models, there are objective and subjective factors influencing individuals granting loans (Ince, 2009). Lenders normally assess credit risk based on six factors: character, credit history, capacity, collateral, capital, and conditions. Character is a subjective evaluation of an individual's personal history as it relates to their honesty and ethical behavior. Credit history is a record of how a person has borrowed and repaid debt in the past.

Capacity is the individual's ability to repay outstanding debt based on income and stability. Collateral is when individuals pledge something of value that they currently own or will own when applying for a secured loan. Capital represents the savings, investments, and other assets of individuals that can help them repay the loan. Finally, conditions are the lenders need to know how the individuals plan to use the money such as purchasing an automobile or property (Score, 2013).

Further, lenders may use their personal discretion, which is subjective. For example, minority applicants are often ranked and rated differently from majority population based on their connections to the bank and community. These types of personal connections could allow the lender to make subjective decisions resulting in

granting loans although the applicant may not have initially passed the preliminary credit scoring process.

Credit scoring systems have a disparate impact on people and communities of color (Rice & Swesnik, 2013). African Americans often do not understand the credit scoring systems, the impact their credit scores have on their ability to borrow, or how they are assigned a credit score using the present credit rating systems. African Americans may also not be familiar with FICO and that above 700 is considered to be good credit score, whereas a FICO score below 500 is considered to be a poor credit score (Rice & Swesnik, 2013). Thus, financial training could help African Americans better understand what the FICO score means and how it affects their credit.

Financial Education

Financial institutions have not adequately addressed what effect financial education could have on the granting of loans to African Americans. Although financial education continues to attract the attention of financial regulators, policymakers, and academics, the demand is not being met with minority clients (Askari, 2009). The high loan denial rate for African Americans indicates a need to look at other indicators in the present credit rating system to predict whether a borrower can and will repay.

Understanding the effect financial training can have on African Americans' creditworthiness can help lenders pursue ways they can help African Americans improve their creditworthiness, which would improve African Americans' ability to borrow. Financial education programs need to be structured to be continuous and meet African American consumers' objectives. For financial institutions to make an impact in the

underserved communities or markets such as the African American market, they must provide financial knowledge and education at different stages in African American lives.

Financial education training can include providing knowledge on making appropriate decisions about personal finance such as credit, debt ratio, interest rates, budgeting, investing, insurance, and retirement. This training can also provide African Americans the type of questions to ask during the lending process such as why they are being denied like having no credit from paying cash for most purchases. Financial education training can also include topics such as understanding how money works, creating and achieving financial goals, and managing economic challenges.

An in-depth study of banks that provide FEPs and the advantages of this type of training could support the need for financial institutions to increase or advance the use of FEPs to improve the granting of loans to African Americans. Although training may enhance creditworthiness for African Americans, this group may not always participate in financial training because of lack of transportation, stigma, perception of training as a negative aspect, and not fully understanding the need for training. They may require more time to understand why there is a need to understand the products, services, and banking terminology.

Financial education is often most effective during teachable moments when African Americans are motivated to participate such as the need for purchasing a car, buying their first home, or suffering a foreclosure. This motivation could enhance the need for financial education and make it more relevant as well as emphasize the link between financial education and reaching financial goals.

On a limited basis some financial institutions have begun to devote financial support to existing nonprofit FEPs and some have developed proprietary FEPs and materials. In 2005, Marshall & Ilsley Bank launched the M&I Community Education Program, a bank-based FEP designed to organize the banks employees' volunteer efforts to respond to a widening gap between community needs and community resources. The bank designed banking products to help banks reach unbanked and underserved markets, build credit for individuals with no credit history, or reestablish credit for individuals with poor credit.

To utilize this service, banks had to become more proactive in funding these efforts. Marshall & Ilsley Bank based its model on the premise that banks also could receive additional benefits in assisting African Americans by increasing their funding for financial training. Institutions like these have made the decision that financial education helps consumers by offering them knowledge to make financial decisions and become creditworthy. By offering financial education, banking institutions could improve scores on applicants' credit risk factors, which could result in more potential clients for banks.

Importance of African American-Owned Banks

African American-owned banks (AAOBs) can play a major role in assisting the African American community in becoming more creditworthy through financial training. Recent years have impacted the banking industry through more conservative regulations, meaning there is a greater need and opportunity for AAOBs to better serve the African American community. AAOBs have a unique opportunity in providing financial knowledge to African American as they have a larger number of African-American

consumers applying for loans. Therefore, they receive more requests for loans from African American than nonminority-owned banks. With greater experience, AAOBs could play a more important role in their communities (Lash, 2005).

Minority banks are needed to service and promote the economic viability of minority and under-served communities. However, Black-owned banks have proportionately more liquid assets compared to nonminority banks and proportionally fewer loans (Lash, 2005), which may be attributed to previous loan losses and their reliance on small, high volatile deposits from low-income households (Bates & Bradford, 1980). This impacts the amount of money available for individuals and businesses. This availability could cause African Americans to be denied for consumer loans such as automobiles or homes. This could also have a negative impact on their ability to obtain and maintain employment based on their need for transportation. Additionally, this could affect their ability to become homeowners.

Further, loan growth has been slower for banks changing from nonminority to minority ownership than for minority banks converting to nonminority banks (Dahl, 1994). Minority depository institutions (MDI) tend to lag behind community banks in overall profitability but are currently seeing higher loan growth driven by commercial real estate (American Bankers Association Journal, 2017). MDIs are more likely to focus on communities of diverse ethnic and immigrant backgrounds and smaller markets. The customer base of MDIs consists of consumers that have relatively lower incomes and more credit constraints than those served by non-MDIs (Toussaint-Comeau & Newberger, 2017).

Black-owned bank loan portfolios have a relatively high share of real estate loans and a low share to consumer and agricultural loans (Lash, 2005). Black banks compared to nonminority banks originate smaller loans and make loans in areas with higher poverty rates and minority populations as it relates to mortgages (Bostic, 2003). Additionally, above-average loan losses could cause banks to be hesitant in providing loans to African Americans because their analysis and perception could be that African Americans do not repay their loans which results in loan losses for the banks (Lash, 2005).

The effect is reflected in African Americans banks having below average loan activity. There is a possibility that they could have fewer losses if the African American borrower better understood credit and how and when it should be used. Thus, African Americans' increased knowledge of credit could benefit both lender and borrower.

Need for the Study

Researchers have theorized that banks share the mission to deliver economic and social development and focus on helping individuals fulfill their potential in the community. However, there is a lack of research on the degree to which banks meet the financial needs in the African-American community. Specifically, there is limited research on African-American banking officials' perceptions of the use of FEPs in granting loans to African Americans.

There is also a lack of current research on African American creditworthiness within African-American lending institutions. There are also limited data on what resources could be useful in improving African Americans' credit. Therefore, this study was conducted to ascertain African-American banking officials' perceptions of the

importance of financial training for enhancing African Americans' creditworthiness as well as the benefits and liabilities of financial training for their institutions.

This study provides insights into operations within the AAOBs and how these institutions support FEPs for African-American consumers. Financial training could help educate African Americans on how to establish and maintain credit that would qualify them as creditworthy by financial institutions. This increased credit availability could help financial institutions improve their loan portfolios and help their overall profitability in addition to helping individuals have better opportunities for loan approvals while minimizing credit risks or bad credit decisions due to lack of knowledge.

Problem Statement

The consumer's ability to ascertain capital is important to the well-being of economy, which requires equal access to capital. However, most banks consider low-income and families of color as credit risks (Abrams, 2017). Credit reports and scores also reflect existing racial inequalities in the credit system. The general problem is that African Americans do not have equal access to capital because they are often denied credit. The specific problem is that research does not answer why African Americans do not achieve creditworthiness at the same rate as other ethnic groups.

Literature on African American creditworthiness does not explore what impact African-American lending institutions and their officials have on determining African Americans' creditworthiness. In addition, there is limited research on banking officials' perceptions of African American creditworthiness and its relationship to financial education and training. As AAOBs play a major role in financial opportunities for

African Americans, their perceptions of financial education and its impact on creditworthiness is important to this study. Thus, I explored the degree to which African-American banking officials relate credit risk, creditworthiness, and financial training.

Purpose of the Study

The purpose of this qualitative, phenomenological study was to interview banking officials in the Southeastern United States regarding their perceptions on African Americans' ability to obtain credit. The objective was also to determine if financial training benefits African Americans in becoming more creditworthy as well as to analyze the factors African-American banking officials use in determining creditworthiness of African Americans. I analyzed the impact banking officials' perceptions have on financial training being offered to African Americans, conducting interviews with nine African-American banking officials to identify their current procedures and programs.

The data from this study are designed to contribute new knowledge and insights in helping provide financial institutions and African-American consumers with insights into what factors can be useful in increasing financial benefits to both groups. The results may be used to improve the overall financial well-being of the consumers and the community. Additionally, lenders can look for ways to improve their lending portfolio and their ability to offer successful loans. This could stimulate the overall economy, contributing to an improved quality of life for the community.

Research Questions

To better understand the impact FEPs have on creditworthiness of African-American applicants, the following research questions were addressed:

1. What banking policies, practices, and procedures are used to determine creditworthiness and how do these criteria impact the African-American community?
2. What legal authority and latitude do African-American banking officials have in making decisions to change or implement banking programs?
3. What types of programs are useful in improving African American creditworthiness?
4. How can banking data on African American creditworthiness be useful in creating a more equitable lending matrix for African American consumers?
5. Does your financial institution offer financial education training workshops/programs specifically for minorities such as African Americans?

Conceptual Framework

African American creditworthiness and financial training were the two key concepts in this study. The conceptual framework supporting this study was drawn from seminal theories on credit risk assessment and the impact they have on banks' lending policies, practices, and procedures within the African-American community. The framework was based on the intersection of theories of perception and race and the implications these theories have on credit risk assessment. The review of data provided insights on critical race theory as it relates to the African-American consumer and creditworthiness. Thus, this framework helped address African-American banking officials' perceptions of financial training for promoting creditworthiness and assess cost/benefit for minority institutions that provide financial training.

Previous research has indicated that inequities exist for minorities within banking in the United States for various reasons. Woldoff (2008) concluded that the Black–White gap in banking is due in part to lack of resources, though this did not address specifically how credit scores are impacted. Additionally, Henderson (2015) addressed credit scoring and its impact on minorities being granted loan approvals for business related loans. Findings indicated that regardless of credit scores, Whites were more likely to be granted loans (Henderson, 2015).

Additionally, research has shown that African American consumers are less likely to receive a quote for a loan than White consumers and that they receive less time with banking officials than White consumers (Ross, 2002). However, further study is needed to determine the role credit scoring plays overall as a factor on the lending opportunities for African Americans.

Though the Community Reinvestment Act (CRA) ratings has benefitted African Americans in their lending approval rates, this policy itself was not sufficient in eliminating the racial gap in the denial rate for African Americans (Matasar, 2004). This presents the need for further study on what other tools could be useful in enhancing creditworthiness for African Americans. As credit scores are a major factor in impacting creditworthiness, there is a need to study how to advance African Americans' ability to increase their credit scores.

Nature of the Study

The nature of the study involved an interpretive, qualitative, phenomenological study to determine what African American banking officials consider to be the factors

that impact African American creditworthiness. The key phenomenon for the study was perceptions of African American banking officials in the Southeast United States on financial training programs as a resource for improving creditworthiness of African-American consumers.

The study was focused on the effectiveness of financial education and training as an aspect of improving creditworthiness for this group. The analysis included information on the banking official's responses to questions in semi structured interviews related to the cost benefit of implementing financial training and education in the African-American community.

The phenomenological approach was selected because it helped provide data on African American creditworthiness compared to other ethnic groups. This translated into gathering deductive and inductive information through qualitative methods such as interviews, discussions and participant observations, and presenting it from the perspective of the research participants. African American banking officials were selected from nine AAOBs in the Southeast United States. This represents 39% of all AAOBs in the United States. The Southeast region was selected based on the number of potential minority-owned banks in the following states: Alabama, Georgia, Louisiana, North Carolina, South Carolina, and Tennessee.

Individuals who agreed to participate were mailed a cover letter outlining the overall description of the research and the timeframe for conducting the interviews. Along with mailing questionnaires, interviews were scheduled with participants based on their availability during the months of April through June 2019. The responses from

participants were used in the overall analysis of the African-American banking officials' perceptions in regard to the use of financial educational programs in granting credit to African Americans. The findings helped identify AAOBs that currently have or previously had programs to assist African Americans in becoming more creditworthy.

Definition of Terms

The following definitions are operationally employed in this study.

Annual percentage rate: The amount of interest on a total loan amount that is paid annually (averaged over the full term of the loan).

Borrower: Individual or institution receiving funds in the form of a loan and obligated to repay the loan, usually with interest. A borrower is called a mortgagor when the loan is secured by real estate.

Borrowing: The exchange of present money in the form of credit for future money at a cost, typically the annual percentage rate.

Credit: Agreement to pay in the future in order to buy or borrow in the present.

Credit history: Record of how a person has borrowed and repaid debts.

Credit policy: Clear, written guidelines that set (a) the terms and conditions for supplying goods on credit, (b) customer qualification criteria, (c) procedure for making collections, and (d) steps to be taken in case of customer delinquency.

Credit score (Credit rating): Amount a lender or credit rating organization believes a specific borrower can safely repay. Also refers to a borrower's score based on his or her credit history on which the granting of future loans might be based.

Creditworthiness: Past and future ability and willingness to repay debts.

Default: Failure to meet the terms of credit agreement.

FICO: A FICO score is a quantification of a variety of factors in an individual's background, including a history of default, the current amount of debt, and the length of time that the individual has made purchases on credit. A FICO score ranges between 350 and 850. In general, a score of 650 is considered a "fair" credit score, whereas 750 or higher is considered "excellent." A FICO score is a convenient way to summarize an individual's credit history and is included in a credit report.

Financial institution: An institution that uses its funds chiefly to purchase financial assets (loans, securities) as opposed to tangible property. Financial institutions can be classified according to the nature of the principal claims they issue.

Lender: Person or institution that loans money or property to another, usually in exchange for a fee or interest.

Loan: Temporary use of property, including money. A fee or interest may or may not be charged for the use of property.

Assumptions

A major assumption was that most minority owned financial institutions do not adequately use FEPs as a part of their loan approval process. I also assumed respondents' honesty and truthfulness in their responses to the interview questions. Another assumption was that the majority of those who agree to participate would complete the survey promptly and appointments for the interviews would be scheduled timely.

Scope and Delimitations

This research considered the value financial education and training have on creditworthiness and their usefulness in improving credit scores of African Americans. To ascertain information related to the African-American consumers, banking participants were selected from AAOBs. All the participants in the study were CEOs, banking officials, or past or present lenders with loan approval authority and had experience and knowledge of lending decisions that include accessing creditworthiness of African Americans. However, this research is not comprehensive, as it does not specifically address the African American consumers.

Limitations

The use of phenomenological research could present some the following limitations: difficulties in detecting or preventing researcher bias, subjectivity of the data, and difficulties of presenting results in a useful manner, generally small sample size, and difficulties of participants expressing themselves. I addressed some of these limitations by making the effort to gain participants' confidence, so that their participation in the questionnaires and interviews would be truthful and objective. Participants were informed that their participation is strictly confidential.

Another limitation is the secrecy of credit scoring agencies that limits the accessibility to certain information. This lack of access to such data could affect the reliability of the study; however, I used internal data provided by banking officials. The size of the participant respondent pool could limit the available data. Thus, I identified more participants than needed.

Additionally, although the data were analyzed based on respondents, an increased or decreased response rate could affect the outcome of the data collection. Participants may have also completed the surveys without paying attention to the questions. Further some participants may not have been familiar with FEPs, so I provided general insights into what training is available.

Finally, participants may have been reluctant to respond accurately because of their fear of potential anonymity. To address this concern, participant responses were listed anonymously. Participants were also assured that they had anonymity prior to providing answers to questions such as those specific to their institutions.

Significance of Study

This research afforded the opportunity to discuss the credit policies used by African-American banks to assess the creditworthiness of potential borrowers and the banking officials' perception of African-American consumers. The study was designed to assess financial education as a way to improve African American creditworthiness. FEPs could be important to potential borrowers who may not have a sufficient credit score for loan approval.

The use of FEPs may allow financial institutions an opportunity to teach their borrowers how to borrow or become creditworthy based on the use of alternative criteria in the approval process. This could benefit lending institutions as well as borrowers. Granting more loans to African Americans and providing financial training could lead to the individuals being more loyal to the financial institution, because the financial institutions would help them become better consumers.

The financial institutions could benefit from increased loans and increase other lines of businesses such as retail banking, business banking, and mortgage. The better-informed customers could become better decision makers, which would increase their use of financial institutions. Further, increased availability of loans may have a direct impact on the willingness of consumers to borrow and spend, leading to a direct positive impact on the lending rate of banking institutions and the economy.

Better understanding through financial education can also help borrowers become more prepared on the process when applying for loans. African Americans would have additional knowledge on some of the credit related expectations of their banking institutions. Additionally, the borrowers' knowledge could help them understand their options as they seek loans, preventing them from applying for loans for which they do not qualify. There is a high percentage of loan denial of African Americans and fewer African Americans obtaining credit based on banking criteria. These denials happen based on previous credit decisions they made due to not having financial training or understanding the lending process. Thus, the results of the study may encourage the need for FEPs for African-American applicants.

The study may also benefit all individuals that have a need to become financially literate on creditworthiness. Additionally, the study revealed that there is a need for financial education and training for younger consumers, especially younger African Americans. This knowledge could help them understand creditworthiness at an early age, allowing them to become empowered individuals with valuable decision-making tools to assist them with making better informed banking decisions in the future.

Implications of the Study

Research has indicated a relationship between applicants' creditworthiness and the use of FEPs. Acknowledging this link can help financial institutions develop credit policies that increase the number of successful minority applicants. This could have a direct impact on the financial institution's loan portfolio and overall bottom line. This study was designed to assist financial institutions in understanding the need for FEPs for African Americans in their overall review of this ethnic groups' loan applications.

The results may encourage implementation of FEPs that could be useful to the current credit scoring system. The added focus on financial training could provide additional tools to increase the availability of credit to African-American consumers, which could increase the flow of money in the economy. Through the successful implementation of the use of FEPs, financial institutions could increase their bottom line as they deliver more effective loan approval options to the African-American consumer.

Chapter Summary

Chapter 1 highlighted the use of FEPs within African-American lending institutions. This chapter presented information on the role that African-American banking officials play in granting loans to African Americans, various credit scoring models, and the impact these models have on banking lending policies. The chapter was also focused on banking disparities within the African American community and the status of African American creditworthiness.

Chapter 2 includes a review of relevant literature on banking and credit. In this chapter, seminal theories on credit risk assessment and critical race theory are discussed.

The discussion in this chapter reflects the importance these theories have on present day banking policies, practices, and procedures. This chapter also highlights the disparities within lending institutions as well as the financial training programs within the banking community.

Chapter 3 will focus on how the study was designed. It will include research on financial related documents and how these documents will be analyzed to address the relationship between creditworthiness and financial education within African-American community.

Chapter 4 will discuss the findings from the research collected. The research findings will be analyzed and the relevant facts that pertain to creditworthiness and financial training within African-American lending institutions will be discussed. Also included will be the social impact this study has on the community.

Chapter 5 will present a conclusion with respect to findings and discuss implications that result from this research. The chapter will also make recommendations on the validity of financial training as a vital aspect in the evaluation of the impact it has on the creditworthiness of African-American consumers.

Chapter 2: Literature Review

Introduction

The purpose of this qualitative phenomenological study was to explore African-American banking officials' perceptions of financial training and the effect on African Americans' creditworthiness. African Americans have a higher rate of high-cost, predatory loans in addition to risky financial products that lead to default (Ludwig, 2015, para. 5). This leads to minorities having more damaged credit compared to nonminorities. Thus, there was a need to study the phenomena of African American creditworthiness.

The literature review is designed to identify the theories that are the basis for banking policy, practices, and procedures and the affect they have on African American creditworthiness. I reviewed the present credit rating system data and banking policies and practices to determine what impact they have on African American creditworthiness. I also analyzed what type of financial training could be useful in improving creditworthiness for African Americans. A discussion on current research and its effect on creditworthiness will follow in this chapter. Additionally, issues such as credit policies and the use of educational programs will be presented. Further, the literature will provide an understanding of the link between banking and credit and how banking and credit affect the availability of credit to African Americans.

Literature Search Strategy

In conducting this literature review, the following sources and databases were used: Dissertations and Theses at Walden University, Dissertations and Theses: Full Text,

ProQuest, LLC, Academic Search Premier, and Business Source Premier. The initial selection of articles included peer-reviewed journals and releases from the Federal Reserve. More recent studies were sought to provide the latest thinking and analysis of creditworthiness. Most studies used are from 2000 to present, along with seminal articles and journals prior to 2000.

The search terms were *minorities in banking, bank and banking, bank and banking and minorities, bank and banking and minorities and lending, lending and minorities, credit, small business, profit, money theories, and theories of banking*. The research also included the key words *minorities, bank, loans, credit, African American, finance, financial institutions, risk, risk assessment, credit risk assessment, consumers, and profit*. Some of the results were research studies, and others were descriptive articles and summaries.

Conceptual Framework

Risk Assessment

This section includes seminal theories on credit risk assessment that impact present day banking policies, practices, and procedures. I discuss these theories and address, analyze, and critique the impact that these theories have on present day banking officials' perceptions, lending decision making, and risk assessment. I also discuss these theories as they relate to society and the effect on the African-American consumer.

Twenty years ago, most financial institutions relied on subjective analysis or banker expertise to assess the credit risk on corporate loans (Altman, 1998). This provided bankers with flexibility in determining who would be granted loans. The

bankers used information on various borrower characteristics such as borrow character, capital, capacity, and collateral to reach a largely subjective judgement whether to grant a loan. Financial institutions have increasingly moved away from subjective/expert systems over the past 20 years toward systems that are more objectively based.

Credit risk measurement has evolved dramatically over the last 20 years in response to secular forces—increase in bankruptcies, more competitive loan margins, declining value of real estate, and growth of off-balance sheet instruments at risk of default—that have made its measurement more important (Altman, 1998). Over the last 20 years, credit risk measurement has evolved with new approaches built around a mortality risk framework to measure the risk and returns on loans and bonds. The model is used to offer insights into analyzing the risk-return structures of portfolios of credit-risk exposed debt instruments (Altman, 1998).

In the future, there may be significant improvements in databases on historical default rates and loan returns (Altman, 1998). With the development of such databases will come new approaches to measuring the credit risk problems facing financial institutions. In response to these factors, academics and practitioners have developed new credit scoring systems and have moved away from only analyzing the credit risk of individual loans. Practitioners are developing new models to price credit risk and developing models to measure better the credit risk of off-balance sheet instruments.

Credit score. Between 1970 and 2005 the volume of consumer credit outstanding in the United States increased by 231%, and the volume of bank loans secured on real estate increased by 705% (Crook, 2007). This has led to the need for credit risk

assessment like credit scoring to handle a larger volume of loans. Credit scoring is the assessment of risk associated with lending to an individual or organization. Consumers are scored numerous times to allow lenders to determine whether they will send them a mailer about new loan products or to determine if they qualify for an increase on a credit card. Credit scoring may also involve granting credit based on characteristics such as income, marital status, and age (Hooman, Marthandan, Yusoff, Omid, & Karamizadeh (2016).

The growing interest in the credit industry resulted in credit scoring being developed as an essential component in dealing with huge sums of credit data (Hooman et al., 2016). Credit managers have the task of designing and developing technology that will allow them to analyze credit data to help them minimize errors and decrease processing times (Hooman et al., 2016). Numerous techniques of statistical discrimination have been developed, along with new classificatory algorithms being researched and tested. Each credit scoring method has its advantages and disadvantages and no comprehensive approach has determined the most valuable technique in the context of credit scoring (Hooman et al., 2016).

Most banks use credit scoring to score applicants, monitor their performance, and manage their accounts (Crook, 2007). Application scoring helps a lender discriminate between applicants the lender is confident will repay a loan or manage their account properly to applicants the lender is not confident in their performance (Crook, 2007). The lender will usually establish a rule or policy to distinguish between these two groups. The rule or policy is the banks' way to determine whether an applicant will be approved

or denied for a loan. But credit scoring helps with the volume of applications. Although banks attempt to compensate for risks via interest rates, credit risk requires its own assessment. Credit scoring simplifies the decision-making process with the assistance of sorting methods.

Despite unique financial circumstances such as loss of employment or health issues that prevent borrowers from paying on time, the credit scoring model does not take into consideration reasons for delinquent factors. In univariate accounting-based credit scoring systems, financial institutions compare various key account ratios of potential borrowers with industry or group norms. The key accounting variables are combined and weighted to product either a credit risk score or a probability of default measure. If the credit risk score, or probability, attains a value above a critical benchmark, a loan applicant is either rejected or subjected to increased scrutiny (Altman, 1998).

According to Altman (1998), there are at least four methodological approaches to developing the multivariate credit scoring system: linear probability model, logit model, probit model, and discriminant analysis model. The most dominant methodologies at the time of Altman's article was the discriminant analysis followed by logit analysis. Altman also developed the commonly used and referenced ZETA discriminant model.

The most common form of discriminant analysis seeks to find a linear function of accounting and market variables that best distinguishes between two loan borrower classification groups—repayment and nonrepayment. Logit analysis uses a set of accounting variables to predict the probability of borrower default or nonpayment. The payment history of the borrower is deemed the most important predictor of default.

Although the multivariate accounting-based credit scoring models have performed well, they have been subject to criticism. Researchers say that the accounting data models may not recognize more subtle and fast-moving changes in borrower condition. The world is nonlinear, and linear discriminant analysis and linear probability models may not be as accurate in recognizing explanatory variables. The credit scoring bankruptcy prediction models are only thinly linked to an underlying theoretical model.

Alternatives to traditional credit scoring. Not meeting loan obligations can be costly to the consumer, stockholder, and the bank involved. But it is hard to predict repayment prior to the loan being granted and the applicant's performance after the loan has been granted. Thus, credit scoring has become an essential component in the decision-making process, especially in banks that deal with a huge amount of credit data (Hooman et al., 2016). However, most of the recommended models are only able to classify customers or borrowers into two categories of "good" or "bad" (Hooman et al., 2016). Although the models help to decrease the time to evaluate an applicant based on specific criteria, it does not take into consideration the various subjective items such as the reasons for an applicant's credit score or the banks willingness to lend.

New approaches have been proposed as alternatives to the traditional credit scoring and bankruptcy prediction models. One of the types of models with a strong theoretical underpinning is the "risk of ruin" model (Altman, 1998). Risk of ruin is the likelihood of losing all of an investment or the market value of someone's assets fall below its debt obligation. A second class of models with strong theoretical underpinning

is those that seek to attribute implied probabilities of default from the term structure of yield spreads between default free and risky corporate securities.

Another class, capital market-based model, is the mortality rate model of Altman (1988, 1989) and Asquith (1989). The mortality default rate models seek to derive actuarial-type probabilities of default from past data on bond defaults by credit grade and years to maturity. According to Altman (1998), most of the rating agencies such as Moody's and Standard and Poor's have adopted and modified the mortality approach and now routinely utilize it in their structured financial instrument analyses.

Additionally, the risk of lending to a credit applicant is estimated using a logistic regression model, though researchers have considered many other types of classifiers (Crook, 2007). In particular, preliminary evidence supports vector machines have been suggested as the most accurate (Crook, 2007). A support vector machine is machine learning algorithm that analyzes data for classification and regression analysis. Support vector machine is a supervised learning method that looks at data and sorts it into one of two categories. Support vector machine outputs a map of the sorted data with the margins between the two as far apart as possible.

The objective is for the applicants to be sorted as approved or denied. In this model classification is based on a sample of accepted applicants rather than on a sample representative of the applicants' population. Although this model seems not to be biased, it presents difficulties in setting the cut off score or benchmark. This type of profit scoring present a promising line of research and the Basel 2 Accord has had profound

implications for the way credit applicants are accessed and bank policies are adopted (Crook, 2007).

Many researchers have also evaluated credit risk by using data mining methods such as discriminant analysis, logistic regression, K-nearest neighbor, Bayesian classifier, decision tree, neural network, survival analysis, fuzzy rule-based system, support vector machine, and hybrid methods (Hooman et al., 2016). Data mining is the progression of investigation and examination, by automatic methods, of great amounts of records to determine significant configurations and guidelines having meanings (Kirkos et al., 2007).

Data mining is an important tool used by institutions in their decision support systems. It is used by various institutions for market segmentation, customer service, credit and behavior scoring. The data mining methods remain popular because they are able to extract practical knowledge from a given database and transform it into usable and valuable information.

Fitzpatrick and *Altman models*. The earliest research on financial credit risk assessment can be traced to the Fitzpatrick (1932) and Altman (1968) models. Since their research, a large variety of approaches have been developed to evaluate the creditworthiness of applicants using the traditional statistical methods or advance machine learning methods. The study of financial credit risk assessment has increased since the financial crisis in 2008 caused by bankruptcies and nonperforming loans, leading to criticism of the functionality of financial institutions due to the inappropriate evaluation of credit risk (Chen, 2016).

Traditional statistical models and state-of-the-art intelligent methods can be used for financial distress forecasting (Chen, 2016). Credit risk assessment serves as a catalyst to evaluate the credit admission or potential business failure of customers to predict an actual financial crisis because it helps predict individual performance on loans (Chen, 2016). Cost-sensitive and imbalance learning is also a major topic in financial credit risk assessment, which involves evaluating whether a borrower will be able to repay a debt (Chen, 2016).

Intelligence method. Intelligence methods can improve the accuracy of statistical methods with the reliance of restrictive assumptions (Chen, 2016). These techniques include artificial neural networks, fuzzy set theory, decision trees, case-based reasoning, support vector machines, rough set theory, genetic programming, hybrid learning, and ensemble computing. Because prediction models are continuously changing, there is a need to review the research of the state-of-the-art approaches to financial credit risk assessment, especially regarding cost-sensitive learning and performance validation (Chen, 2016).

The financial failure prediction problem is characterized by cost-sensitivity and class-imbalance. Cost-sensitivity deals with misclassification of credits; it could cost the bank more if a credit that is misclassified performs in the unexpected way, especially if the bad credit is classified as good (Chen, 2016).

Many banks make provisions for a potential loss that is less than what could potentially occur. Class-imbalance indicates that the class distribution of the lending portfolio is highly skewed. The bank's bad credit is overwhelmed by the good credit,

therefore the majority (good) credit performs better than the minority (bad) credit. Thus, a well-structured scoring model is important in differentiating the degree of credit risk in the various credit exposures of a bank portfolio. This could allow for a more accurate determination of the overall characteristics of loan portfolio, probability of default, value at risk, and ultimately the adequacy of provisions for loan losses.

Social responsibility. Banks have a social responsibility to society and are governed by specific and extensive regulations (Ljubic, 2015). Since the financial crisis of 2008, the economic slowdown and decrease in the standard of living has led to the reduction in the quality of bank credit portfolio (Ljubic, 2015). A bank credit portfolio consists of loans such as commercial or personal loans, mortgages, and home equity lines of credit.

This phenomenon has contributed to the increased interest in assessing credit risk. A bank identifies, measures, and assess the risks it is exposed with the intent to manage them. Their risk management is in accordance with the size and organizational structure of the bank, along with the volume and type of banking activities that it offers. A bank should establish an effective and efficient risk management process, which encompasses mitigation, monitoring, and control of risks that the bank is or may be exposed to.

Many experts recommend that banks implement a system of credit risk management that provides accurate and duly credit risk rating and precise classification of credits among priorities that should be supervised. This type of risk management involves several phases: risk identification, risk analysis, risk measurement, risk monitoring, and risk control (Ljubic, 2015). Within the standards and procedures used

for measuring and controlling risks in banks, there are specific procedures concerned with credit risk (Ljubic, 2015).

Credit risk is a basic bank risk and it represents the most significant risk that a bank is exposed to in its operations. Each process of lending money to a counterparty involves a danger that assets may not be paid off in due time and in accordance with the agreed upon terms. Risk managers are trained in this area and are assigned the responsibility to inform the board of directors and management about weaknesses of borrower's credit rating assessment. Risk managers describe specific loans whose payoff is questionable and the effect nonpayment would have on the bank's capital reserve requirements. Ineffective risk manager's oversight weakens the criticism and casts doubt on the precision of bank's assessment practice.

The impact of economic crisis has on the standards of the Basel Committee on Banking Supervision, the primary global standard setter for the prudential regulation of banks, has led to the changes and proposals for improvement of Basel II. This has resulted in the creation of Basel III standards. The latest standards are designed to strengthening the framework and provide answers for the world economic crisis that unfortunately hit the banking world and other financial institutions worldwide during the Great Recession (Ljubic, 2015).

Basel III standards are tighter and their adoption is expected to lead to a higher quality of capital basis of banks, more adequate risk management. These standards introduce a new parameter, which would present the ratio between capital and total bank exposure (leverage ratio) and determination of its minimum level. It would also

introduce measures that will require banks to set aside more assets that could be used in crisis periods and introduce global liquidity standards for internationally active banks. Although Basel III standards are not binding, their adoption is expected to have a significant impact on the change of regulatory environment on banks and their operations.

The change in regulations could result in tighter regulations for credit risk assessment, which in turn could result in higher quality placement and decrease credit activity of commercial banks. Borrower's credit rating is certainly the key to approving credit placements. Monitoring bank credit activities is a basis of adequate supervision and clear monitoring. Ljubic (2015) stated that compliance of regulations with world standards in banking operations contributes to efficiency of credit policies which eases the process of making business decisions. This tighter method of assessment of exposure to credit risk could however result in a decrease in credit activity of banks.

Aktas (2015) concluded that financial markets rely on a consistent and fairly well-functioning group of variables to evaluate liquidity needs, short-term fluctuations in money markets, and creditworthiness of borrowers. His study examines the unexpected behavior in some of the traditional risk measures in the credit market and discuss the relevance changes that were made during the recovery from the financial crisis of 2008-2009.

His study utilizes historical data from micro-financing markets and evaluation of creditworthiness of their borrowers. The micro-financing market consist of individuals and small businesses that may not be able or willing to borrow funds from a direct

lending source because they may have more debt than is acceptable by the lending source. Aktas (2015) highlighted and discuss the history of home ownership as a measure of financial creditworthiness just before, during, and after the financial crisis of 2008. The results suggested that homeownership was considered a negative signal by micro-financing outlets following the financial crisis of 2008-2009, until the market started to recover from these shocks.

Aktas' (2015) also analyzed the data from micro-financing markets specifically evaluating homeownership as a credit evaluation variable and how homeownership was utilized as a signal for a borrower's creditworthiness. The study examines the unexpected behavior of some of the traditional risk measures in the credit markets and how their relevance changed during the recovery period. To formulate his findings, he utilized historical data for the period of 2007-2012 from micro-financing markets and evaluating creditworthiness of their borrowers.

Micro-financing outlets are a very small segment of the credit market, so the findings of the study can only be indicative of evaluation of creditworthiness of very marginal borrowers. Due to this type of borrowing, the lending public is vulnerable to panic behavior during crises. The effects of these crises could affect every area of life for borrowers and lenders. This could cause borrowers to be unable to qualify for loans based on financial institutions stricter lending policies or practices.

Aktas (2015) concluded that future research should be conducted to better understand credit market behavior and banking models to assess credit risk. Probability of default models is a credit risk assessment model that banks used in their credit model

scoring process. The models provide scores that translates the probability that an individual or company will default on an obligation in the future.

Sousa (2016) stated that probability default models are at the core of the banking business, in credit decision making, in price settlement, and to determine the cost of capital. Central banks and international regulations use of this model is favored in order to achieve soundness of standards for credit risk valuation in the banking system. Since 2004, banks were encouraged to strengthen their internal models' framework to enhance their portfolio rating.

Effect of economic conditions. Developing and implementing a credit scoring model can be time and resource consuming from data extraction to deployment. Therefore, it is not rare for banks to used credit scoring models for several years. If economic conditions remain the same, this would not significantly affect the accuracy of the model. However, if economic conditions change, this could cause the banks performance to deteriorate.

The financial crisis in 2008 confirmed that the financial environment can fluctuate in unexpected manners. This creates a renewed attention to the fact that some models are built upon time frames that are outdated. Sousa (2016) stated that many financial institutions were using stale credit scoring models built with historical data of previous decades. Although, there is empirical evidence to support that the degradation of stationary credit scoring model is an issue (Sousa, 2016), research is still lacking more realistic solutions.

The conclusion of experts in this field is that economic conditions evolve in the economic cycles and they can either deteriorate or improve the behavior of an individual and their ability to repay debt. The expert's analysis explained that individuals default echoes the trends of the business cycle, along with regulatory movement and interest rate fluctuation. In prosperity, banks and borrowers tend to be overoptimistic about the future. During a recession, banks are swamped with defaulted loans, high loan provisions, and tightened capital constraints which causes them to become very conservative. The majority consensus is that prosperity leads to more liberal credit policies and lower credit standards, while recession promotes sudden credit cut.

Disparities in Banking Policies, Practices, and Procedures

The second section of the literature review discussed the disparities within the banking lending process. Calamari's, Khan, and Longhofer (1994) suggested that the presence of both higher rejection rates and higher default rates does not necessarily preclude the possibility of discrimination among non-minority banks. In deciding whether or not to make a loan, lenders analyze the applicant's creditworthiness based on credit history, financial leverage, and character. Character could make the difference in granting or not granting a loan.

Barriers with character, looks, and behaviors of an applicant. Judging an applicant's character is a subjective criterion which could include such things as dress, manners, behavior, and other characteristics. This subjective criterion could have a negative effect for African American applicants because they may not know that their appearance, their manners, and their behavior during the application process is being

evaluated by the lenders. They may not be educated on how these subjective criteria could be used in evaluating their loan request. For minority applicants, whose cultural clues are difficult to interpret, non-minority lenders may rely on more quantitative measures.

Ferguson (1995) dealt with the subject of discrimination in the banking lending market. His article was spurred by a 1992 Boston Federal Reserve Bank study that concluded minorities were discriminated against in the home mortgage market. The article stated “minority applicants in the Boston area are sixty percent more likely to be denied a mortgage loan than whites, even after controlling for such factors as debt burdens, loan-to-value ratios, income, and credit histories” (Ferguson, 1995).

The article wanted to illustrate what policymakers can learn from observed loan denial and default rates about the relative credit standards being applied to different segments of the lending market. The article analyzed a simple model of bank lending in which the pool of loan applicants can be decomposed into two distinct components. The model was not limited to race only; it looked at applicants in reference to high versus low income, stable versus unstable employment, and different geographic regions. It found that a higher denial rate for minority applicants is consistent with a uniform credit policy. The article stated that “colorblind lending will not result in equal denial or default rates” (Ferguson, 1995).

Derrick Bell has been attributed as one of the major scholars in recognizing that racism is engrained in the fabric and system of the American society. Derrick Bell is considered to be one of the founders of the Critical Race Theory. This theory provides a

critical analysis of race and racism from a legal point of view and uses critical theory to examine society and culture.

Bell believed that individual racism need not exist to acknowledge that institutional racism is pervasive in the dominant culture. As a part of the critical race theory, Bell stated that the dominant culture power structures are based on white privileges and white supremacy which perpetuates the marginalization of people of color. As a critical race theory proponent, he further rejects the traditions of liberalism and meritocracy (University of California Los Angeles, 2018).

Legal discourse says that the law is neutral and colorblind, however, critical race theory challenges this legal “truth” by examining liberalism and meritocracy as a vehicle for self-interest, power, and privilege. This theory is reflected in data which conclude that whites possess roughly 12 times the wealth of African Americans. Whites near the bottom of the income distribution possess more wealth than blacks near the top of the income distribution (Pager & Shepherd, 2008). Given that home ownership is one of the most significant sources of wealth accumulation, patterns that affect the value of home ownership will have an impact on wealth disparities overall.

Agarwal (2003) discussed the possibilities of discrimination as it relates to minorities and their obtaining mortgages. Discrimination in lending can occur whenever the terms of a transaction are affected by personal characteristics of the participants that are not relevant to the transaction. The characteristics that they identified in application processing were race and gender. This could translate into loan approvals differing across racial groups with similar financial backgrounds. The articles pointed out four

different areas of discrimination to include: advertising, prescreening, application processing, and product steering. This article concentrated on the application processing in its fact-finding endeavor.

Agarwal (2003) also discussed how loan officers catered to a certain culture based on the benefit of the doubt to a marginal applicant of the same culture, but not to similar applicants of other cultures, because they are more familiar with the applicants of their own culture. The author addressed discrimination through cultural affinity of the lender. This could have a negative impact on African Americans, because a majority of the lenders tend to not look like them. Therefore, African Americans could be denied credit because of the cultural affinity of lender.

Cultural affinity as a positive effect. Cultural affinity however could be good if there was an increase in the number of African American lenders in the banks and communities in which African Americans reside. This could create a positive outcome based on the ability of the African American lender to relate to the African American applicant. Agarwal (2003) examined various acts that regulate how financial organizations should perform their jobs. Those acts included the Home Mortgage Disclosure Act, Fair Housing Act, Equal Credit Opportunity Act, and the CRA.

The United States regulators regularly perform fair lending examination for various lending products of all financial institutions. This article concentrated on first mortgage loans and used several econometric techniques. The issue of alleged mortgage discrimination by lending institutions was identified. The higher denial was justified by a higher loan to value ratios and weaker credit histories than non-minorities.

Agarwal (2003) looked at minority applicants, mortgage lending, and discrimination using Home Mortgage Disclosure Act data for a large national lending institution from January to September 1999. The study was conducted to measure disparate treatment discrimination in mortgage lending. The study randomly selected 140 mortgages for minorities, non-minorities, approvals and denials out of 567 loan files. As a result of these findings many federal regulations have been established to enforce greater compliance of banks with various fair lending laws.

Agarwal (2003) discussed the results of such efforts by a bank to illustrate and demonstrate that individual banks can conduct independent fair lending examination for the purpose of self-assessment and compliance with the federal fair lending laws. The author's study indicated that financial institutions are capable of conducting independent and statistically rigorous fair lending exams to evaluate the underwriting policy guidelines both for self-assessment and compliance with the federal fair lending laws. He indicated that if they categorized the applicants by race, it could have shown the percentages of denial by race. If this was done, they might have found that African Americans had a higher percentage of denials than non-minority.

The determination that the borrower's financial and creditworthiness were major determinants of denial could identify the need for financial training for specific applicants, especially African Americans. Agarwal analysis in mortgage lending corroborates evidence of mortgage discrimination, finding that black consumers are less likely to receive a quote for a loan than white consumers and that they are given less time

with the loan officer, are quoted higher interest rates, and are given less coaching and less information than are comparable white applicants (Ross & Yinger, 2002).

These researchers also investigated the extent to which the race of the neighborhood affects lending decision, otherwise known as redlining. While (Massey & Denton, 1993) concluded that little evidence of redlining still exists (Benston & Horsky, 1991) concluded that this depends in part on one's definition of neighborhood-based discrimination.

Redlining. Ross & Yinger (1999) distinguished between process-based and outcome-based redlining, with process based redlining referring to whether the probability that a loan application is denied is higher in minority neighborhoods than in white neighborhoods, all else being equal, whereas outcome-based redlining refers to smaller amounts of mortgage funding available to minority neighborhoods relative to comparable white neighborhoods. Although evidence on both types of redlining is mixed, several studies indicate that controlling for demand, poor and/or minority neighborhoods have reduced access to mortgage funding, particularly from mainstream lenders (Phillips-Patrick & Rossi, 1996).

This type of reduced mortgage funding in minority neighborhoods often results as a lack of loan officer's banking expertise. An interesting article on mortgage lending in the African American community was written by Zindler. Zindler (2005) discussed why banks should review how they compensate home loan officers and examine their relationship with outside mortgage brokers. The article suggested that this would avoid the lenders running afoul of predatory lending laws in the black community. The article

pointed the finding from the 2004 Home Mortgage Disclosure Act, which revealed that minorities were as much as three times more likely to receive a high cost mortgage than whites.

Mark Olson, Federal Reserve Board Governor, stated “banks should ensure that loan officers are well trained on fair-lending standards and can document that higher priced loans were issued not as a result of discrimination but higher risk” (Zindler, 2005, p. 3). Banks must clearly articulate how loans should be priced for borrowers with various risk profiles.

The 2004 finding disclosed that subprime lending was disproportionately concentrated in the South and the Southwest, where higher priced loans accounted for 30% to 40% of all mortgages during 2004. This higher priced loan could be explained by lower credit scores in the South and Southwest. Olson stated that “any time a lender differentiates ... the burden of proof shifts to the lender to demonstrate that pricing differentials are based on empirical analysis” (p. 3).

Bostic (2003) and Bostic and Canner (1998) expanded the concept of cultural affinity to include applicant preferences as well. In this research, it revealed that marginal applicants might seek out banks with similar racial or ethnic backgrounds, which they believe would provide a more sympathetic hearing and fairer deal. Bostic’s (2003) evidence showed that marginal black applicants did seek out black banks thereby suggesting that cultural affinity influence applicant behavior.

Reforms, policies, and communities. The Association of Community Organization for Reform Now (2004) conducted a study on predatory lending called

Separate and Unequal. The article stated that African Americans appear to be more likely than others to end up with high cost loans. African Americans were 3.6 times more likely to receive a subprime home purchase loan than whites. According to the Federal National Mortgage Association of the United States, 30% to 50% of subprime loans were made to borrowers with “A” credit. African Americans are not highly represented in the “A” credit applicants.

The article by Association of Community Organization for Reform Now stated that low-income and minority households at large were targeted by subprime lenders. Subprime lenders increased their origination of loans by 33.2% and prime lenders increased their volume by 24.7% comparing 2001 to 2002. This too is relevant because it highlights how African Americans are required to pay more for their loans overtime which causes hardships for African Americans.

The increase in the origination fee means that the targeted group, low-income and minorities, are paying more to complete the loans process. The increased origination fee means that minorities, specifically African Americans, are paying more upfront and receiving less from the proceeds from the loan. However, subprime lending may have given minorities the opportunity to secure a loan when they typically could be denied. They are requiring African Americans to pay more for these loans.

In a second report from the Association of Community Organizations for Reform Now, which analyzed Home Mortgage Disclosure data by race and income. The report discussed how racial disparities in the mortgage market have widened to levels not seen since 1993. As African Americans and Latinos are getting turned down more than non-

minorities, the number of loans to minorities and in low- and moderate-income communities continues to decrease. According to this report, a major factor contributing to the homeownership gap is that minority and lower-income families experience continuing, and in many cases growing inequalities in obtaining the financing necessary to purchase a home.

African Americans were 2.2 times more likely than whites to be denied a conventional home loan in 2003, and Latinos were 1.6 times more likely. The study found that minorities are three times more likely to get a subprime loan than whites. Association of Community Organization for Reform Now recommended stronger CRA regulations that will direct more lending to the low- and moderate-income neighborhoods. The report suggested that Congress and regulators should be looking at ways to make CRA more effective and require lenders with discriminatory lending patterns to improve their business practices.

As a result of reports such as the one made by Association of Community Organization for Reform Now, the CRA was enacted to encourage institutions to meet the credit needs of the communities from which they drew their deposits in a manner consistent with safe and sound business practice. The article by Matassar (2004) examined how the federal regulatory authority assigns one of four ratings to a bank at the conclusion of a CRA audit.

The categories include outstanding, satisfactory, needs to improve, and substantial non-compliance. The first two reflects that a bank adequately services its community. The criterion used in the audits differs for banks based on asset size. The CRA objective

was to improve the relationship of commercial banks to the communities in which they were located. The Act was established to increase credit availability to economically disadvantaged areas and persons by eliminating the practice of redlining. Banks were exporting deposits from one area in order to provide lending resources in another area. Redlining caused funds to flow from poorer, older, racially transitional areas to richer, more stable areas.

Disparity. Matasar (2004) also discussed how the economic growth in the United States has historically bypassed many minority communities. This disparity has been linked to the unwillingness of banks to service minority communities in an adequate manner. The enactment of the CRA and federal regulatory support for minority banks were two governmental initiatives aimed at rectifying this situation.

The government has established laws to help preserve the number of MDIs and encourage creation of new MDIs. The Federal Deposit Insurance Corporation states that a MDI exist when the bank consist of 51 percent or more of the voting stock is owned by minority individuals or a group of minority individuals who are all US citizens or permanent legal resident.

As indicated in the article by Matasar (2004), there were 125 commercial banks that qualified as minority banks under the federal guidelines. Minority banks are found in only 29 states. Today, there are 152 minority owned depository institutions according to the Federal Reserve (2017). The article discussed how the CRA ratings of minority banks and the denial of loan applications to minority applicants bear great resemblance to the denial rates for loan applicants at non-minority banks.

The article stated that “the passage of CRA and the establishment of minority banks have probably worked to alleviate, if not eliminate, the adverse lending environment for minority loan applicants” (Matasar, 2004, p.55). However, Matasar (2004) also stated that the “passage of CRA as well as the encouragement of minority banks was still insufficient to eliminate the racial gap in loan denial rates or to alter completely the economic differential among ethnic groups” (Matasar, 2004, p.54).

Community Reinvestment Act. Although, the article discussed the creation of the CRA to improve the relationship of banks to the communities in which they are located, it did not specifically discuss the African American community. Neither did it discuss why banks have fewer locations in predominantly African American communities. However, the establishment of CRA did encourage banks to make sure that they are increasing the availability of credit in their service area.

Lash (2005) stated that there are various studies which reveal evidence that lending disparities exists. He also discussed the creation of the CRA as a mechanism to encourage banks to lend to low-income communities. Although the CRA encouraged lending to low-income communities, some black-owned banks have complained that the Act encourages unfair competition from other banks for the same loan customers.

Lash (2005) discussed the essential role for black-owned banks. The article suggests that the profitability and efficiency of black-owned banks improves with time. It suggests that with greater experience, black-owned banks will play a more important role in their communities. This article discussed the need for African American banks and the importance of them having an impact on the low-income, African American

communities. His analysis lends support for African American banks to be a resource for African Americans to learn about creditworthiness and the value of financial education.

Lash (2005) discussed selected issues related to the role that black-owned banks can play in contributing to the economic development of low-income, minority communities. According to Lash (2005), minority banks given their paucity in numbers, their lack of size, and their financial weaknesses, have to better demonstrate that they can serve as an important engine of growth for their communities. As part of history, black-owned banks have attempted to eradicate discrimination by financial institutions against black customers especially in the mortgage area but need to do more.

Home Mortgage Disclosure Act. Dymi (2007) discussed the analyses of the 2006 Home Mortgage Disclosure Act data by customer advocate and mortgage industry entities in the United State. The data showed that the subprime mortgage meltdown has primarily affected minority buyers receiving most of the risky loans. The subprime mortgages tend to have higher rates or may incorporate variable rates and terms. The article stated that “the 2007 Annual Minority Lending Report by Compliance Technologies and Genworth Financial detected that subprime lending in 2006 prevailed mostly with African American applicants” (Dymi, 2007).

Bruno-Britz (2005) discussed the use of alternative data for granting credit to under banked people in the United States. The article looked at how alternative forms of data can prove a person’s creditworthiness. They examined the idea of using recurring payment histories such as data from utilities, cable companies, and wireless providers as a way to help individuals gain credit. The article acknowledged that banks might feel the

use of alternative data in granting credit as being too risky. The article also indicated that it is a matter of better educating banks and their customers.

The author also discussed how banks are interested in their market and how they do not feel they have the appropriate risk-assessment tools for using alternative data for loan approval (Bruno-Britz). These risk assessment tools could provide them broader criteria in evaluating creditworthiness of loan applicants. The use of alternative data for granting credit could enhance the creditworthiness of African Americans. Under these guidelines African Americans that do not have or have very limited credit could be viewed as being creditworthy. This added flexibility could allow banks to use recurring payment for services such as utilities, cable, and cellphones which could enhance African Americans ability to improve their creditworthiness.

High-cost mortgage. A study from the National Bureau of Economic Research, (Bayer, Ferreira, & Ross, 2014) found that race and ethnicity mattered substantially in the higher-priced mortgages. The authors found that race and ethnicity were among the two key factors that determined whether or not a borrower would end up with a high-cost loan. Their research found that blacks were 105 percent more likely to be given a high-cost mortgage.

Jourdain-Earl (2015) discussed Fannie Mae and Freddie Mac. The article identified Fannie Mae and Freddie Mac as the largest secondary mortgage market investors in the United States. Jourdain-Earl (2015) discussed homeownership as being the American Dream and wealth creator. Through homeownership, American families have paid for home improvements, college tuition, cars, and transfer of wealth to family.

Although loans are made to African Americans, they are paying more than non-minorities for the same American Dream. The increase in cost could cause African Americans to have less money to pay for other expenses or the ability to maintain their mortgage loan payment.

Based on these findings, the lack of loans being originated for African Americans has prompted policy makers in the nation's capital to be concerned about this disparity. Fannie Mae and Freddie Mac have been cited by the Federal Housing Finance Agency's Office of Inspector General for failing to monitor primary lenders' loan origination activities by race (Jourdain-Earl, 2015). According to Jourdain-Earl (2015), homeownership is placed on a high pedestal in the United States. This is evident based on the major amount of government support directed to homeownership.

Unfortunately, the home mortgage finance system has benefited some groups more than others. Jourdain-Earl (2015) discussed how primary mortgage lenders have difficulty originating loans to blacks. However, lenders that have been successful in originating loans to blacks have originated them in the higher cost Federal Housing Administration or subprime loans. Jourdain-Earl (2015) also stated that "blacks have had the most disparate outcomes in home mortgage lending experience" (p. 4).

These disparities could be seen in the number of loans originated, origination rates, denial rates, interest rates and fees. This does not imply that the adverse outcomes are only due to discrimination. Other factors such as the banking knowledge, creditworthiness or the borrower payment history could be reasons for the adverse outcomes.

Lending standards and minorities. According to Goodman, Zhu, and George (2015) of the Urban Institute, African American and Hispanic households have been disproportionately affected by overly tight mortgage lending standards. African Americans and Hispanic households comprise a large share of the 4 million loans that were not originated from 2009 to 2013 due to tight credit standards (Goodman, 2015). While the number of home purchase loans made in 2013 decreased by 36 percent since 2001, minority borrowers have felt a greater squeeze. African Americans and Hispanic borrowers' loans declined by 50 percent and 38 percent respectively, however non-minority loans decline by only 31% (Goodman, 2015).

The authors also discussed how the FICO scores have driven a majority of the disparity. Since the recession and post-recession, lenders have vigorously used the FICO scores in their decision to approve or deny a loan. The research conducted by the Urban Institute suggest that tight credit is not just an issue for the health of the overall economy, but one that affects racial and ethnic groups differently.

According to Goodman (2015) very restricted lending standards lead to banking disparity for African Americans. The unfortunate reality is that large shares of low and moderate credit among African American and Hispanic households may remain outside the credit box until policymakers take action to expand it. This article also shines the light on the need for policymakers to enact policies that will assist with the strengthening of applicants for mortgage loans and other types of loans to African Americans. It recommends that policymakers should demand that institutions abide by the policies that are already in effect to assist minorities.

The Great Recession of 2008 led to the tightening of the availability of credit to consumers. The decrease in the access to credit affected both consumers and businesses. According to the Minority Business Development Agency, there are 5.8 million minority-owned businesses in the United States with combined gross receipts of \$1 trillion, compared to 20.1 million non-minority businesses with combined gross receipts of \$9.8 trillion (Congressional Black Caucus Foundation, 2015).

The Great Recession was a severe economic downturn in the United States. This has had a significant impact on nearly all Americans. According to the Congressional Black Caucus Foundation report (2015), African Americans and minorities were among those who experienced the most devastating blows to their financial stability.

During this period median Black household's income fell by 10.1 percent between 2007 and 2010 compared to 5.4 percent for White households. Not only did the Great Recession affect financial stability, it also affected unemployment rates of African Americans. The unemployment rate for African Americans peaked at 15.9 percent in 2010 (Congressional Black Caucus Foundation, 2015). The Obama administration responded to financial stability and unemployment crises with the creation of the American Recover and Reinvestment Act of 2009, which was expected to rejuvenate the economy.

White (2016) addressed the lending of homeownership rates of blacks and Hispanics and how they lag behind that of White Americans. He discussed how minorities are less likely to have homes that appreciate and more likely to lose their homes through foreclosure. The article stated that home loans are consistently more

expensive for Blacks and Hispanics as these consumers are directed toward high-risk, high-priced products.

According to Close (2016), blacks and Hispanic prospective home buyers have a tougher time getting approved for a mortgage at major banks compared to other ethnic groups. The article stated that among all approved mortgage applicants from the 10 biggest retail banks in 2014, 5.3% were black, down from 7.8% in 2007, according to the Wall Street Journal (Close, 2016). The racial divide in lending practices is particularly stark when it comes to jumbo loans, which are defined as those above \$417,000 in most markets. Lenders like them because they require higher credit scores and larger down payments. The default rates are also lower compared to those for smaller mortgages. As a result, big banks issue more of these high-dollar loans, but only a sliver are made to blacks and Hispanics.

In 2014, just 3% of jumbo loans at the top 10 banks went to Hispanics, while 1.3% went to blacks. The trend toward jumbo loans shows how big banks have pivoted their mortgage operations toward more affluent customers who also tend to be White or Asian. According to Close (2016) the increase in jumbo loans at big banks has caused some real-estate brokers to generally stop referring minority clients to big banks for mortgages.

One broker, Corwyn Melette of North Charleston, South Carolina, told the *Journal* he found that after banks tightened underwriting requirements, they approved fewer of his Black clients for loans. In the article, Melette stated that “It’s a complete

waste of time” for them to apply with big banks. Many of his clients now obtain Federal Housing Authority loans from non-bank lenders.

Decline of homeownership. Desilver (2017) of the Pew Research Center, discussed how homeownership in the United States has declined since the housing peak in mid-2000. Black and Hispanic households are less likely than non-minorities households to own their homes. The research conducted on mortgage market data indicated that some of the challenges confronted by Blacks and Hispanics is the ability to obtain mortgage loans and those that are granted loans tend to pay higher rates. According to the analysis of data gathered under the Federal Home Mortgage Disclosure Act, it found that 27.4 percent of black applicants and 19.2 percent of Hispanic applicants were denied mortgages, compared to 11 percent of white and Asian applicants.

Desilver (2017) stated that throughout the mortgage boom, bust and recovery, blacks have been denied home loans at higher rates than most racial groups, except Native Americans. The author’s analysis found that African Americans and Hispanics put less money down on home purchases. The lower down payment often translates into higher mortgage rates. The higher mortgage rates would make ownership less affordable for African American and Hispanics because the rates increase their monthly mortgage payment. This increase in monthly payment often create a burden for African Americans if there is a change in their household’s earnings due to a loss of job or a downturn in the economy that could reduce their pay.

The prominent reasons for denial of mortgage applicants show difference patterns depending on racial or ethnic group. Among non-minority, Hispanic and Asians

applicants the most cited reasons for denial was debt-to-ratio. Among the African American applicants, the most cited reason was a poor credit history. Financial education training for African Americans could help African Americans understand credit and how to develop a good credit history.

Lack of access for minority lending. Bailey (2017) noted that the 2016 mortgage lending data analysis completed by the Center for Responsible Lending found that a lack of access to conventional loans among minorities and low wealth families continues. The analysis identified that the overall mortgage market has rebounded slightly from the foreclosure crisis and Great Recession. This data is important and mortgage lending is accountable to the Home Mortgage Disclosure Act, which was enacted by Congress in 1975, to alert the nation to trends on the groups of Americans that are actually receiving mortgage loans from financial institutions.

Bailey (2017), using the 2016 Home Mortgage Disclosure Act reported by the Federal Reserve, found that minorities, specifically African Americans and Hispanics, received a combined 187,958 conventional loans or 9% of 2,123,000 conventional loans approved in 2016. Non-minority consumers received 70% of the loans, which is 1,490,032 loans. Also, minorities were disproportionately dependent on higher cost, government backed mortgages such as Veteran Affairs or Federal Housing Administration loans. In 2016, African Americans and Hispanics were approved for 324,566 non-conventional loans among the overall total of 866,000 approved loans (Bailey, 2017).

McPherson (2017) discussed the announcement of Wells Fargo's initiative to boost African American homeownership. According to the United States 2010 census data, African American will represent 17 percent of new households by 2027, however African American face a number of barriers to homeownership such as the lack of access to affordable homes, depreciating home values, and higher home loan denials.

Wells Fargo in collaboration with the National Association of Real Estate Brokers plan to break down these barriers and create at least 250,000 new African American homeowners by 2027 by lending \$60 million to qualified African American homebuyers, increasing the diversity of the Wells Fargo Home Lending team, and supporting the effort with \$15 million for financial training and education for African American consumers. This financial training could help Wells Fargo increase its financial goals and help to better meet the credit needs of their communities. Although the overall mortgage lending has gradually increased, there are major racial disparities in the number of denials of mortgages. African Americans still have the highest denial rates.

Bailey (2017) stated "it is troubling to see the continued trend of mortgage lenders abdicating their responsibility to serve the full universe of credit-worthy borrowers" (p.2). Also, Bailey (2017) concluded that during the financial crisis, taxpayers of all colors help to pay for the bailout of banks, however African Americans are overly dependent on higher cost loans such as Veterans Affairs or Federal Housing Administration. These continued high costs negatively impact African Americans based on their lower income and ability to service higher cost debts. However, the availability of Veteran Affairs or Federal Housing Administration loans, provide African Americans

with options to obtain a mortgage loans, since they are disproportionately denied conventional loans.

Discriminatory acts in lending. Shaffer's (1996) expanding on Ferguson and Peters (1995) work in their study of discrimination in lending. The study of Shaffer (1996) included information about the lenders' recovery rates in instances of default. Ferguson and Peters (1995) called for future research to focus on profits and their relationship to lending policies. Shaffer looked at the lending policy that would generate lower average default rates among minority borrowers than among majority borrowers.

A more favorable use of lending policies could help in generating a lower default rate for minority borrower. This could help financial institutions make better decisions and decrease their overall loan default rates. The decrease in loan defaults to minorities could help to increase the number of approved loans to minorities, especially African Americans. However, the study did not specifically categorize the minorities by race, which does not specially generate a loan default rate for African Americans.

The screening process often impacts many different pieces of information such as income, debt burden, employment, and credit history into a single credit score for the applicant. The probability of the applicant repaying the loan is monotonically increasing function of this score. Credit scores simply generate the probability of repayment (Ferguson, 1995). While this article addressed discrimination of minorities, it tended to combine all minorities, including African Americans regardless of income levels. This provided a skewed conclusion, because African American income range generally from poverty to upper middle class.

A bank's decision to grant credit comes after a loan application is screened. The screening process often impacts many different pieces of information such as income, debt burden, employment history, and credit history into a single credit score for the applicant. The probability of the applicant repaying the loan is a monotonically increasing function of this score. Credit scores simply generate the probability of repayment (Ferguson, 1995). While this article addressed discrimination of minorities, it tended to combined all minorities, including African American regardless of income levels. This provided a skewed conclusion, because African American income range generally from poverty to upper middle class.

Hunter and Walker (1996) undertook a study of the cultural affinity hypothesis and found that applicants with strong credit records, loan decisions were uninfluenced by applicant race. Applicant's with spotty records such as credit history and monthly obligations reduced the probability of acceptance significantly more for Black and Hispanic applicants than they did for non-minorities. Hunter and Walker (1996) concluded that the holding of Black and Hispanic loan applicants with weak credit records to higher standards than their white peers was due to cultural affinity and not to invidious racial discrimination.

Another explanation noted for the higher rejection rate of minorities according to Hunter and Walker (1996), could be based on the loan officers greater experience with white applicants. They concluded that loan officers may have learned which non-objective, and possibly mitigating, factors could improve the probability of repayment by

white applicants. For minority applicants, such experience and information would have been absent. This is often the same for minority owned small businesses.

De Senerpont (1997), explained how the difficulty of minority-owned small businesses ability to obtain loans was continually occurring. The community group urged banks to expand their outreach efforts. According to Rev. Charles R. Stith, president of the Organization for a New Equality, “Capital is the mother’s milk of business growth” (p.3). Rev. Stith went on to say that if we want minority businesses to grow, they must be given money from which to operate.

The author discussed a survey released by Rev. Stith showing that nearly 40% of 200 minority business owners in 20 states that applied for bank loans or lines of credit were turned down. Those that received loans, 40% had been turned down at least once previously. The poll showed that over half of minority businesses turn to alternatives sources for credit, resulting in an increased interest rate for their needed funds. The Organization for a New Equality suggests that banks should create subsidiaries dedicated to providing loans to minority-owned small businesses (De Senerpont, 1997).

Small business loans and minorities. Coleman (2005) claimed that loan and trade credit are major sources of short term and liquidity for small firms. Small businesses are an essential part of the United States economy. According to the US Small Business Administration, small firms employ 53% of the workforce and contribute 47% of sales. Small firms are a major source of innovation and account for the vast majority of net new jobs. Black-owned businesses represent a fast-growing subset of all small businesses. Coleman (2005) stated that “black-owned firms are worthy of study in

and of themselves for several important reasons” (p. 1). First, ownership by blacks provides a path to economic empowerment for black entrepreneurs and their families.

According to Coleman (2005), prior research indicates that, on average, the level of household wealth for black families’ falls well below that of white families. Secondly, a vibrant small business sector is important to the economic revitalization of many inner-city communities. The articles suggest that black firm owners have traditionally not had the same access to capital as non-minority-owned firms (Bates, 1993; Dymski, 1996; Waldinger, 1995).

Coleman’s (2005) study examines the major sources of short-term credit, or liquidity, for small, black-owned firms in an attempt to determine if there is difficulty in these firms obtaining financial resources. The article stated “if small, black-owned firms are, in fact, credit constrained, that findings has implications for the ability of black entrepreneurs to start and grow small firms” (Coleman, 2005, p. 2). Therefore, it would suggest that firms owned by blacks have a more difficult time securing sources for loans.

Successful firms need availability of sufficient amounts of reasonably priced capital. The article suggest that black-owned firms face even more serious constraints in their search for capital than small firms in general (Ando, 1988; Bates, 1989; Cavalluzzo and Cavalluzzo, 1998). These types of constraints effect African American business owners’ ability to obtain needed capital to run their businesses.

This could cause a decrease in the number of African American owned businesses or it could mean that African American business owners would have to obtain loans through non-traditional sources such as payday loans or finance companies. This could

also result in African American business owners paying more for the capital than is needed to run their businesses. In addition, this could cause the businesses not to be as profitable. This impact could affect African Americans who potentially could have been employed by those businesses.

DeYoung (2007) studied recent changes in the geographic distances between small businesses and their bank lenders using a large random sample of loans guaranteed by the Small Business Administration. The research found that small borrower-lender distances from their bank and where they lived generally increased between 1984 and 2001, with a rapid increase that began in the 1990s.

During the research, DeYoung (2007) found a fundamental reordering of borrower-lender distance by the borrower's neighborhood income and race characteristics. Previously, borrower-lender distance tended to be shorter than average for historically underserved areas such as low-income and minority, but by 2000 borrowers in these areas tended to be farther away from their lenders on average. This change can be accounted to the use credit scoring models that rely on automated lending processes and quantitative information.

The researcher's findings suggest that there has been increased entry into local markets for small business loans, and this development should help allay fears that movement toward automated lending processes will reduce small businesses' access to credit in already underserved markets (DeYoung et al, 2007).

Although the Small Business Administration was expanded by the American Recover and Reinvestment Act of 2009, African Americans and other minorities

experienced disproportionate obstacles in applying for and receiving loans. The monies intended for the low-income communities were being obtained by the majority borrowers due to discrimination (Congressional Black Caucus Foundation, 2015). The disparities were due to the information not being disseminated to the communities that needed it. The public outreach was not reaching many African Americans.

According to the Congressional Black Caucus Foundation report (2015), minority-owned firms are more likely to be denied loans than non-minority firms. Data compiled by the Survey of Small Business Finances indicated that among firms with annual gross receipts under \$500,000, minority firms are denied loans about three times as often. The minority firms were denied at a rate of 42 percent compared to 16 percent for non-minority firms (Congressional Black Caucus Foundation, 2015).

Minority firms that are able to secure a loan are still met with other discrepancies such as credit and interest rates. When minority firms are not successful in obtaining a business loan, they often revert to relying on consumer forms of credit such as credit cards or personal loans. These types of loans are normally smaller loan amounts and higher costs. This could impact the businesses' profitability, because they are paying more for funds that are needed to operate the business. This causes the business to have less profits, which could affect the business owners' ability to reinvest.

These disparities provide insights into the barriers faced by minorities in accessing capital, but also explains why opportunities for minority business ownership has diminished since the Great Recession. These disparities have harmed the financial

prospects of African American because they are not given the opportunity to obtain loans with fair interest rates as non-minorities.

Mr. Eugene Ludwig, Comptroller of Currency, stated that “minority small-business owners and bankers must work together to develop new credit products” (De Senerpont, 1997, p.3). Ludwig suggested that innovation is the key. Banks and business owners must create a win-win for each other. Rev. Stith suggested creating a secondary market for small business loans, similar to the secondary market created for home mortgages.

This increase in availability could increase the options for minority-owned small businesses. The creation of minority business lending subsidiaries could create more favorable criteria for African American business owners to obtain loans. This could help in the creation of jobs for African Americans, which could result in more African Americans being employed. The increase in employment could help African Americans become more desirable credit applicants.

Black, Robinson, and Schweitzer (2001), discussed how lending discrimination in the United States has been an issue debated in the academic press and the political arena for many years. Most information that individuals hear concerning lending discrimination has centered on mortgage lending and non-minority owned lenders. The article discussed how individuals would assume that minority-owned banks would have an affinity to provide credit for applicants of the same race as the bank’s owners.

This could have a positive impact on African Americans because consumers tend to have an affinity to do business with individuals of the same race. AAOBs could help

African Americans in receiving more loans. This assumption is developed based on the role that black-owned banks play in serving low-income minority communities and aiding in the economic development within the communities they serve.

Black et al. (2001) observed a more narrowly defined geographic area compared to previous studies in the field. The authors also discussed the need for more AAOBs to be located in the communities that African Americans reside. While this article addressed lending disparities, it did not specifically discuss how the needs could be met to increase the number of African American banks. The increase in African American banks could increase the number of loans that are generated by African American banks and received by African American applicants. Neither did the authors discuss what if any impact the increased number of loans could have on the bank's overall loan portfolio.

Lending Institutions Approach to Financial Education and Training

The third section of the literature review will discuss financial education and training that exist within the banking communities. The Consumer Bankers Association (2002) released a study that examined the scope of FEPs provided by financial institutions. The survey within the study measured the industry's educational efforts in mortgage and homeownership counseling, foreclosure prevention, credit and debt management, predatory lending, small business development, and curriculum-based programs. The study was commissioned due to failing test scores among students and the lack of a basic understanding of economics and finance among consumers. Financial institutions were very concerned about the lack of basic financial education among the citizens of the United States.

The Consumer Bankers Association wanted to shed some light on the role financial institutions could play in educating the public and their belief that education is the best weapon to combat financial illiteracy and the financially uninformed. The results of the Consumer Bankers Association (2002) study showed that banks continue to invest significant resources in the development and delivery of FEPs. However, the study did not breakdown the delivery of the FEP by race. It also failed to adequately disclose if the FEPs were provided to an equal cross-section of the population. Although, the study indicated that the programs reached a larger segment of the population, it did not provide data on the number of consumers served based on ethnicity.

The Federal Deposit Insurance Corporation Quarterly (2007) article titled “Banking on Financial Education” discussed how the financial services marketplace had changed over the recent decades. The financial marketplace has become more complex to navigate based on the expanded choices of financial service, providers, and delivery channels. Individuals with little or no experience with traditional banking services would find it even more challenging.

Considering this fact, it is possible that financial education could help equip consumers with the tools necessary to make sound financial decisions. Financial education could provide consumers with knowledge about budgeting, savings, obtaining credit, being creditworthy and protecting themselves against fraud and discrimination. This newly found knowledge by consumers could further enhance the economic outlook of their communities.

The article “Banking on Financial Education” highlighted the results of a 2007 Federal Deposit Insurance Corporation study of the effectiveness of the Money Smart FEP. The study identified that FEPs could have a positive effect on consumers money management and behaviors. The authors discussed who could benefit the most from financial education courses and indicated that this could be the minority population. The study showed that financial education could strengthen the financial knowledge of consumers, along with strengthening the consumers’ relationship with financial institutions. Better informed consumers make better customers for financial institutions.

Financial education could help consumers become more attractive to financial institutions based on them being more creditworthy and more knowledgeable about financial services. The new study by the Federal Deposit Insurance Corporation of its Money Smart financial education curriculum found that financial education changes attitudes and behaviors, which could result in enhanced financial literacy and improved creditworthiness. (Federal Depository Insurance Corporation, 2007)

Bates and Triplett (2014) provided insights into a FEP that was created to educate mortgage loan applicants. The FEP titled “Getting Your House in Order” is a course on financial fitness topics like budgeting, debt and credit, banking and investments. The program was created based on national research on African American financial practices that suggest that financial education should be based on building trust and knowledge of African Americans. African Americans tend to navigate financial decisions through relationships, respect, trust, safety, security and a sense of belonging. Financial

institutions must build this trust with African Americans in order to encourage them to participate in FEP that could exist.

This offers a unique role for African American Owned Banks. African Americans avoidance of majority financial institutions is not only a response to past discrimination, but a lack of trust. Many financial institutions continue to provide higher priced products and services to African Americans. The subprime mortgage industry is an example of where African American borrowers were steered toward high cost loans. African Americans experienced serious financial consequences from subprime home loans, further reinforcing fears and confusion about how to engage with financial institutions. Financial institutions must begin to build the trust of African Americans by providing services and education that will empower them to become informed consumers.

Harrison (2014) discussed new academic research conducted by business school professors at Utah State University, Brigham Young University and Rutgers University. This study revealed that minority entrepreneurs or business owners are treated significantly different than their white counterparts when seeking financing for a small business even when other characteristics such as their credentials, their companies and their clothes were similar. The article discussed how nine businessmen's (three white, three black, and three Hispanic) experiences were very different.

The Hispanic and black business owners were provided far less information about loan terms, offered less application help by loan officers, and asked more questions about their personal finances. In another part of their study, researchers interviewed several small business owners of different races to glean their perception of the loan process.

The white business owners said the journey was fair, while Black and Hispanic owners were more likely to describe the experience as an uphill climb (Harrison, 2014).

In the study released by Prudential (2015) the group of authors showed continued confidence, optimism, advancement, and growing affluence for the African American community. The study validated the universal need for trusting relationships, sound financial guidance and relevant financial education for all Americans, especially African Americans. The study was conducted to highlight the factors that are important in shaping the financial experience of African Americans. The outcomes of the study suggest that there is increased opportunity for members of the financial services industry to be even more present in the community and to provide financial education to help close the knowledge gap that exist between minorities and non-minorities as it relates to financial matters.

The Prudential study surveyed 1043 African Americans and 566 non-minorities between the ages of 25 and 70 on a broad range of financial topics from March 25 to April 9, 2015. The study focused on the financial improvement and confidence in the African American community. It also examined financial long-term financial planning, personal debt and how to increase the engagement of the use of financial professionals by the African American community. The study stated that a majority of African Americans surveyed believed that their financial situation is better than their parents if measured at the same age level. A majority of African Americans surveyed received outreach by financial professions, yet only a small percentage reached out to the financial institution or financial professional.

The study found that the reasons African American did not reach out to the financial professionals is due to their lack of financial training and their thinking that they did not have enough assets, trust, and preference to manage their own financial affairs. The study also concluded that while some African Americans feel more confident in financial matters, there is still room for improvement, as 48 percent of Americans and 60 percent of non-minorities consider themselves not very well prepared to make financial decisions. This implies that African Americans still have a need for more financial education as it relates to their finances.

Prudential (2015) leaders stated that African American respondents would favor financial professionals who give them information that is appropriate for their level of financial experience and knowledge and that treat them with respect. This is especially an important factor for African American seeking to own their own business. The Small Business Administration a federal government agency charged with providing support to entrepreneurs and small businesses does offer limited financial training.

The Small Business Administration training and lending programs provide loans to smalls business owners who are unable to obtain financing through traditional channels. According to the Small Business Administration it provides numerous programs to assist small business owners, however, the programs have not provided a proportionate share of loans to African American owned businesses compared to other businesses (Small Business Administration, 2018).

The Small Business Administration and other non-profit agencies have implemented numerous initiatives, such as the Emerging Leaders Training Cycle, 8(a)

Business Development Program, and The Young Black Male Entrepreneurship Institute, to ease the concerns of African American entrepreneurs in securing loans. The Emerging Leaders Training Cycle for entrepreneurs provide them with business training in economically challenged communities. Participants are provided with a free program that provides them the opportunity to work with business mentors, while attending specialized workshops and networking with political leaders and the financial community.

The 8(a) Business Development Program also offers businesses the opportunity to participate in one-on-one counseling and training workshops with the guidance of small business experts. The Young Black Male Entrepreneur Institute, launched by the United States Black Chamber, addressed the employment gap among black men and what is needed to inspire new leadership. Entrepreneurs enrolled in the course receive business development counseling from participating business institutions and executive level business professionals (Small Business Administration, 2018).

The Federal Deposit Insurance Corporation (2017) and the United States Small Business Administration developed Money Smart for Small Business, which is an introduction to topics to start and manage a business. Money Smart for Small Business is designed to be delivered to new or operating small business owners by financial institutions through training modules. The training modules consist of topics such as: Is Owning a Business a Good Fit for You? Managing Cash Flow, Financial Management, Credit Reporting, and Banking Services Available to Small Businesses (Small Business

Administration, 2018). The training modules are intended to provide participants with the basics, along with servicing as a foundation for more advanced training.

Cravins (2016) discussed the need for greater loans for African American owned small businesses. The article discussed the 2016 State of Black America by the National Urban League. The National Urban League met with the Small Business Administration and the Milken Institute to express their concern of the inability of African American small businesses to obtain loans. If African American are unable to obtain loans through programs specially designed to assist them, then they have major challenges in becoming creditworthy. The National Urban League's Entrepreneurship Centers stated that it will continue to empower African American owned small businesses to become creditworthy through financial training.

The Federal Depository Insurance Corp (2017) provides a comprehensive financial education curriculum. Their program titled "Money Smart" is designed to help low- and moderate-income individuals enhance their financial skills and create positive banking relationships. Money Smart has reached over 3 million consumers since 2001, positively influencing how consumers manage their finances. Financial training strengthens financial stability for individuals, families, and communities.

The more individuals know about credit and banking services, the more likely they are able to save money, buy homes, and improve their creditworthiness. The Money Smart program could be used by financial institutions and other organizations interested in offering FEPs. The Federal Deposit Insurance Corporation encourages banks to work with other organizations in the community to deliver financial education and training.

Providing this type of training could help both consumers and could help banks meet the credit needs of their communities (Federal Depository Insurance Corporation, 2017).

Financial education, could assist African Americans and minorities become more financial astute. As an educated consumer, they could learn more about what is required to become more creditworthy. Financial training could result in African American becoming better consumers as they become better informed on money matters.

Gap in the Literature

Research indicates that there are racial disparities in the United States and that it limits the economic opportunities for minorities. In the article “What constitutes evidence of discrimination in lending?” Ferguson and Peters (1995) specifically states that “it is widely accepted that historical racial discrimination severely limit the economic opportunities available to minorities in the United States” (p. 744). The article continues to state that “even if there are not ongoing discrimination minority groups are likely to be socially/ economically disadvantaged relative to whites” (p. 744).

The article further infers that “because minority groups are disadvantaged that it is difficult to disentangle racial discrimination from legitimate economic discrimination in lending markets” (p.744). The referenced article concludes that “minority groups currently fare poorly relative to whites in the banking system may be due to historical discrimination against minorities in various areas to include education” (p. 745). As credit scoring systems do not fully explore all the predictors of loan repayment such as the use of financial education as an alternative method of enhancing creditworthiness this

adds credibility to financial training as one means of addressing financial discrimination in the banking system.

Research implicates that African Americans are denied credit proportionally higher than other ethnic groups. While research exist on banking disparities within the minority community limited research exist on causation factors for the disparities in the African American community. The studies that do exist are designed to compare minority consumer lending with non-minority lending in the financial market. The research assumption is that financial discrimination for all minority groups can be captured under one heading “minority”.

This is a broad assumption as each ethnic group has varying characteristics. In this context banking practices could have a different effect on African Americans seeking financial support from lending institutions than do other ethnic groups. This research is designed to explore the unique discrimination factors African Americans face and how these factors serve as a catalyst to perpetuate discrimination in the financial lending system for this group. The study will also address the value lending institutions place on financially supporting the types of training that could eliminate some of the credit risk factors that uniquely effect African American consumers.

One of the areas Ferguson and Peters (1995) acknowledge as a factor in historical discrimination against minorities is education. This study will specifically consider the factor of training as an important element in enhancing creditworthiness of African Americans. Thus, the proposed study may potentially highlight the barriers that exist for

African American consumers and present measures that can serve to advance financial opportunities within the African American community.

Bruno-Britz (2005) conclude that “minorities often bring a different point of view of what constitutes financial services” (p. 55). This supports the conclusion that minorities do not possess the knowledge needed to capitalize on the banking services that exist in financial institutions. Banking officials use both subjective and objective evaluation factors to determine African American ability to qualify for consumer loans. This implies that there is a need for consumers especially African Americans to be better informed on lending institutions scoring systems and the criteria for evaluating loans along with the value assessed in reviewing credit history.

This research could show a direct correlation between financial training and creditworthiness and that financial training and education could provide more opportunities for all stakeholders to include African American consumers and banking institutions. This could especially be beneficial to financial institutions located in the minority communities.

The study addressed the needs of the African American community as a separate group within the minority group. The results of this study could serve to educate African American banking officials on how their attitudes towards African American consumers may influence their organizations’ banking policies, practices, and procedures. Thus, this study was designed to highlight minority banking officials’ perceptions of African American consumers’ creditworthiness and to provide additional research in this underexplored area in the literature.

The findings in this study indicate that African Americans are impacted by negative credit scoring at a larger percentage than other ethnic groups. Credit scores is the primary indicator utilized by banking institutions and their banking officials to determine creditworthiness. The use of credit scores directly impacts the ability of African Americans to obtain credit and their ability to ascertain loans. The data supports the hypothesis that financial training can serve as a positive factor in helping African American improve their credit scores. This study concludes that financial training was the most valuable tool in advancing the opportunity for African Americans in reaching their financial goals.

Within this broad finding of financial training as an asset for African Americans, the research data revealed subfactors that could improve African Americans creditworthiness. These subfactors include: promoting the importance of financial training prior to the time financial assistance is needed; making financial training a part of the individuals course of study throughout their life cycle; developing strategies within the banking community to eliminate the stigma that accompanies financial training in the African American community; instituting policies and procedures that provide second chances or reviews after applicants have been denied credit and setting aside funding within financial institutions to address the specific needs of African Americans seeking to reach their objective of financial creditworthiness.

The data also supported the finding that in addition to credit scores banking officials assess loan applications based on applicants' credit history and applicants' ability to repay loans. These two factors set forth a bias within the scoring matrix as

these factors are often not favorable to African Americans. Credit applications may not provide the opportunity for applicants to present additional information on their unique circumstances which could improve their ratings and assist banking officials in better determining African Americans' creditworthiness. As this bias is likely to remain a part of the applicants' portfolio, it is imperative that African Americans be aware of the important factors that prevent them from being considered creditworthy.

Financial education and training therefore are very important in equipping African Americans with the knowledge needed to increase their participation in securing financial resources. The findings of this study provide useful data that can improve African American creditworthiness and present potential opportunity to increase the financial welfare of African Americans, banking institutions and the society.

Chapter Summary

This chapter discussed how banking policies, practices, and procedures impact African American creditworthiness. It highlights the disparities that exist within the present lending institutions and the financial training programs that presently exist within the banking community. This chapter also analyzed the concept of credit risk and outlined its effects in the African American community especially in the areas of lending opportunities and home mortgages. It also included race theory as a proponent of explaining the phenomena of inequity within the society. It addressed how inequity impacts minorities in all sectors of society to include finance and banking and the value of financial training in enhancing creditworthiness of all minorities, especially African Americans.

Chapter 3: Research Methodology

Introduction

The purpose of this qualitative, phenomenological study was to explore the significance of financial training in enhancing African American creditworthiness in AAOBs in the Southeast United States and solicit information on the financial training programs that exist within the minority owned banks. Qualitative research allowed me to pursue more in depth open-ended questions to obtain individual responses from participants. More in-depth questioning of local minority banks identified current policies, procedures, and training programs and how these programs have affected the overall minority banking and lending practices. I collected data from participants through surveys and interviews.

Research Design and Rationale

To better understand the impact of FEPs on creditworthiness of applicants in the bank's review process, the following research questions were addressed in this study:

1. What banking policies, practices, and procedures are used to determine creditworthiness and how do these criteria impact the African-American community?
2. What legal authority and latitude do African-American banking officials have in making decisions to change or implement banking programs?
3. What types of programs are useful in improving African American creditworthiness?

4. How can banking data on African American creditworthiness be useful in creating a more equitable lending matrix for African American consumers?
5. Does your financial institution offer financial education training workshops/programs specifically for minorities such as African Americans?

Qualitative research is used to understand human behavior. I used this approach to evaluate African-American banking officials' perceptions of African Americans' creditworthiness and the impact their perceptions have on granting loans. Further, I chose the phenomenological approach to capture in-depth information and perceptions interviews, discussions, and participant observation.

The phenomenological research design was selected because it is used to understand people's perceptions and perspectives relative to a particular situation. Because phenomenological researchers typically interview a small number of participants to obtain data (Leedy, 2019), I interviewed nine participants who had a direct experience with the phenomenon. I focused on the effectiveness of financial education and training as an aspect of accessing creditworthiness for the African-American ethnic group.

Participants were sampled from minority banks within the Southeast United States. There are 23 AAOBs in the United States; participants in the study represent four out of the nine owned AAOBs in the Southeast and four out of the six states where AAOBs are located. Data were obtained through interviews and questionnaires with African American bank's banking officials to identify their procedures and programs as they reflect on financial training.

Role of Researcher

I was a part of the data collection instrument because this was a qualitative study. To understand the phenomena from the perspective of the participants, I served as an observer–participant to be immersed in the research setting and have close contact with the participants. This led to better reflections in data collection through interviews and questionnaires.

Though I have over two decades of experience in the financial services area, I did not have supervisory or instructor relationships involving power over the participants. I have worked for both a national and community bank, serving in the following capacities: management associate, assistant branch manager, branch manager, market manager (vice president), retail financial advisor (vice president), small business banker (vice president), and consumer/professional and executive banking manager (vice president).

I worked to direct and monitor branch activities to achieve market sales, service, and retention goals. I also planned and managed market financial performance while initiating loans for consumers and small business customers and developing lead sources for future business. As a retail financial advisor, I was also responsible for developing and implementing a new banking program designed to generate new business and foster greater community relations.

As a small business banker, I developed a variety of small business loans and lines of credit to new and existing customers in addition to establishing new customer relationships for small businesses. Additionally, I have handled relationships and requests for customers including consultative selling and credit services as well as

conducted bank seminars covering topics such as credit, borrowing, saving, and budgeting. Despite this experience, I worked to ensure that objectivity was used during the data collection.

Methodology

Target Population and Sampling Procedures

The participants consisted of the AAOB officials in the Southeast United States. The selection of banks were determined by the acceptance of the banking officials for interviews to be conducted. Interviews helped obtain their perceptions of the use of FEPs in granting credit to African Americans. I also evaluated existing programs that are offered by the banks to assist minorities, specifically African Americans with obtaining credit or building credit for future borrowing opportunities.

The United States currently has 155 minority-owned banks, with 23 identified as Black or African American owned. Nine of the AAOBs are located in the Southeast United States in Alabama, Georgia, Louisiana, North Carolina, South Carolina, and Tennessee. Alabama, Georgia, and Tennessee consist of two different banks headquartered within their states. The remaining states have one bank headquarter each. This represents 39% of all AAOBs in the United States.

The Southeast region was selected based on the number of potential AAOBs that are based in the area. I targeted banking officials in this region. The selection of banks were determined by the acceptance of the banking officials to discuss their existing policies, procedures, and programs as they relate to borrowers, specifically African Americans.

Data Collection

To select the participants for the study, I used an introduction letter to request a face-to-face meeting and follow up with telephone calls to banks located in the Southeast United States. I targeted the banking officials of AAOBs located in this region. Once individuals agreed to participate in interviews, interview questions were mailed with a cover letter outlining the overall description of the research and the timeframe for conducting the interview. Interviews were scheduled timely with the participants. IRB approval number is 03-19-19-0017578.

I provided each participant with a consent form that explained the purpose of the study, procedures, data collection, and the participants' confidentiality rights. Table 1 provides a synopsis of the information on each participant and how I first contacted each participant. I reached out through an invitation letter to the nine AAOBs in the Southeast United States for their participation in this study. Of the nine banks, I was able to personally speak with eight of the banks' representatives. After numerous attempts to obtain the consent to interview bank officials, I obtained letters of cooperation from four of the AAOBs in the Southeast United States.

Table 1

Initial Participant Contact

Letter of introduction to Bank 1 on March 25, 2019. From March 29 through April 11 numerous attempts were made to obtain a letter of cooperation from the bank. Although numerous attempts were made, I was not granted a letter of cooperation.

Letter of introduction to Bank 2 on March 25, 2019. From March 29 through April 3 attempts were made to obtain a letter of cooperation from the bank. On April 3, a letter of cooperation was received from Bank 2. I worked with Bank 2 to arrange for the interviews to be conducted on May 7, 2019. Three interviews were conducted on that day.

Letter of introduction to Bank 3 on March 25, 2019. From April 1 through May 29 numerous attempts were made to obtain a letter of cooperation from the bank. Although numerous attempts were made, I was not granted a letter of cooperation.

Letter of introduction to Bank 4 on March 25, 2019. From April 1 through June 11 numerous attempts were made to obtain a letter of cooperation from the bank. Although numerous attempts were made and conversations held with vice presidents of the bank, permission to conduct interviews were not granted.

Letter of introduction to Bank 5 on March 25, 2019. From March 29 through April 8 attempts were made to obtain a letter of cooperation from the bank. On April 15, a letter of cooperation was received from Bank 5, and I was granted an interview on April 24, 2019.

Letter of introduction to Bank 6 on March 25, 2019. Researcher spoke with Bank 6 on March 27, 2019 and obtained a letter of cooperation from the bank. Three Interviews were conducted on April 23, April 25, and June 5, 2019.

Letter of introduction to Bank 7 on March 25, 2019. Banking Official responded promptly and provided me with a letter of cooperation for the bank. Researcher worked with the bank representative during April, May, and June to schedule interviews. Two interviews were conducted on June 26, 2019.

Letter of introduction to Bank 8 on March 25, 2019. From April 1 through June 5 numerous attempts were made to obtain a letter of cooperation from the bank. Although numerous attempts were made and conversations held with bank representative, I was not granted a letter of cooperation.

Letter of introduction to Bank 9 on March 25, 2019. From April 8 through June 5 numerous attempts were made to obtain a letter of cooperation from the bank. Although numerous attempts were made and conversations held with bank representative, I was not granted a letter of cooperation.

Although I was not able to obtain letters of cooperation from all the banks I contacted, interviews were conducted with nine individuals representing four of the eight banks that did respond to the letter of introduction. The nine interviewees provided thorough responses to help answer the research questions. Based on the responses and similarity of respondent interviews, there were adequate data from the sample size.

I advised the participants of their confidentiality rights and explain that the information they shared would remain confidential without any identification of their names associated with their comments. I also ensured objectivity, avoiding arbitrary and leading questions to mislead the respondents. The results helped to identify AAOBs that currently have or previously had programs to assist African Americans in becoming more creditworthy. I also analyzed the responses to determine banking officials' perceptions of FEPs.

The research included examining policies and/or procedures currently used by the bank to determine creditworthiness. I sought to find programs offered by the banks to assist minorities, specifically African Americans, with obtaining credit or building credit for future borrowing opportunities. I used face-to-face interviews to help participants feel more comfortable with sharing their ideas and assessments. These in-depth interviews allowed the participants to share past, present, and any future endeavors that their institution may plan to implement. I used an interview protocol for asking questions and recording responses, asking further questions as necessary for further description of the financial workshops/programs.

I also obtained information in reference to the history of the bank from inception through the present time, in order to obtain an understanding of its existence. Most recent annual financial report will be obtained to identify the bank's overall asset holdings. The interviewer gave the interviewees the opportunity to share any information they feel will be helpful in understanding the bank and its overall credit policies or procedures. The sources of data were in-depth open-ended interviews with banking officials of AAOBs. The researcher developed questions that will be asked of all participants. The interviews were conducted at selected sites or through interview data. The data was collected during the months of April through June 2019.

The interviews allowed the researcher to gather information regarding the study directly and indirectly, which can be an important form of data collection. Each interview lasted no longer than 1 hour. The researcher requested to audio-tape the interview as well as take notes during each interview. The interviews and notes taken from each of the interviews were transcribed. After completion of the scheduled interviews, the researcher will conduct follow up interviews, if necessary.

The interview process allowed participants to respond based on their perceptions of the use of financial educational programs in granting loans to African American consumers. The interviews were used to gain insights into the banking officials' personal experience in the use of financial education. Interviews with the participants were conducted to identify their perceptions in regards to the use of financial educational programs in granting loans to African American consumers. Thus, the interviews paired

with general survey questions were used to reveal current perceptions in the area of the use of financial educational programs at the selected AAOBs.

Regarding the triangulation of data collection, the researched included valuable input from the participants through in-depth interviews, notes taken during each interview, and the general survey questions answered by participants who agree to participate in the face to face interviews with the researcher. The survey was used to gather general information about the financial educational offerings of the AAOBs. The information gathered during the interviews assisted the researcher in analyzing the data and in focusing on in-depth interviews with the banking officials.

The researcher developed the questions to assist in guiding the interviewees in providing their perceptions about the use of financial educational programs in granting loans to African American consumers. The researcher asked each participant to elaborate on their experience with the use of financial educational programs. The interviews added to the scope of information obtained by the researcher and assisted in reinforcing the triangulation of the collected data.

The researcher transcribed the interviews and added them to the notes taken during each interview. The researcher also gathers database resources to obtain additional information on AAOBs and their training policies for African Americans in the Southeast region. The questionnaires, interviews, surveys, and other database resources assisted the researcher in understanding the perceptions of banking officials in the Southeast region of the United States. It also provided vital information on the use of financial educational programs in granting loans to African American consumers.

Data Analysis

Data was collected and analyzed. This involved in depth information obtained through surveys, questionnaires, and database resources. Qualitative data was collected and analyzed for the periods between April and June 2019. For this study, a phenomenological research method was selected because the researcher was interested in understanding the perceptions of AAOBs' banking officials in the Southeast region in regards to the use of financial educational programs in granting loans to African American consumers.

The first principle of analysis of phenomenological data is to use an emergent strategy, to allow the method of analysis to follow the nature of the data itself. A common approach is to abstract out the themes. Once they have been abstracted and presented, the themes that are essential to the phenomena were highlighted.

Creswell (2009) suggest using a linear, hierarchical approach building from the bottom to the top to analyze the data. This included: organizing and preparing the data for analysis; coding the information into segments of data through hand coding or the use of computer software programs; describing the setting or people as categories or themes for analysis; conveying the findings of the analysis through a qualitative narrative and interpretation of the data.

The researcher organized the collected data into segments based on themes that will emerge. After identifying the themes, the researcher aligned them with the research questions along with the frequency of its occurrence. This classification allowed the researcher to decipher each interview transcript to identify categories and themes

necessary to be included in the final document. The themes assisted the researcher in coding the information for analysis.

The researcher used computer software to aid in organizing the data files, connecting themes, analyzing the data, and reporting the findings. The researcher entered the qualitative data into NVivo software for the analysis of the data in order to determine the relevancy between the research questions and the notes taken throughout the interviews. Handwritten notes and documents were assembled to assist with the importing of information based on responses to the interview questions.

For triangulation purposes, data gathered from the interviews and surveys were cross-checked in order to determine if new or different codes are needed. The triangulation process involves making sense of the multiple sources of data to provide common themes. The recorded responses were presented to the participants for their review and comments. This process ensured that the responses are actually the participants' true feelings, thoughts, and ideas.

Issues of Trustworthiness

Reliability and Validity

The primary strategy utilized to ensure external validity will be the use detailed description to convey the findings. "Validity is one of the strengths of qualitative research and is based on determining whether the findings are accurate from the standpoint of the researcher, the participant, or the readers of an account" (Creswell, 2009, p. 191). The methods utilized in this study were responses from the participants during the interviews. The interview data and researchers note during the interview

process helped in determining whether or not the findings of this study on financial education could be transferred to a larger population. Member checking helped minimize investigative bias.

The researcher used multiple sources of data for this study including responses to interview questions, written notes from the interviews, and the interview transcripts, along with database resource. Data included all forms that grant the researcher permission to conduct the study from the participants and approval from Walden University. Member checking was used to solidify the credibility of the study.

The responses that the researcher audio-tapes were presented to the participants for their feedback to ensure the responses are indeed the participants' true feelings, thoughts, and ideas. Once member checking was complete, the participants reviewed the researcher's notes for verification purposes. Reliability was ensured through checking transcripts to ensure that they do not contain obvious mistakes made during transcription. The researcher made sure there are no shifts in the definitions and meanings of codes.

Protection of Participants' Rights

The participants were assured of strict confidentiality throughout the research study. Participants were given clear and concise information to ensure that they understand what it means to participate in this research study, so they can decide whether they want to participate in the study. They were informed of their rights to stop and discontinue participation at any time during or after the study. All in depth interviews were tape recorded and transcribed accurately responses from participants. Handwritten

notes were taken during the interviews by the researcher. All data will be maintained according to University requirements.

Prior to any request for participant involvement, appropriate permissions were sought through the dissertation committee chair and Walden University's Institutional Review Board. The researcher followed the University's Institutional Review Board's and the study sites' guidelines to safeguard the participant's rights. Once approval was obtained, participants were contacted in reference to participating in this research process.

Chapter Summary

The research and methodology section, include research design, population and sample, geographic and location, document collection, analysis, and reliability and validity of research. The section also includes supporting documentation that protects participant's data and objectivity of findings and results as described. This research reinforces how this type of study can be used for an inquiry that allowed the researcher to identify the essence of human experiences about the phenomena of financial training and creditworthiness as described by participants.

The researcher collected data that provide findings that emerged during data collection. Computer software was used to assist in conducting the data analysis. The analysis provides more detailed perceptions of African American banking officials in the use of FEPs in granting loans to African American consumers.

Chapter 4 includes the findings of this study. Chapter 5 includes a summary of the findings and implications for financial training, as it impacts lending institutions and

consumers. As well, the findings will highlight the implications this study has on social change and make recommendation for further study.

Chapter 4: Results

Introduction

The purpose of this qualitative, phenomenological study was to determine whether financial training benefits African Americans in becoming more creditworthy. Creditworthiness was defined as past and future ability and willingness to repay debts. Financial training, or FEPs, were defined as programs to assist individuals with understanding banking and obtaining credit. The following five research questions were used to guide this study:

1. What banking policies, practices, and procedures are used to determine creditworthiness and how do these criteria impact the African-American community?
2. What legal authority and latitude do African-American banking officials have in making decisions to change or implement banking programs?
3. What types of programs are useful in improving African American creditworthiness?
4. How can banking data on African American creditworthiness be useful in creating a more equitable lending matrix for African-American consumers?
5. Does your financial institution offer financial education training workshops/programs specifically for minorities such as African Americans?

Chapter 4 includes a description of the setting of data collection, followed by descriptions of the relevant demographic characteristics of study participants. Next, this chapter includes descriptions of the implementation of the data collection and data

analysis procedures described in Chapter 3. Chapter 4 then proceeds with a presentation of the results, which are organized by research question. The chapter concludes with a summary.

Setting

The two most important considerations in selecting interview locations were the need to protect participants' confidentiality and the need to make the interviewing process as convenient as possible for participants. Both goals were achieved by conducting the interviews in participants' offices. Participants' offices provided privacy so the interview would not be overheard or the interviewee identified as a participant in this study. The use of these offices also required no travel from participants. Interviews were conducted on a date and at a time of each participant's choice to ensure adequate time to answer the questions fully. No conditions preceded or arose during any of the interviews that should be taken into consideration when evaluating the results.

Demographics

There are 23 AAOBs in the United States; nine of these banks are located in the Southeastern region. Questionnaire and interview data were collected from nine officials recruited from four of the nine AAOBs in the Southeastern United States. Table 2 indicates the relevant demographic characteristics of individual participants.

Table 2

Participant Demographics

Participant	Years of experience in an AA-owned bank	Years of experience in banking	Job titles held in banking	Employment in AA-owned bank was part of career plan
P1	16 to 20	>20	Branch Manager, Business Banker, Loan Officer	No
P2	16 to 20	>20	Personal Banker, Loan Officer, Business Banker, Commercial Lender	No
P3	1 to 5	11 to 15	Branch Manager, Loan Officer, Business Banker, Commercial Lender	Yes
P4	11 to 15	>20	Branch Manager, Loan Officer, Business Banker, Commercial Lender	No
P5	6 to 10	>20	Customer Service Rep, Loan Officer, Commercial Lender	No
P6	6 to 10	>20	Customer Service Rep, Loan Administrator	No
P7	>20	>20	Personal Banker, Business Banker	Yes
P8	11 to 15	>20	Loan Officer, Vice President	No
P9	>20	>20	Board of Directors	No

Data Collection

Data collection involved demographics questionnaires consisting of seven close-ended items and semi structured interviews comprising 30 questions. Both types of data were collected during a single, face-to-face meeting with each participant in his or her private workplace office. Each participant took approximately 1 minute to respond to the demographic items by hand, circling the applicable responses on the printed questionnaire. Interviews took approximately 1 hour to complete. Interviews were audio-recorded using a digital recording device. No unexpected circumstances were encountered during any of the meetings.

Data Analysis

Transcripts were uploaded into NVivo 12 software and analyzed using the hierarchical approach suggested by Creswell (2009). The analysis procedure involved four steps: (a) organizing and preparing the data for analysis; (b) coding the data in NVivo; (c) defining the participants as units of analysis to facilitate comparison of number of contributors across codes and themes, and (d) conveying the results through a qualitative narrative and interpretation. In Step 1 of the analysis, data were prepared through verbatim transcription and deidentification of recorded interview and questionnaire data into MS Word documents. Interview transcripts were uploaded into NVivo 12 software analysis. The transcripts were then read and reread to gain familiarity.

Step 2 of the analysis involved coding the data. As recommended by Creswell (2009), coding was emergent and hierarchical, meaning that it involved breaking the data

into smaller units and then building these up into larger patterns and themes that emerged from the data itself. First, phrases and groups of phrases from the transcripts that expressed similar meanings or experiences were grouped under a child node in NVivo. The child node was labeled with a descriptive phrase to summarize the identified pattern, and each resulting child node represented a code.

Next, similar child nodes were grouped under parent nodes, which were labeled with descriptive phrases and represented themes. The final stage of the coding process involved revising theme names to reflect their alignment with the research questions. Table 3 indicates the themes that emerged during data analysis and the number of transcript excerpts included in them.

Table 3

Data Analysis Themes

Theme	<i>n</i> of participants who contributed to theme (<i>N</i> = 9)	<i>n</i> of transcript excerpts grouped into theme
Theme 1: Credit score is the primary factor used to determine creditworthiness	9	33
Theme 2: Reliance on credit scores may disadvantage African Americans who lacked childhood financial education	9	29
Theme 3: Banking officials can advocate for and guide loan applicants	9	43
Theme 4: Existing educational programs improve African Americans' creditworthiness	9	29
Theme 5: Implementing childhood financial education would further improve African Americans' creditworthiness	7	14
Theme 6: Banking data can be used to demonstrate the need for a more equitable lending matrix	9	44
Theme 7: Some institutions offer financial education programs specifically targeting minorities	9	18

In the third step, comparisons were made throughout the NVivo coding tree to determine the number of participants who had contributed to each code and theme. Themes that were attested by all or most participants were identified as essential aspects of the phenomenon of interest, with the intention of eliminating themes with attestation from fewer than five participants as inessential. However, no themes with insufficient attestation had emerged. The fourth and last step of the analysis involved creating the presentation of results provided in the Results section of this chapter.

Results

This presentation of the results is organized by research question and within research question by emergent theme. Results related to Research Question 1 indicated banking policies, practices, and procedures used to determine creditworthiness and how these criteria impact the African-American community. In relation to Research Question 2, results indicated what legal authority and latitude African-American banking officials have in making decisions to change or implement banking programs. Results associated with Research Question 3 indicated what types of programs are useful in improving African Americans' creditworthiness. Results related to Research Question 4 indicated how can banking data on African American creditworthiness be useful in creating a more equitable lending matrix. Results related to Research Question 5 indicated whether financial institutions offer financial education training to African Americans.

Research Question 1

The research question was “What banking policies, practices, and procedures are used to determine creditworthiness and how do these criteria impact the African American community?” Two themes emerged during data analysis to answer this research question: (a) Credit score is the primary factor used to determine creditworthiness (b) and reliance on credit scores may disadvantage African Americans who lack childhood financial education.

Theme 1: Credit score is the primary factor used to determine creditworthiness. All participants indicated that a loan applicant's credit score is the primary factor used in determining his or her creditworthiness. Other factors (such as

patterns in late payments) may be used to contextualize a below-threshold credit score. Contextual factors may be considered when determining whether an applicant with a subthreshold score should be guided in repairing his or her credit report to increase loan eligibility upon reapplication. However, under most circumstances a loan will not be made to an applicant whose credit score is below the bank-set score threshold. Banking officials' legal latitude in advocating for exceptions to a bank's loan-eligibility requirements is discussed in relation to Theme 3, which is associated with Research Question 2. Table 4 indicates the codes that were grouped into Theme 1, the number of participants who contributed to them, and the number of transcript excerpts included in them.

Table 4

Theme 1 Codes

Code	<i>n</i> of participants who contributed to code (<i>N</i> = 9)	<i>n</i> of transcript excerpts grouped into code
Low credit score results in loan denial	9	12
Credit-score threshold is set by bank	8	11
Documenting evidence of greater creditworthiness than credit score indicates	4	6
Evidence that a low credit score is an accurate indication of low creditworthiness	4	4

All nine participants indicated that a loan applicant's credit score is the threshold consideration in determining creditworthiness. P1, for example, stated, "I would say the

number one reason [loan applications are denied] is the credit score. We have a minimum credit score of 650, and it's amazing how many people below 650 apply for credit." P4 discussed how credit scores are determined and indicated that many loan applicants are unaware of the importance of their credit score until they apply for a loan:

Your credit score is derived from a model called your FICO score. ... Everything that you've done relating to credit indirectly or directly affects your credit score. ... It's an educational thing that we [African Americans] just don't really know about, until you apply for a loan, and all of a sudden, here it is. ... If you end up below [a credit score of] 600, you're not going to get anything from a bank. You're just wasting your time.

P2 stated that, when reviewing a loan application, "I'm going to look at the credit score" as the threshold consideration. P2 then described additional considerations used to determine the maximum amount of a loan when the credit score is over the threshold value:

If you have savings and you want to borrow based on your savings, then we could do 100% of that. If you want to buy a house at the bank itself, we'll do 90% and you have to put 20% down and pay the closing costs. If you want to refinance, we'll look at 85% of the appraised value, and if there's enough equity in there to include closing costs, we can do that.

P7 also indicated that banks had discretion in determining credit-score thresholds for loan eligibility and stated that one means by which an AAOBs serve customers who have lower credit scores is by lowering this threshold:

Some of the banks, especially majority banks, they look at a credit score of 700 or above [for loan eligibility], whereas minorities [minority-owned banks] are looking at anywhere from 640 and above, sometimes even a little bit lower if they feel it could help a customer.

When a loan applicant's credit score is below the eligibility threshold, officials in AAOBs may consider mitigating or aggravating contextual factors to determine if the applicant should be guided in repairing his or her credit score to reach the eligibility threshold in a future reapplication, or if the applicant's low credit score is an accurate reflection of the applicant's low creditworthiness. P8 described factors used to distinguish between these two types of ineligible applicants:

If I see a couple late payments [in a credit record] and if I see just a late payment here, a late payment there, that means, "I just don't like paying my bills. I don't really care about my credit." If I see late payments all in the same area, I put my pen down and say, "Let's talk. Tell me what happened." And if there's something that made sense and I realize their credit prior and their credit after that was good, there was just something going on that was kind of beyond their control. ... If it's just NSF's [nonsufficient funds], if I see NSF's on every bank statement, we probably have a problem. We can't manage money. If I see just a small amount and it's all around the same time, again, something happened [beyond the applicant's control]. ... then we have to work on trying to get their credit score up to meet the guidelines.

P5 also described a set of criteria used to contextualize credit scores in a business-loan setting:

The [applicant's] willingness to show the operation of their business, financial statements, having advice from an accountant, professionalism. ... When you look at a credit review, are they truthful? Have they divulged all the information? The quality of their documents that they provide. They have that knowledge of that business, that management style, how many employees they may have, things of that sort.

P3 described unreported income as a consideration used to contextualize low credit scores:

They have the [necessary amount of] income, but it's not on paper. So now their debt to income [ratio, a factor used in determining credit score] is off because I'm not able to show that they have enough income to support their current debt. ... Maybe they didn't file their taxes, or are getting paid under the table, things like that.

Theme 2: Reliance on credit scores may disadvantage African Americans who lacked childhood financial education. The nine participants indicated that African Americans lack the skills needed to manage money due to parental influence. Participants expressed the perception that African American adults seeking loans are often raised by parents who did not know how to manage their limited financial resources. African Americans were not taught the value of credit and did not seek financial training as financial literacy was not considered important within the African

American community. The implication from banking officials is that parents who lack money management skills effect how their children manage their finances. This absence of financial knowledge results in African Americans having low credit scores which impact their ability to qualify for loans. The use of credit scores as the primary consideration in determining creditworthiness, was therefore perceived as the reason many African Americans were denied loans.

P7, for example, stated of the effect on African Americans of banks' reliance on credit scores as the sole or primary consideration in determining a loan applicant's eligibility, "the credit report is really a stigma or setback for African Americans because . . . if you have a score that's not where it should be, then it affects everything."

Participants expressed the perception that African Americans are often raised by parents who did not know how to manage money because they had no money to manage, and that such parents were unable to instruct their children in prudent financial habits. Table 5 indicates the codes that were grouped into this theme, the number of participants who contributed to them, and the number of transcript excerpts included in them.

Table 5

Theme 2 Codes

Code	<i>n</i> of participants who contributed to code (<i>N</i> = 9)	<i>n</i> of transcript excerpts grouped into code
Credit-damaging mismanagement of personal finances perceived among African Americans	6	13
Socio-historical causes of parents' inability to pass down money-management skills	4	8

Parents' ignorance of sound money-management strategies contributes to their adult children's ignorance	4	8
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Participants indicated that African Americans who have low credit scores that make them ineligible for loans tended to damage their own creditworthiness through mismanagement of personal finances. P1 indicated that some ineligible loan applicants do not know how to manage their money and, as a result, take on credit-damaging credit-card debt:

What we see is a lot of people are living above their means. The number one, they don't have a budget. Number two, they don't have a savings account. They don't have any rainy day or reserve funds. Their credit cards are maxed out. They may have two or three credit cards; they're paying 18.4% interest. They're paying interest only. And they just can't get out of that cycle. ... We [bank officials] can't extend them credit because they're just maxed out. So, it's kind of like a vicious cycle.

P3 also described ineligible loan applicants as damaging their credit scores through mismanagement of personal finances:

One of the main things [ineligible loan applicants lack] is just being able to balance your debt. ... for one, not taking on too much debt, having a good balance there. Also, knowing your limits. If you just purchased a car a year ago, a new car, then not to go back and try to get another new car.

P4 perceived loan applicants' credit scores as being under their control:

If you controlled your finances to the point that you have honored all your obligations on a consistent basis for a number of years, then you're pretty solid [as a loan applicant]. ... and if you have done a bad job in doing it, then you'll have some problems doing something on credit, buying a house or a car. Really, the ball's in your court.

P2 perceived many African American parents' lack of knowledge of sound money-management strategies, and their resulting inability to pass those strategies on to their children, as the primary reason for adult African Americans' low credit scores:

[African American] parents are not versed in business, so they can't hand it down to their children naturally. What happens with a lot of Caucasians, they grew up in a household where their parents already owned businesses, or they are well-versed enough, have gone to school enough, and their vocabulary, and their means of managing a family and funds are totally different [from those of African Americans without the same experiences and resources], but they're handing it down to the children. And we, as African Americans, don't have a lot of that.

P8 agreed with P2 in attributing the low credit scores of some African Americans to a lack of childhood instruction in money management:

I think one of the number one [reasons for low credit scores] is [that] we [African Americans are] not taught credit in the household, and I don't think that's on purpose. I think just generations have not always understood and dealt with credit, and so no one saw it as a big importance to our communities, so it's not always taught in the house.

Participants indicated that another reason why African Americans may pass down financial habits and expectations that are maladaptive under current banking practices is that credit scores have not traditionally been a consideration in African American communities. P9, for example, stated, “in [African American] communities, credit score doesn’t mean anything. It’s the [personal] relationship [between borrower and lender] that means something.” P5 referred to a transition in African Americans’ banking practices over time, in which creditworthiness ceased to be determined by personal familiarity and started to be determined through the impersonal medium of the credit score:

In the old days, banking people [from local banks that served African Americans] knew you, knew your family, and in many cases, you got credit because of that reputation. So, as things transpired, and you enter state banking and regional banking, and you have these national conglomerates, and based on the internet, algorithms, programs of that sort, things have completely changed to where everyone is a number, a credit score. Then, that’s what [banks] look for now, a high credit score.

Research Question 2

The research question was: What legal authority and latitude do African American banking officials have in making decisions to change or implement banking programs? One theme emerged during data analysis to answer this research question, as follows: 3) Banking officials can advocate for and guide loan applicants.

Theme 3: Banking officials can advocate for and guide loan applicants. All nine participants indicated that officials in AAOBs have legal authority and latitude to approve loan applications that satisfy the bank's eligibility criteria. When a loan applicant is ineligible under the bank's criteria, banking officials can consider contextual factors, either to advocate for higher-level approval, or to guide the applicant in repairing the defects in his or her credit history. Table 6 indicates the codes that were grouped into this theme, the number of participants who contributed to them, and the number of transcript excerpts included in them.

Table 6

Theme 3 Codes

Code	<i>n</i> of participants who contributed to code (<i>N</i> = 9)	<i>n</i> of transcript excerpts grouped into code
Considering context of applicant ineligibility	9	21
Advocating for ineligible applicants	9	12
Customer orientation within policy limits	9	10

Participants indicated that they had legal latitude and authority to consider the context of a loan applicant's ineligibility, either to advocate for upper-management approval of an exception to the eligibility criteria, or to work with the applicant to remedy the causes of ineligibility. P9 stated of banking officials:

They have some latitude, within reason. But we hire professionals and we try to hire seasoned people that understand the risk associated with credit. We're also

realistic. ... The question that we have to ask ourselves [regarding an ineligible loan applicant] is how do we help them get back to where they really need to be? We don't want them to hide from the fact that they're having a problem. Let's talk about it and see how to work through it together. We do that a lot, sometimes to our detriment, but we do that a lot.

As P9's response suggested, officials in African American banks may be more sensitive to a loan application's context than officials in other banks. P1 described consideration of a loan application's context as a standard procedure in AAOBs, in contrast to banks for which an applicant's credit score may be the only consideration:

We look at the whole [context of a loan application], some banks just look at the credit score, because you're submitting it online. They're using some artificial intelligence to kind of look at some different factors. Well, we really do look at the whole picture.

P2 emphasized, however, that consideration of contextual factors did not permit bank officials to relax eligibility policies on their own authority:

Community banks have to look at the full picture. So, we look at how long they've banked with us, how much they have in the bank, how long they've been on their job. What assets they have, how they've handled credit with us in the past if they've had credit. How they've handled credit with other creditors. ... But we still have to follow the guidelines even though we have that authority [to examine contextual factors].

Consideration of contextual factors can influence banking officials to recommend an application for approval by a higher authority, in which case the recommending official has discretion to advocate for the applicant. The simplest circumstance in which a banking official will need to advocate for a customer occurs when the applicant meets the eligibility criteria, but the amount of the requested loan exceeds the official's lending authority. Some banking officials have authority to approve loans up to a prescribed cap when the applicant meets the bank's eligibility criteria, but must submit the application and a recommendation to higher-level managers if the requested loan amount exceeds his or her authority:

A lender will have their own lending authority. For example, if I'm a lender my lending authority may be \$50,000. If a customer comes in and wants to borrow \$75,000, of course that's over my limit. We can go through all the paperwork, get everything done, and I can say yes on my end, but I have to get it approved by someone who has lending authority above mine.

P8 had authority to approve portfolio loans that met eligibility criteria up to a set cap, but most loan applications submitted to the bank needed to receive approval from a brokering institution in which P8 had no authority:

Most of our loans are brokered, so that's approved by the institution we send it to, but if it's an internal loan, a portfolio loan for us, I'm the primary. If it's still a good loan and it goes over \$500,000 [P8's cap], I just simply sit down with our CEO or our Chief Credit Officer and if they sign off on it, we're fine.

More complex circumstances in which banking officials have discretion to advocate for a customer occur when a loan applicant does not meet the bank's eligibility criteria. P6 had latitude to advocate for higher-level approval of a loan application that did not meet the eligibility criteria indicated in the bank's policies: "We've approved loans that don't necessarily meet our policy. And that's with CEO approval, giving somebody a chance when they don't necessarily qualify, but they're close." P3 worked under a similar policy, in which loan applicants who did not meet the threshold eligibility criteria could receive higher-level approval for relaxation of policy requirements. P3 perceived her role in these instances as one of determining the context of a loan applicant's ineligibility, and advocating for the applicants she believed to be creditworthy in light of those contextual considerations:

I feel like I am an advocate for the customer, so if I am able to understand [mitigating circumstances surrounding ineligibility], that goes back to [applicants] being able to tell me what they're doing, or what their needs are. Once I know what their needs are, then I can examine their situation to be able to send it to our loan committee. ... the [contextualizing] information that I collect helps determine the [committee's] decision.

Banking officials have a second option for serving ineligible loan applicants, in addition to their ability to advocate for higher-level approval. As stated in the discussion related to Theme 1, banking officials may consider contextual factors in making a decision to guide loan applicant in improving their eligibility prior to reapplying. P5

indicated that assessment of credit-score context can result in a decision to assist an ineligible loan applicant in repairing the causes of loan denial:

You kind of weigh the person's situation, the mitigating circumstances. You try to get to know them, especially if they open up, you see how you can make it work for them. Then in some cases, you let them know that, hey, get this cleared up, and then come back again.

P2 stated that a banking official's authority included, "kind of looking at maybe where that [denied loan applicant] may be at that time and saying, 'Hey, you might want to look at improving that credit, or making these payments on time.'"

Research Question 3

Research question 3 was: What types of programs are useful in improving African American creditworthiness? Two themes emerged during data analysis to answer this research question, including: 4) Existing educational programs improve African Americans' creditworthiness, and 5) Implementing childhood financial education would further improve African Americans' creditworthiness.

Theme 4: Existing educational programs improve African Americans' creditworthiness. All nine participants described existing educational programs that they perceived as beneficial in improving African Americans' creditworthiness. The programs participants described were implemented by AAOBs in the form of community outreach, with banking officials conducting seminars or classes to teach basic financial planning and literacy in community forums such as churches. However, some participants reported that interest in financial education among minorities tended to be

low, and that low attendance limited the efficacy of educational outreach initiatives. Additionally, participants provided education by coaching individual loan applicants throughout the application process, and they perceived this informal program of offering guidance as improving their customers' creditworthiness in the long-term. Table 7 indicates the codes that were grouped into this theme, the number of participants who contributed to them, and the number of transcript excerpts included in them.

Table 7

Theme 4 Codes

Code	<i>n</i> of participants who contributed to code (<i>N</i> = 9)	<i>n</i> of transcript excerpts grouped into code
Financial planning education	9	16
Individual guidance for loan applicants	8	13

Table 8 indicates data derived from the demographics' questionnaire regarding FEPs currently offered by participants' banks.

Table 8

Financial Educational Programs Offered by Participants' Banks

Participant	Does bank offer financial education programs?	How the programs are delivered, if at all	How often the programs are offered, if at all
P1	Yes	Face-to-face	Upon request from customer or community organization
P2	Yes	Face-to-face seminars and workshops	Upon request from customer or community organization
P3	Yes	Classes	Quarterly
P4	Yes	Online modules and face-to-face	Semiannually
P5	Yes	Face-to-face	Quarterly
P6	Yes	Face-to-face	Recently implemented, frequency TBD
P7	Yes	Face-to-face	Quarterly
P8	Yes	Face-to-face or via Facebook	Monthly and upon request
P9	Yes	Online modules and face-to-face	Monthly

All nine participants reported that existing FEPs were beneficial in improving African Americans' creditworthiness. This finding was consistent with findings associated with Theme 2, which indicated that lack of financial education negatively affected many African Americans' credit scores. P1 described one educational program:

We do a lot of financial education in the beginning of the year on credit, how to obtain a loan, how to establish a relationship with the bank. We do how to budget, how to increase your wealth, different topics.

P2 had conducted financial educational outreach in churches in the community: "I've done things like have a class to teach the church [members], a finance class to teach them how to prepare financials for the bank." P3 also reported that her bank conducts educational community outreach: "we're always in community involvement. . . We're definitely hands-on involved and support a lot of groups that specifically help wealth, especially with minorities." As a board member, P9's role in financial education was to encourage bank officials to implement educational programs: "the function that we do at the board level is to encourage the people and the staff and the management here to do things with financial literacy." P6 stated that education in financial literacy and planning improves African Americans' creditworthiness because, "As much education as you have on it, the better off you're going to be."

Five out of nine participants reported that interest in financial education among minorities tends to be low, and that low interest limits the efficacy of FEPs. P4 stated, "We do a lot of outreach, [but] if it's an open-door kind of thing and you can just walk in off the street, you're going to have a hard time. You're going to have to almost call

people and get them to come.” P4 had successfully addressed this problem by conducting more narrowly targeted outreach programs, such as for minority contractors. P7 attributed low turnout for minority-conducted outreach efforts to a perceived tendency on the part of the intended audience to doubt minority advisors’ competence:

If we put on a seminar, say we’re expecting 200, 300 people. A lot of times we’ll maybe get 100, maybe 75. The participation I think is not always well received and not as large as it should be because it goes back to if we’re a minority trying to provide information to minorities, the participation is lessened. But if it’s a non-minority trying to provide information to minorities the participation is much more.

P2 attributed low turnout among minorities at financial education seminars and classes to ignorance, which itself results from a lack of financial education: “they have a need, but they don’t know they have a need.”

Given that open-door educational outreach in minority communities is not always successful in disseminating financial literacy and planning skills, eight out of nine participants reported that bank officials provide education to loan applicants during the application process. P6 stated that when a customer applies for a loan, an official in an African-American bank will, “Hold their hand. Tell them exactly what they need [to complete the application]. And once they get it to you, then tell them the rest of the process and how long each step takes.” P8 described the process of providing loan applicants with individual guidance as, “just sitting and talking with someone. . . So

really just the education. The education is invaluable so you know exactly what to do [when applying for a loan], how to do it, and the right way to do it.”

Theme 5: Implementing childhood financial education would further improve African Americans’ creditworthiness. Seven out of nine participants expressed the perception that implementing childhood financial education as required curriculum in public schools would improve African Americans’ creditworthiness. This theme complemented Theme 2, by indicating a potential solution to the problem that many African American parents are unable to instruct their children in sound financial-planning and money-management strategies. Table 9 indicates the code that was grouped into this theme, the number of participants who contributed to it, and the number of transcript excerpts included in it.

Table 9

Theme 5 Codes

Code	<i>n</i> of participants who contributed to code (<i>N</i> = 9)	<i>n</i> of transcript excerpts grouped into code
Recommending that public schools teach financial literacy	7	14

P2 expressed the perceived importance of beginning rudimentary financial-literacy education in childhood, and then building on those rudiments as the student progressed through school:

[Financial education] needs to start when they're young, at least by the fifth grade, so they understand the terminology and all that, and take it on through high school. By the time they get to high school, they should know more about stocks, and bonds, and things of that nature.

P3 spoke of public education curriculum on financial literacy and planning as likely to improve African Americans' money-management skills, with positive consequences for creditworthiness:

I feel like [financial education] should definitely be offered in schools. I feel like the earlier [children] are educated the better. The school system teaches a lot of great things, but surviving the credit world is not one of them. ... I feel like if they would put basic budgeting and credit courses in public schools then that will definitely assist.

P4 emphasized the importance of beginning financial education early: "If you've finished high school, it might be too late. You want to get your financial education in high school, because in the real world, nobody's listening to you." P5 perceived a need for public schools to provide financial education to African American students that many African American parents were unable to provide:

What we can't get at home, it should be available in the school system. And when I say can't get at home, I mean those who weren't fortunate enough to get the education they needed. It's just like there's a cycle a lot of times, and somebody has to break the cycle. I think the schools could help break that cycle [of financial ignorance and poverty].

Research Question 4

Research question 4 was: How can banking data on African American creditworthiness be useful in creating a more equitable lending matrix for African American consumers? One theme emerged to answer this research question, as follows:

6) Banking data can be used to demonstrate the need for a more equitable lending matrix.

Theme 6: Banking data can be used to demonstrate the need for a more equitable lending matrix. In interview responses reported in relation to other themes, participants indicated that African Americans tend to have more difficulty than applicants of other ethnicities in obtaining bank loans. As discussed in relation to Theme 1, an applicant's credit score is often banks' sole or primary criterion for determining creditworthiness. Banks' reliance on credit scores may disadvantage African Americans, who are at increased risk of damaging their credit scores through mismanagement of personal finances. Table 10 indicates the codes that were grouped into Theme 6, the number of participants who contributed to them, and the number of transcript excerpts included in them.

Table 10

Theme 6 Codes

Code	<i>n</i> of participants who contributed to code (<i>N</i> = 9)	<i>n</i> of transcript excerpts grouped into code
Loan application approval rates	9	15
% of bank's customers who are African American	9	10

Reapplication allowed under certain conditions	9	10
African Americans' mid- to low creditworthy status	8	9

Evidence for results that overlap between the present theme and previous themes will not be repeated in this section. Additional data reported in this section were drawn from interviews, and are provided as context for participants' perception (reported in relation to Themes 2 and 3) that banks' overreliance on credit scores as indications of creditworthiness is inequitable to African Americans, and that consideration of explanations and context of African Americans' credit scores (reported in relation to Themes 1, 2, and 3) can result in a more equitable estimation of creditworthiness. Table 11 includes a summary of estimated banking data from participants' banks that indicate the context for these perceptions.

Table 11

Participants' Perceptions of Their Banks' Services for African Americans

Participant	Perceived credit scores of African Americans as a group	% of bank's customers who are African American	% of loan applications approved	Does bank allow denied loan applicants to reapply?
P1	"I would say they rank average."	~70%	~20%	Yes, after one year
P2	"Very low."	~98%	~50%	Yes, when causes of denial are remedied
P3	"Of course, probably on the lower end."	~90%	~50%	Yes, when causes of denial are remedied
P4	"Blacks just haven't done well with credit scoring."	~90%	~12%	Yes, when causes of denial are remedied
P5	[No response]	~78%	~20%	Yes, when causes of denial are remedied
P6	"Probably mid-low up."	~95%	~40%	Yes, with a cosigner
P7	"We probably rank low."	~85%	~60%	Yes, when causes of denial are remedied
P8	"We probably rank at the very lowest."	~99%	~80%	Yes, when causes of denial are remedied
P9	"We're probably at the bottom."	~95%	"I don't know"	Yes, after one year

Note. The tilde (~) is used to emphasize that a number is the participant's estimate or approximation. In accordance with the phenomenological design of this study, responses reported in this table indicate participants' perceptions, rather than parameters derived from banking records. All participants stated that they were uncertain of the actual figures and were providing their best guesses.

As the results in Table 11 indicated, seven of the eight participants who provided an answer perceived African Americans' creditworthiness, *when represented by credit score alone*, to be either low or very low. Participants' estimates of the percentage of loan applications their banks approve varied widely, but it was notable that only two out of nine participants estimated an approval percentage above 50%. Thus, a majority of African American loan applicants may be denied loans by a majority of the AAOBs that were created specifically to meet their needs. However, as participants indicated in results associated with Themes 1, 2, and 3, the consideration of mitigating contextual explanations for a sub-threshold credit score was perceived as yielding a more equitable estimation of African Americans' true creditworthiness.

Research Question 5

Research question 5 was: Does your financial institution offer financial education training workshops/programs specifically for minorities such as African Americans? The following theme emerged during data analysis to answer this research question: 7) Some institutions offer FEPs specifically targeting minorities.

Theme 7: Some institutions offer financial education programs specifically targeting minorities. Six out of nine participants reported that their institutions offer financial education specifically targeted toward minorities, including African Americans. The distinction between results associated with the present theme and results associated with Theme 4 (Existing educational programs improve African Americans' creditworthiness) is that programs discussed in relation to Theme 4 do not necessarily target minorities, while programs discussed in relation to the present theme do. Table 12

indicates the codes that were grouped into this theme, the number of participants who contributed to them, and the number of transcript excerpts included in them.

Table 12

Theme 7 Codes

Code	<i>n</i> of participants who contributed to code (<i>N</i> = 9)	<i>n</i> of transcript excerpts grouped into code
Institution offers programs targeting minorities	6	10
Institution does not offer programs targeting minorities	3	8

Six out of nine participants reported that their institution offers FEPs targeting minorities. P3 had taught classes for minorities on basic financial planning and literacy:

I've done some basic credit classes outside of the bank, which is visiting groups of people maybe at churches just to kind of make sure they have a simple knowledge of credit. A lot of minorities don't realize that there's even three credit bureaus. If you give them the basic explanation of how credit works, and that's what I do, I kind of give them a small budgeting course in the class to let them know that if manage your money this way, you'll be able to better maintain your credit.

P4 indicated the bank's awareness of minorities' need for financial education, and discussed how the bank is addressing this need:

We know that the population segment that we center around, which is African Americans, they don't have good credit scores. We developed alternative types of things we can help them with to improve their credit score so that they can get a loan, especially when you just went through a divorce or something, and all of a sudden, the credit scores don't equal what they should because of the divorce proceedings.

P5 had provided coaching for minority first-time home buyers:

When I worked in the consumer counseling area, we would do first-time homebuyers, and we would provide first-time homebuyer programs that will assist them with grants to purchase a home for the first time, and trying to get people to understand the system of credit basically.

In working with minority groups, P7 had provided practical advice for managing personal finances:

One of the things I've told the minority groups I've worked with, is that even in a crunch time, if you're having a problem making a payment on something, do not hesitate to call the creditor to let them know what's going on, that way they better understand. If you do not call the creditor and they have to call you and keep chasing you, then you're making your situation even worse. So, build that relationship.

P8 conducted financial educational programs for young minorities over Facebook:

We've been doing a live feed on Facebook and we try to address some of the concerns. We did one specifically to Millennials and Gen X, the upcoming, and so

we're trying to catch them. We really want to catch them in high school. If we can't get them there, we want to get them in early adulthood, and talk to them.

P9 perceived the use of Standard Written English instead of African American Vernacular in financial documents and instruments as alienating many African Americans, and had implemented programs to substitute more familiar terms:

English is a second language for us [African Americans]. We speak two different languages. ... We don't recognize that we have a language barrier with a lot of the material that's produced, that it does not even speak to us. ... [For example, financial documents may] talk about a deductible. You got to pay a \$30 deductible. Whereas in our community, a deductible, are you out of your mind? I ain't paying no deductible. So, a group of us put together and we changed the narrative, we changed the language to understand it. So, we changed the word deductible to "cover charge."

The result of P9's initiative was lessened resistance to the renamed fee among African American customers.

Three participants reported that their banks did not target educational programs specifically toward minorities. P6, for example, stated, "I think we're lacking in that." P2 perceived a bank's options for targeted financial education for minorities as limited: "we will assist them with preparing the application. There's nothing else we could really do."

Summary

Five research questions were used to guide this study. Research question 1 was: What banking policies, practices, and procedures are used to determine creditworthiness and how do these criteria impact the African American community? Results indicated that a loan applicant's credit score is the primary factor used to determine creditworthiness, and that banks' reliance on credit scores to determine creditworthiness may disadvantage African Americans who lacked childhood financial education.

Research question 2 was: What legal authority and latitude do African American banking officials have in making decisions to change or implement banking programs? Results indicated that banking officials can advocate for and guide loan applicants. The third research question was: What types of programs are useful in improving African American creditworthiness? Results indicated that existing financial education outreach programs improve African Americans' creditworthiness, and that implementing childhood financial education in public schools would further improve African Americans' creditworthiness.

The fourth research question was: How can banking data on African American creditworthiness be useful in creating a more equitable lending matrix for African American consumers? Results indicated that banking data can be used to demonstrate the need for a more equitable lending matrix, specifically by indicating that reliance on credit scores as primary determinants of creditworthiness may disadvantage many African Americans, while consideration of mitigating contextual factors may result in a more accurate and equitable estimation of African Americans' creditworthiness.

Research question 5 was: Does your financial institution offer financial education training workshops/programs specifically for minorities such as African Americans?

Results indicated that some institutions offer FEPs specifically targeting minorities.

Chapter 5 includes discussion, interpretation, and implications of these results.

Chapter 5: Discussion

Introduction

The purpose of this qualitative, phenomenological study was to determine whether financial training benefits African Americans in becoming more creditworthy. Lenders have traditionally relied on loan applicants' credit reports and credit scores to determine creditworthiness. However, credit reports and scores reflect existing racial inequalities in the credit system, with the result that banks' reliance on those measures in determining creditworthiness may perpetuate those inequalities, to the disadvantage of African Americans (Abrams, 2017).

AAOBs have been established to address these inequities and make credit more available to African Americans. However, AAOBs have below-average loan activity and above-average loan losses, in part because many of their African-American customers have not received the financial education necessary to seek and use credit responsibly (Lash, 2005). But AAOBs can implement FEPs to teach African American customers and potential customers how to establish and maintain their credit, which may increase African Americans' creditworthiness and access to credit and to expand the customer base of existing banks by increasing the number of eligible African-American loan applicants.

Few studies have been conducted to investigate the use of FEPs as a resource to improve African Americans' creditworthiness, or of AAOB officials' perceptions of this use of FEPs. The present study was conducted to address this gap in current knowledge.

Semi structured interviews were conducted with nine AAOB officials, and interview transcripts were analyzed thematically in NVivo 12 software.

Results confirmed that a loan applicant's credit score is the primary factor used to determine creditworthiness, and banks' reliance on credit scores to determine creditworthiness may disadvantage African Americans who did not receive financial education in childhood. This suggests the need for more equitable loan-eligibility criteria. Consideration of mitigating contextual explanations for subthreshold credit scores may provide a more accurate and equitable estimation of African Americans' creditworthiness.

Results also indicated that banking officials can advocate for upper-management approval of otherwise-ineligible loan applicants, or guide ineligible loan applicants in repairing the negative entries in their credit reports. AAOBs' existing financial education outreach programs can improve African Americans' creditworthiness, and some AAOBs offer FEPs specifically targeting minorities. However, the implementation of childhood financial education in public schools may be needed to remedy many African Americans' inherited knowledge deficits in financial literacy and planning.

Interpretation of the Findings

This section includes a discussion of how the findings in this study confirm, disconfirm, or extend knowledge in the discipline. The significance of the findings is determined through comparisons with the peer-reviewed literature described in Chapter 2. The discussion in this section is organized by research question.

Research Question 1

Research question 1 was “What banking policies, practices, and procedures are used to determine creditworthiness and how do these criteria impact the African-American community?” Two themes emerged during data analysis to answer the research question. The first theme indicated that a loan applicant’s credit score is the primary factor banks consider when determining creditworthiness.

This finding confirmed those of previous researchers. For example, Crook (2007) found that most banks use credit scoring to score applicants, monitor their performance, and manage their accounts. Application scoring helps a high-volume lender discriminate between applicants whom the lender is confident will repay a loan and applicants who may be unreliable. The lender will usually establish a rule or policy to distinguish between these two groups, often in the form of a credit-score threshold for loan eligibility. The rule or policy is used to determine whether an applicant will be approved or denied for a loan.

Further, Hooman et al. (2016) stated that existing score-based models for determining creditworthiness are only able to classify customers or borrowers into binary categories of “good” and “bad” credit risks. Although credit-scoring models decrease the time needed to evaluate an applicant, they do not take contextual factors into consideration such as the reasons for an applicant’s credit score or the bank’s willingness to lend. As a result, most banks classify low-income families, and especially families of color, as unacceptable credit risks, with the result that these families are denied loans altogether or receive loans only at subprime interest rates.

Findings also extended the findings of previous researchers by indicating the contextual factors AAOB officials considered most relevant in arriving at an accurate determination of African-American loan applicants' creditworthiness, including unreported income, patterns in late or missed payments (which may indicate either periods of involuntary financial hardship or voluntary irresponsibility about paying bills on time), patterns in nonsufficient fund fees, honesty and cooperativeness, quality of documentation, and financial literacy.

The second theme for answer Research Question 1 indicated that reliance on credit scores may disadvantage African Americans who lacked childhood financial education. This finding extended the findings of previous researchers by identifying lack of education as an important and remediable cause of African Americans' lower credit scores, which suggest that FEPs have significant potential to reduce racial discrimination in lending. For instance, Jourdain-Earl (2015) stated that "blacks have had the most disparate outcomes in home mortgage lending experience" (p. 4).

Racial disparities are observed in the number of loans originated, origination rates, denial rates, interest rates, and fees. Agarwal (2003) argued that lenders have justified these disparities by citing higher loan-to-value ratios and weaker credit histories among African Americans than among nonminority applicants. The most frequently cited reason for denying African Americans' loan applications is a poor credit history (Desilver, 2017). Findings in the present study indicated that FEPs for African Americans could help African Americans understand credit and how to develop a good credit history.

Research Question 2

Research Question 2 was “What legal authority and latitude do African-American banking officials have in making decisions to change or implement banking programs?” Findings indicated that AAOB officials can advocate for higher-level approval of an otherwise-ineligible loan application and guide loan applicants in repairing their credit reports. These findings extended previous findings related to the cultural affinity hypothesis by indicating ways in which same-race lenders may lead the way in improving the equitability of banking services for African Americans.

For example, Hunter and Walker (1996) found that for applicants with strong credit records, loan decisions were uninfluenced by applicant race; however, negative entries in credit reports and suboptimal credit scores reduced the probability of acceptance significantly more for Black applicants than for nonminorities. Hunter and Walker concluded that White lenders’ holding of Black loan applicants with weak credit records to a higher standard than equivalent White applicants was due to cultural affinity.

Although participants in the present study did not have authority to relax loan-eligibility requirements set in bank policies, they had significant discretion to advocate for and guide ineligible loan applicants. If the cultural affinity hypothesis is correct, White bank officials may be significantly less likely than Black AAOB officials to investigate, document, and advocate to upper management that some African-American loan applicants’ true creditworthiness is higher than their credit scores indicate. White bank officials may also be less likely to guide African American applicants in remedying negative entries in their credit reports.

Research Question 3

Research Question 3 was “What types of programs are useful in improving African American creditworthiness?” Findings indicated that AAOBs’ existing FEPs improve African Americans’ creditworthiness, but that implementation of childhood financial education in public schools may be needed to remedy many African Americans’ inherited knowledge deficits in financial literacy and planning.

These findings were central to accomplishing the purpose of this study, addressing the gap in the literature, and indicating a partial solution to the societal problem on which this study’s purpose was based. As discussed earlier, previous studies have not evaluated AAOB officials’ perceptions of the use of FEPs as a resource to improve African Americans’ creditworthiness. Accordingly, the purpose of this study was to determine if financial training benefits African Americans in becoming more creditworthy.

Findings for Research Question 3 indicated that AAOB officials perceive FEPs as contributing to the improvement of African Americans’ creditworthiness but also as less-than-optimal means of providing instruction in financial literacy and management of personal finances that should have been received in childhood. AAOB officials perceive their banks’ FEPs as controls for African Americans’ inherited financial knowledge deficits. However, a true solution may require systemic changes in public education to remedy ongoing effects of African Americans’ historical exclusion from financial markets and institutions.

Research Question 4

Research Question 4 was “How can banking data on African American creditworthiness be useful in creating a more equitable lending matrix for African American consumers?” Findings indicated that banking data can be used to demonstrate the need for a more equitable lending matrix. Findings also indicated factors that are perceived as relevant in arriving at an equitable estimation of African Americans’ creditworthiness, including unreported income, patterns in late or missed payments, patterns in nonsufficient fund fees, honesty and cooperativeness, quality of documentation, and financial literacy.

These findings confirmed and extended the findings of previous researchers. For example, Bruno-Britz (2005) discussed the use of alternative data for granting credit to under-banked people in the United States. Bruno-Britz evaluated the use of recurring payment histories (e.g., data from utilities, cable companies, and wireless providers) as a way to help individuals with spotty credit reports gain access to loans. These additional data could provide banks with more equitable and comprehensive criteria in evaluating the creditworthiness of African Americans.

Further, Goodman (2015) argued that current, restricted lending standards based solely or primarily on credit reports and scores disadvantage many African-American loan applicants. Findings in the present study indicated that evaluation of contextual factors may result in a more equitable evaluation of African American’s creditworthiness, and extended the findings of Bruno-Britz (2005) by indicating a range of additional data

that could be gathered under the guidance of bank officials to facilitate a fair and accurate determination of loan eligibility

Research Question 5

Research Question 5 was “Does your financial institution offer financial education training workshops/programs specifically for minorities such as African Americans?” Findings indicated that some AAOBs offer FEPs specifically targeting minorities. Five out of nine participants perceived the efficacy and reach of these programs as limited by low interest in financial education among minorities, many of whom were perceived as unaware of their urgent need for it. Like the findings associated with Research Question 3, this finding added to previous knowledge by indicating that AAOBs perceive FEPs as beneficial in increasing African Americans’ creditworthiness but as an inadequate substitute for childhood training in responsible management of personal finances.

Limitations of the Study

Limitations of this study included the potential for researcher bias, the use of a small sample, and reliance on the accuracy and honesty of participants’ responses. Researcher bias potentially limited the confirmability of the study’s findings. To limit researcher bias, I engaged in an ongoing process of reflection throughout the course of the study, with the intention of identifying preconceptions related to the study population and the phenomenon of interest. To reinforce this process of reflection, a journal was kept, with realized preconceptions, their potential effects on the study, and the means used to minimize or suspend them being recorded. Using the reflections documented in

the journal, I attempted to remain mindful of biases and actively work to suspend them at every stage of the study.

The small sample size may also limit the transferability of the findings. To assist future researchers in determining transferability, detailed descriptions of the study population and sample have been provided. Additionally, quotations from interview transcripts were provided as evidence of the findings to provide future researchers with a rich description of participants' perspectives and voices.

Additionally, reliance on participant honesty potentially limited the credibility of the findings, because dishonest responses would not accurately represent the reality they are supposed to describe. To encourage participant honesty, all reasonable precautions have been taken to ensure that participants' identities remained confidential. Reliance on the accuracy of participants' responses potentially limited the dependability of the study's findings, because responses influenced by temporary conditions or misperceptions unrelated to the phenomenon of interest may not be replicable at a different time.

The phenomenological design of the study was consistent with reliance on participants' subjective perceptions, but to increase the probability that participants would report perceptions and opinions that were stable over time, a member-checking procedure was used. Member-checking enabled participants to review their transcribed responses after a small lapse of time and modify them if they considered this appropriate. Modification of a response would have caused the researcher to mark the altered data as potentially undependable, given that it had changed over time. However, no modifications were requested.

Recommendations

The need for AAOBs results from significant discrepancies in minority versus non-minority access to credit from majority-owned financial institutions. Findings in this study indicated a number of investigations, documentation, and coaching practices that may be used to develop a more equitable assessment of African American loan applicants' creditworthiness. These practices may be time-consuming and, in many cases, arduous, requiring significant 'leg work' on the part of the applicant and the bank official.

Taken in conjunction with the cultural affinity hypothesis, these findings suggested that White officials in majority-owned banks would be significantly less likely to engage in supererogatory investigation, documentation, and reporting of contextual factors for African American clients, even in local banks that served a single community. These findings also suggested that African American bank officials who engage in these practices on behalf of their African American customers would be less likely to do so on behalf of customers of other races.

It is recommended that future qualitative research be conducted to explore these inferences and test their credibility, using triangulation of interviews, archival documents, and researcher observations. Findings in such a study may provide valuable insight into the validity of the cultural affinity hypothesis in a banking context, and into practices in which banks might engage to promote racial equitability in lending, such as assigning applicants to a same-race loan officer.

Qualitative case study research involving triangulation of data from interviews, researcher observations, and archival documents is also recommended as a means of addressing limitations in this study associated with reliance on accuracy and honesty of participants' responses. It is also recommended that quantitative research using a survey instrument and a large sample of bank officials be conducted to address limitations to the transferability of this study's findings, and to test the findings' generalizability.

Implications

Findings in this study indicated that a more equitable procedure is needed for evaluating the creditworthiness of African American loan applicants. Past research and the findings in this study have indicated that lenders' overreliance on credit scores and reports as indications of creditworthiness disadvantages African Americans for a number of reasons that are not within African Americans' control.

Credit scores and reports may misrepresent an African American loan applicant's character and trustworthiness, and should be supplemented with alternative data. A more accurate assessment of an African American loan applicant's creditworthiness can be developed through investigation and documentation of contextual factors that have influenced the applicant's credit rating. However, these procedures require a significant investment of time and work on the part of bank officials and the applicant.

FEPs can improve African Americans' creditworthiness according to traditional measures by remedying inherited knowledge deficits related to financial literacy and management of personal finances. However, FEPs are not an optimal means of addressing these knowledge deficits, because they have limited reach and are often

provided only after a loan applicant's credit is badly damaged. Systemic changes to implement childhood financial education in public schools may be needed to adequately address ongoing effects of African Americans' historical exclusion from financial institutions.

These findings have significant implications for positive social change. Improving African Americans' creditworthiness according to traditional scoring measures, and implementing more comprehensive evaluations of African Americans' creditworthiness, are two practices through which racial disparities in access to bank loans may be reduced. African Americans would have more equitable access to credit, allowing them more opportunities to meet their immediate needs and to accrue wealth (e.g., through homeownership and investments). The greater availability of credit to a larger number of customers has the potential to stimulate the U.S. economy, as well as to significantly increase the number of eligible banking customers.

Recommendations for Practice

The following recommendations are offered for bank officials' practice:

- To increase racial lending equity, assign loan applicants to same-race bank officials whenever possible;
- Consideration of mitigating and aggravating contextual factors provides a more accurate and equitable estimation of African Americans' creditworthiness than consideration only of the loan applicant's credit score and report;

- Increasing the equitability of lending for African Americans can expand a bank's customer base without increasing loan losses, if the contexts of applicants' credit scores and reports are adequately investigated, documented, and reported;
- FEP outreach initiatives conducted by bank officials are an effective means of improving the creditworthiness of African Americans, and particularly of those who received little or no financial education in childhood, and;
- FEP initiatives are more effective when conducted in established community forums (e.g. churches) and when they are targeted to meet the immediate and recognized needs of specific groups (e.g. loan applicants who have been denied, or minority contractors who are likely to require loans in the near future).

Conclusion

This research includes responses from a broad group of financial experts within the southeastern part of the United States who serve in different positions, at different professional levels and at various stages of their careers in the banking field. These nine participants provide adequate sampling to make conclusions and formulate findings for my study. The sampling strategy of choice was a purpose strategy or a theoretical (non-probability sampling) technique (Schwandt, 2015).

Though the number of participants is limited to nine the choice of sampling provides necessary data to help me provide a wide range of information that I believe bring forth insight and understanding of the phenomenon of banking officials' perceptions of African American creditworthiness. The purposeful sampling strategy

contained specific and relevant information that provide banking data that I needed to answer my research questions.

The sample was emblematic, meaning it was drawn choosing the participants for their relevance to the research question, analytical framework, explanation, or account in the research (Schwandt, 2015). The design of this study was based on pursuing an adequate sample that would achieve a representation of individuals in the financial community that would capture the heterogeneity of sample population, ensuring my conclusions represent the population and criteria on which participant selection is based (Maxwell, 2013).

I would have preferred to have obtained a larger sample size however because of the limited access to banking officials who were willing to respond it was more valuable to obtain responses from a varied and broad group of participants. I made the necessary adjustments to the sample size as needed by making sure that I reached data saturation before I ended collecting data. The central point of this study was to ascertain adequate data that would provide insight into the perceptions of the value of financial education in enhancing African American creditworthiness.

Based on the research conducted, applicants' credit scores are used as the primary factor in determining creditworthiness. Since credit scores are used as the primary determinate for loans, African Americans tend to be viewed as not being creditworthy based on their lower credit scores. This low rate of credit approval, negatively impacts the African American community and affects African Americans' ability to obtain loans that could help them establish and build their credit.

Data from this study conclude that the use of financial education outreach programs could improve African Americans' creditworthiness. The participants in the study discussed their banking institutions role in conducting seminars or classes as a method that could be used to teach basic financial planning and literacy in community forums such as churches and community groups.

Also, participants of the study discussed how providing financial education through coaching individual loan applications throughout the application process could serve as a method to improve the African Americans' creditworthiness now and in the long-term. Findings from the collected data also conclude that this type of training could lead to better informed and creditworthy consumers.

Seven out of the nine participants expressed the perception that implementing childhood financial education should be a required curriculum in public schools and that it could an asset in improving future African American consumers' creditworthiness. This could also help to educate individuals at an early age on what it takes to be creditworthy.

Experts in the field also conclude that it is important to know how to use credit and that this should be a principle lesson throughout an individual's economic lifetime. In this context, they conclude that FEPs could provide insight on how to use credit and that this financial training should be provided throughout the individual's life cycle. Their conclusion is that financial education should not only be offered to adult consumers but also should be offered to school age children throughout their education as are other core subjects. The earlier the training begins seems to have a direct correlation to the

individual's future creditworthiness and a better outlook for the African American consumer.

Financial officials also conclude that better understanding of how the financial system works could help consumers become better informed on how to gain overall access to consumer loans and obtain support for their financial needs. Findings in the data conclude that six out of the nine participants reported that their institutions offer financial education specifically targeted towards minorities, including African Americans.

The findings help to solidify that financial education is needed to enhance the creditworthiness of African Americans. Financial experts also conclude that financial education training should include topics such as: understanding how money works, creating and achieving financial goals, and managing economic challenges. Specifically, the officials identify financial training as a matrix in having a positive impact in the underserved communities such as the African American market and that this training should include financial knowledge and education at different stages in the African American lives.

The finding conclude that African Americans are often not receptive to financial training as they do not see the value of financial creditworthiness until it is too late. Financial officials recommended that financial education could be most effective when it comes during teachable moments and when African Americans are motivated to participate. Their motivation may be realized based on their need for purchasing a car, buying their first home, or suffering a foreclosure. This motivation could enhance the

need for financial education and make it more relevant. This could also be a time to encourage African Americans to discover the link between financial education and reaching their financial goals.

While banking officials acknowledge that there could be changes made to develop a more equitable lending matrix for African Americans, they do not appear to think that it would alter the credit score criteria enough to make a notable difference in African American creditworthiness. Banking officials acknowledge that they do have some legal authority and latitude in making decisions that could change how their respective banking institutions implement their banking policies and practices. They note that some of these options include the ability to advocate for loan applicants based on additional knowledge of the applicants' current credit situation or reasons why their credit score could have been affected by a loss of job or catastrophic illness within their family.

Banking officials also noted how they have used their positions to help applicants in repairing the defects in their credit history and credit scores. This however reinforces the findings of the original theme which states the importance of credit scores in determining creditworthiness. Although banking officials have some latitude in helping consumers with credit applications, they cannot eliminate the use of credit scores as a factor in the overall decision-making in loan application approval of applicants.

While banking officials acknowledge that there could be changes made to develop a more equitable lending matrix for African Americans, they do not appear to think that it would alter the credit score criteria enough to make a notable difference in African Americans creditworthiness. The conclusion of their outlook for African Americans

seeking financial assistance appears to focus on helping this consumer group plan for their future by assisting them in obtaining financial training and education particular as it relates to their credit scores and this is the main factor that determines their creditworthiness.

The purpose of this qualitative, phenomenological study was to determine if financial training benefits African Americans in becoming more creditworthy. Results confirmed that a loan applicant's credit score is the primary factor used to determine creditworthiness, and that banks' reliance on credit scores to determine creditworthiness is likely to disadvantage African Americans. There is a need for more equitable procedures for determining creditworthiness, such as consideration of mitigating contextual explanations for sub-threshold credit scores.

Until this need is met, AAOBs' existing financial education outreach programs can improve African Americans' creditworthiness as represented in traditional scoring measures. Improving African Americans' creditworthiness according to traditional scoring measures, and implementing more equitable evaluations of African Americans' creditworthiness, would lead to positive social changes.

African Americans would have more equitable access to credit, allowing them more opportunities to meet existing needs and accrue wealth. Banks would benefit from increased numbers of eligible customers, and the U.S. economy would benefit from greater spending and investment on the part of African Americans. It could have a positive impact on social change as well it would be in the interests of African Americans and all banks that African Americans' creditworthiness be improved according to

traditional measures, and assessed according to more equitable and comprehensive standards.

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Appendix: Protocol for Research

1. How do you think African Americans rank among other groups in the area of creditworthiness?
2. If your opinion is that they rank lower than other ethnic groups, what do you think is the reasons for this disparity?
3. What is your personal commitment towards helping African Americans reach their financial goals?
4. What is your experience in banking in both minority and non-minority institutions?
5. How long have you worked in the banking industry?
6. Why did you choose banking as your career choice?
7. What expertise do you have that qualifies you to be a banking official?
8. What do you consider to be the positive aspects of being a banking official and what are the negative aspects of being a banking official?
9. Do you think it is more difficult or easier working in a minority banking institution? Please explain.
10. What actions have you taken personally, if any to help African Americans to become creditworthy? Please explain.
11. What percentage of your consumers are African American?
12. What percentage of your African American applicants are approved or denied?
13. What do you perceive as the unique barriers to African Americans qualifying for consumer loans?
14. Do you have the ability to be subjective in granting loans?

15. How well does your institution rate in providing loans to African American consumers?
16. What can an applicant do to demonstrate that they are creditworthy?
17. How well does your banking institution participate in community involvement and informing consumers of available services?
18. How much support does your institution provide to consumers during the loan application process?
19. Does your institution allow applicants to re-apply for loans if they are denied and what are the criteria for re-applying?
20. Does your institution offer diversity training?
21. If your institution offers diversity training, would you recommend the training be offered to all banking officials? If so, please explain.
22. What is your financial institution's commitment to help the underserved consumers in the minority community?
23. What kinds of resources would your recommendation to African Americans seeking consumer loans?
24. What internal training does your institution offer employees to assist African Americans in completing loan applications?
25. How much latitude do you have in approving loan applications?
26. Does your organization offer financial training to its consumers, especially African Americans?

27. If so, when offered training are African American consumers receptive to receiving financial training?
28. What kind of financial resources would be useful for African Americans prior to applying for consumer loans?
29. Does your institution support financial training to consumers?
30. What percentage of your funding is allocated to offering financial training?